

**UNITED STATES**  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

*(Mark One)*

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended August 2, 2003**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-23246**

**DAKTRONICS, INC.**

(Exact name of Registrant as specified in its charter)

**South Dakota**  
(State or other jurisdiction of  
incorporation or organization)

**46-0306862**  
(I.R.S. Employer  
Identification Number)

**331 32nd Avenue**  
**Brookings, SD 57006**  
(Address of principal executive offices, zip code)

**(605) 697-4000**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

**The number of shares of the registrant's common stock outstanding as of August 20, 2003 was 18,641,927.**

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### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

*This Quarterly Report on Form 10-Q (including exhibits and information incorporated by reference herein) contains both historical and forward-looking statements that involve risks, uncertainties and assumptions. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended including statements regarding the Company's expectations, beliefs, intentions and strategies for the future. These statements appear in a number of places in this Report and include all statements that are not historical statements of fact regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things: (i) the Company's financing plans; (ii) trends affecting the Company's financial condition or results of operations; (iii) the Company's growth strategy and operating strategy; and (iv) the declaration and payment of dividends. The words "may," "would," "could," "will," "expect," "estimate," "anticipate," "believe," "intend," "plans" and similar expressions and variations thereof are intended to identify forward-looking statements. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, many of which are beyond the Company's ability to control, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein and those factors discussed in detail in the Company's filings with the Securities and Exchange Commission.*

## PART I. FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

#### DAKTRONICS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (in thousands, except share data)

	August 2, 2003 (unaudited)	May 3, 2003 (note 1)
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,182	\$ 9,277
Accounts receivable, less allowance for doubtful accounts of \$1,052 at August 2, 2003 and \$875 at May 3, 2003	24,716	25,912
Current maturities of long-term receivables	2,466	2,650
Inventories	17,827	14,863
Costs and estimated earnings in excess of billings	16,611	11,467
Prepaid expenses and other	694	756
Deferred income taxes	4,122	3,801
<b>Total current assets</b>	<b>77,618</b>	<b>68,726</b>
Advertising rights, net	394	385
Long term receivables, less current maturities	8,286	6,711
Goodwill, net of accumulated amortization	1,081	1,043
Intangible and other assets	859	873
	<b>10,620</b>	<b>9,012</b>
PROPERTY AND EQUIPMENT:		
Land	654	654
Buildings	12,288	12,281
Machinery and equipment	14,382	13,762
Office furniture and equipment	13,845	13,495
Equipment held for rent	3,345	3,476
Transportation equipment	2,529	2,185

	47,043	45,853
Less accumulated depreciation	22,393	21,064
	<u>24,650</u>	<u>24,789</u>
	<u>\$112,888</u>	<u>\$102,527</u>

See notes to consolidated financial statements

**DAKTRONICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS** (continued)  
(in thousands, except share data)

	August 2, 2003 (unaudited)	May 3, 2002 (note 1)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable, bank	\$ 283	\$ 180
Accounts payable	12,911	9,312
Accrued expenses	8,969	7,790
Current maturities of long-term debt	2,374	2,951
Billings in excess of costs and estimated earnings	7,840	5,528
Customer deposits	2,448	1,709
Income taxes payable	3,486	1,556
<b>Total current liabilities</b>	<u>38,311</u>	<u>29,026</u>
Long-term debt, less current maturities	2,254	5,449
Deferred revenue	896	1,338
Deferred income taxes	1,443	1,296
	<u>4,593</u>	<u>8,083</u>
Minority interest in subsidiary	120	115
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, no par value, authorized 60,000,000 shares, 18,340,000 and 18,271,000 shares issued at August 2, 2003 and August 3, 2002, respectively	14,883	14,654
Additional paid-in capital	746	746
Retained earnings	54,258	49,950
Treasury stock, at cost, 19,680 shares	(9)	(9)
Accumulated other comprehensive loss	(14)	(38)
	<u>69,864</u>	<u>65,303</u>
	<u>\$112,888</u>	<u>\$ 102,527</u>

See notes to consolidated financial statements.

**DAKTRONICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
(in thousands, except per share data)  
(unaudited)

	<b>Three Months Ended</b>	
	August 2, 2003 (13 weeks)	August 3, 2003 (14 weeks)
Net sales	\$ 48,918	\$ 44,107
Cost of goods sold	31,468	28,783
<b>Gross profit</b>	<u>17,450</u>	<u>15,324</u>
Operating expenses:		
Selling	6,429	6,807
General and administrative	2,122	1,652
Product design and development	2,205	1,830
	<u>10,756</u>	<u>10,289</u>
<b>Operating income</b>	<u>6,694</u>	<u>5,035</u>

Nonoperating income (expense):		
Interest income	227	184
Interest expense	(234)	(255)
Other income, net	444	194
	<hr/>	<hr/>
<b>Income before income taxes and minority interest</b>	7,131	5,158
Income tax expense	2,812	2,024
	<hr/>	<hr/>
<b>Income before minority interest</b>	4,319	3,134
Minority interest in income of subsidiary	(11)	-
	<hr/>	<hr/>
<b>Net income</b>	<b>\$ 4,308</b>	<b>\$ 3,134</b>
	<hr/>	<hr/>
Earnings per share:		
Basic	\$ 0.23	\$ 0.17
	<hr/>	<hr/>
Diluted	\$ 0.22	\$ 0.16
	<hr/>	<hr/>

**DAKTRONICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(in thousands)  
(unaudited)

	<u>Three Months Ended</u>	
	August 2, 2003 (13 weeks)	August 3, 2002 (14 weeks)
	<hr/>	<hr/>
Cash flows from operating activities:		
Net income	\$ 4,308	\$ 3,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,532	1,327
Amortization	43	59
(Gain) loss on sale of property and equipment	(311)	222
Minority interest in income of subsidiary	4	-
Provision for doubtful accounts	177	372
Deferred income taxes (credit)	(174)	(287)
Other	-	167
Change in operating assets and liabilities	971	(2,087)
	<hr/>	<hr/>
<b>Net cash provided by operating activities</b>	6,550	2,907
	<hr/>	<hr/>
Cash flows from investing activities:		
Purchase of property and equipment	(1,748)	(1,291)
Proceeds from sale of property and equipment	666	517
	<hr/>	<hr/>
Net cash used in investing activities	(1,082)	(774)
	<hr/>	<hr/>
Cash flows from financing activities:		
Net borrowings on notes payable	103	184
Proceeds from exercise of stock options and warrants	82	130
Principal payments on long-term debt	(3,879)	(1,308)
Proceeds form long-term debt	107	-
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	(3,587)	(994)
	<hr/>	<hr/>
Effect of exchange rate changes on cash	24	(4)
	<hr/>	<hr/>
<b>Increase (decrease) in cash and cash equivalents</b>	1,905	1,135
	<hr/>	<hr/>
Cash and cash equivalents:		
Beginning	9,277	2,097
	<hr/>	<hr/>
Ending	<b>\$ 11,182</b>	<b>\$ 3,232</b>
	<hr/>	<hr/>
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest	\$ 251	\$ 165
Income taxes, net of refunds	1,030	1,748

Supplemental schedule of non-cash investing and

See notes to consolidated financial statements

**DAKTRONICS, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
 (in thousands, except share and per share amounts)  
 (unaudited)

**Note 1. Basis of Presentation**

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary to fairly present the Company's financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The balance sheet at May 3, 2003, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the Company's financial statements and notes thereto for the year ended May 3, 2003, which are contained in the Company's Annual Report on Form 10-K, previously filed with the Securities and Exchange Commission. The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Star Circuits, Inc., SportsLink, Ltd. and MSC Technologies, Inc. and its majority-owned subsidiary, Daktronics Canada, Inc. (formerly Servtrotech, Inc.) Investments in affiliates owned 50% or less are accounted for by the equity method. Intercompany balances and transactions have been eliminated in consolidation.

**Note 2. Significant Accounting Policies**

Stock based compensation. At May 3, 2003, the Company has four stock-based employee compensation plans, which are described more fully in the Company's Annual Report of Form 10-K. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based compensation.

	<u>Three Months Ended</u>	
	<u>August 2, 2003</u>	<u>August 3, 2002</u>
Net income as reported	\$4,308	\$3,134
Deduct: Total stock-based method employee compensation expense determined under fair value based method for all awards, net of related tax effects	(106)	(86)
Pro forma net income	<u>\$4,202</u>	<u>\$3,048</u>
Earnings per share:		
Basic-as reported	\$ 0.23	\$ 0.17
Basic-pro forma	0.23	0.16
Diluted-as reported	0.22	0.16
Diluted-pro forma	0.21	0.16

Commitments and Contingencies. In connection with certain sales of equipment by the Company, it has agreed to accept a specified level of recourse on the money owed by its customers to other financial institutions. At August 2, 2003 and May 3, 2003, the Company was contingently liable on such recourse agreements in the amounts of \$250, respectively.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based upon consultation with legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position.

Product Warranties. The Company offers a standard parts coverage warranty for periods varying from one to five years for all of its products. The Company also offers additional types of warranties that include on-site labor, routine maintenance, and event support. In addition, the length of warranty on some installations can vary from one to ten years. The specific terms and conditions of these warranties primarily vary depending on the product sold. The Company estimates the costs that may be incurred under the warranty and records a liability in the amount of such costs at the time product order is received. Factors that affect the Company's warranty liability include historical and anticipated claims costs. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in the Company's product warranties consisted of the following:

	<u>Three Months Ended</u>	
	<u>August 2, 2003</u>	<u>August 3, 2002</u>
Balance, May 3, 2003	\$ 3,184	\$ 2,467

Warranties provided for during the period	437	243
Settlements made during the period	(106)	(241)
Changes in liability for pre-existing warranties during the period, including expirations	(154)	(113)
Balance, August 2, 2003	\$ 3,361	\$ 2,356

**Lease Commitments.** The Company leases office space for various sales and service locations across the country and various equipment, primarily office equipment. Rental expense for operating leases amounted to \$279 and \$223 for August 2, 2003 and August 3, 2002 respectively. Future minimum payments under noncancelable operating leases, excluding executory cost such as management and maintenance fees with initial or remaining terms of one year or more, consisted of the following at August 2, 2003:

Fiscal Year	Amount
2004	\$ 208
2005	195
2006	133
2007	65
2008	39
Total	\$ 640

**Purchase Commitments.** From time to time, Daktronics, Inc. commits to purchase inventory and advertising rights over periods that extend over a year. Daktronics, Inc. is committed to these purchases through May 2005. As of August 2, 2003, Daktronics, Inc. is obligated to purchase \$1,983 of inventory and advertising rights through fiscal year 2006 as follows:

Fiscal Year	Amount
2004	\$ 595
2005	1,189
2006	199
Total	\$ 1,983

### Note 3. Recently Issued Accounting Pronouncements

**Recently issued accounting pronouncements:** In June 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 143, “Accounting for Asset Retirement Obligations.” This statement, which is effective for fiscal years beginning after June 15, 2002, covers the accounting for closure for removal-type cost that are incurred with respect to long-lived assets. The adoption of this new standard did not have a material impact on the Company’s financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liabilities incurred. This statement nullifies Emerging Issues Task Force (EITF) Issue No. 94-3 “Liability Recognitions for Certain Employee Termination Benefits and Other Costs to Exit an Activity,” which required a liability be recognized at the commitment date to an exit plan. This Statement was effective for exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a material effect on the Company’s consolidated financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” This Statement elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken issuing the guarantee. The disclosure requirement of FIN No. 45 is effective for financial statements for fiscal years ending after December 2002 and did not have a material effect on the Company’s consolidated financial position or results of operation. The initial recognition and measurement provisions are effective prospectively for guarantees issued or modified on or after January 1, 2003. Implementation of this Statement did not have a material effect on the Company’s consolidated financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure.” This Statement amends SFAS No. 123, “Accounting for Stock-Based Compensation,” to provide alternative methods of transition to SFAS No. 123’s fair value method of accounting for stock-based employee compensation. This statement also amends the disclosure provision of SFAS No. 123 and APB No. 28, “Interim Financial Reporting,” to require disclosure in the summary of significant accounting policies of the effects of an entity’s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. The adoption of SFAS No. 148 did not have a material effect on the Company’s consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities.” This interpretation addresses the requirements for business enterprises to consolidate related entities in which they are determined to be the primary beneficiary as a result of their variable economic interest. The interpretation is intended to provide guidance in judging multiple economic interests in an entity and in determining the primary beneficiary. The interpretation outlines disclosure requirements for variable interest entities in existence prior to January 31, 2003, and outlines consolidation requirements for variable interest entities created after January 31, 2003. This interpretation did not have a material impact on the Company’s consolidated financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 is not expected to have a material impact on the Company’s consolidated financial position or results of operations.

#### Note 4. Revenue Recognition

*Long-term contracts:* Earnings on long-term contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Operating expenses are charged to operations as incurred and are not allocated to contract costs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are estimable.

*Equipment other than long-term contracts:* The Company recognizes revenue on equipment sales, other than long-term contracts, when title passes, which is usually upon shipment.

*Advertising rights:* The Company occasionally sells and installs its products at facilities in exchange for the rights to sell and retain future advertising revenues. It recognizes revenue for the amount of the present value of the future advertising payments if enough advertising is sold to obtain normal margins on the contract.

On those transactions where the Company has not sold the advertising for the full value of the equipment, it records the related cost of equipment as advertising rights and amortizes that cost over the term of the rights. Revenue is recognized when it is earned under the provisions of applicable advertising contracts. Advance collections of advertising revenues are recorded as deferred income. The cost of advertising rights, net of amortization, was \$393 as of August 2, 2003 and \$385 as of May 3, 2003.

*Product maintenance:* In connection with the sale of the Company's products, it also occasionally sells separately priced extended warranties and product maintenance contracts. The revenue related to such contracts are deferred and recognized as net sales over the term of the agreement, which varies from two to ten years.

*Software:* The Company typically sells its proprietary software bundled with its video displays and certain other products. Pursuant to American Institute of Certified Public Accountants ("AICPA") Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended by SOP 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2" and SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions" revenues from software license fees on sales, other than long-term contracts are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collection is probable. For sales of software, included in long-term contracts, the revenue is recognized under the percentage-of-completion method for long-term contracts starting when the above-mentioned criteria have been met.

*Services:* Revenues generated by the Company for services such as, event support, control room design, on-site training, equipment service and continuing technical support for operators of the Company's equipment are recognized as net sales as the services are performed.

#### Note 5. Earnings Per Share

Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

A reconciliation of the income and common share amounts used in the calculation of basic and diluted earnings per share (EPS) for the three months ended August 2, 2003 is as follows:

	Net Income	Shares	Per Share Amount
For the three months ended August 2, 2003:			
Basic earnings per share	\$ 4,308	18,590,942	\$ 0.23
Effect of dilutive securities:			
Exercise of stock options and warrants		1,213,459	(0.01)
Diluted earnings per share	\$ 4,308	19,804,401	\$ 0.22
For the three months ended August 3, 2002:			
Basic earnings per share	\$ 3,134	18,275,268	\$ 0.17
Effect of dilutive securities:			
Exercise of stock options and warrants		1,016,535	(0.01)
Diluted earnings per share	\$ 3,134	19,291,803	\$ 0.16

#### Note 6. Goodwill and Other Intangible Assets — Adoption of SFAS No. 142

Effective April 28, 2002, the Company adopted SFAS No. 142 "Goodwill and Other Intangible Assets." This statement prohibits the amortization of goodwill and intangible assets with indefinite useful lives and requires that these assets be reviewed for impairment at least annually. An impairment charge is recognized only when the calculated fair value of a reporting unit, including goodwill, is less than its carrying amount. The Company performed an analysis as of October 25, 2002. The results of the analysis indicated that no goodwill impairment existed as of October 25, 2002. In accordance with SFAS 142 the Company will complete an impairment analysis on an annual basis.

Goodwill, net of accumulated amortization, was \$1,081 at August 2, 2003 and \$1,043 at May 3, 2003. Accumulated amortization was \$157 at August 2, 2003 and at May 3, 2003 respectively.

As required by SFAS 142, intangibles with finite lives continue to be amortized. Included in intangible assets are a non-compete agreement and a patent license. Intangible assets before accumulated amortization were \$550 at August 2, 2003 and May 3, 2003 respectively. Accumulated amortization was \$447 and \$419 at August 2, 2003 and May 3, 2003, respectively. The net value of intangible assets is included as a component of Intangible and other assets in the accompanying consolidated balance sheets. Estimated amortization expense based on intangibles as of May 3, 2003, is \$63, \$40, and \$27 for the fiscal years ending 2004, 2005 and 2006.

## Note 7. Inventories

Inventories consist of the following:

	August 2, 2003		May 3, 2003
Raw Materials	\$ 6,492	\$	5,999
Work-in-progress	3,620		2,151
Finished goods	7,715		6,713
	\$ 17,827	\$	14,863

## Note 8. Segment Disclosure:

The Company's chief operating decision makers review financial information presented on a consolidated basis, accompanied by disaggregated information about revenue and certain expenses, by market and geographic region, for purposes of assessing financial performance and making operation decisions. Accordingly, the Company considers itself to be operating in a single industry segment. The Company does not manage its business by solution or focus area. For the first quarter of fiscal year 2004, the Company had no individual customers that constituted a significant concentration. During the first quarter of fiscal year 2003, the Company had one customer that represented approximately \$5 million of the Company's consolidated revenues.

The Company does not maintain information on sales by products, and therefore, disclosure of such information is not practical.

The following table presents information about the Company by geographic area:

	United States		Other		Total
Net sales for the three months ended:					
August 2, 2003	\$ 42,431	\$	6,487	\$	48,918
August 3, 2002	43,402		705		44,107
Long-lived assets as of:					
August 2, 2003	\$ 24,288	\$	362	\$	24,650
August 3, 2002	25,834		236		26,070

## Note 9. Litigation

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based upon consultation with legal counsel, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion highlights the principal factors affecting changes in financial condition and results of operations. This discussion should be read in conjunction with the accompanying Consolidated Financial Statements and Notes to Consolidated Financial Statements.

### OVERVIEW

The Company designs, manufactures, and sells a wide range of computer-programmable information display systems to customers in a variety of markets throughout the world. The Company focuses its sales and marketing efforts on geographical regions, markets and products. The primary categories of markets include sport, business, and transportation.

The Company's net sales and profitability historically have fluctuated due to the impact of large product orders, such as display systems for major league sport facilities and colleges and universities, as well as seasonality factors, including the timing of the various sports seasons and the impact of holidays, which primarily impact the Company's third quarter. The Company's gross margins on large product orders tend to fluctuate more than those for small standard orders. Large product orders that involve competitive bidding and substantial subcontract work for product installation generally have lower gross margins. Although the Company follows the percentage of completion method of recognizing revenues for larger custom orders, the Company nevertheless has experienced fluctuations in operating results and expects that its future results of operations may be subject to similar fluctuations.

The Company books orders only upon receipt of a firm contract and, in many cases, only after receipt of any required deposits related to the order. As a result, certain orders for which the Company has received binding letters of intent or contracts will not be booked until all required contractual documents and deposits are received. In addition, order bookings can vary significantly as a result of the timing of large orders.

The Company operates on a 52-53 week fiscal year, with fiscal years ending on the Saturday closest to April 30 of each year. Fiscal year 2003 contained 53 weeks and the first quarter of fiscal year 2003 contained 14 weeks as compared to the more typical 52-week year and 13-week quarter. Fiscal year 2004 contains 52 weeks.

For a summary of recently issued accounting pronouncements and the effects of those pronouncements on the financial results of the Company, refer to Note 3 of the consolidated financial statements of the Company, which are included elsewhere in this report.

### Critical Accounting Policies and Estimates

The following discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, the Company evaluates its estimates, including those related to estimated total costs on long-term contracts, estimated costs to be incurred for product warranties and extended maintenance contracts, bad debts, excess and obsolete inventory and

contingencies. Its estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies require significant judgments and estimates in the preparation of its consolidated financial statements:

*Revenue recognition on long-term contracts.* Earnings on long-term contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are estimable. Generally, contracts entered into by the Company have fixed prices established and to the extent the actual costs to complete contracts are higher than the amounts estimated as of the date of the financial statements, the resulting gross margin would be negatively affected in future quarters when the Company revises its estimates. The Company's practice is to revise estimates as soon as such changes in estimates become known.

*Allowance for doubtful accounts.* The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As of August 2, 2003, the Company had an allowance for doubtful accounts balance of approximately \$1.1 million.

*Warranties.* The Company has created a reserve for warranties on its products equal to its estimate of the actual costs to be incurred in connection with its performance under the standard warranty. In the event that the Company would become aware of an increase in its warranty reserves additional reserves may become necessary, resulting in an increase in costs of goods sold. As of August 2, 2003, the Company had a total of approximately \$3.4 million deferred for these costs.

*Extended warranty and product maintenance.* The Company has deferred revenue related to separately priced extended warranty and product maintenance agreements. In the event that the Company would become aware of an increase in its estimated costs under these agreements in excess of its deferred revenue, additional reserves may be necessary, resulting in an increase in costs of goods sold. As of August 2, 2003, approximately \$0.04 million in additional reserves were provided for.

*Inventory.* Inventories are stated at the lower of cost or market. Market refers to the current replacement cost, except that market may not exceed the net realizable value (i.e., estimated selling price in the ordinary course of business less reasonable predictable costs of completion and disposal); and market is not less than the net realizable value reduced by an allowance for normal profit margins. In valuing inventory the Company estimates market value where it is believed to be the lower of cost or market and any necessary charges are charged to costs of goods sold in the period in which it occurs. All other inventory is valued at cost.

## RESULTS OF OPERATIONS

The following table sets forth the percentage of net sales represented by items included in the Company's Consolidated Statements of Operations for the periods indicated:

	<u>Three Months Ended</u>	
	<u>August 2, 2003</u> <u>(13 weeks)</u>	<u>August 3, 2002</u> <u>(14 weeks)</u>
Net sales	100.0%	100.0%
Cost of goods sold	64.3%	65.3%
Gross profit	35.7%	34.7%
Operating expenses	22.0%	23.3%
Operating income	13.7%	11.4%
Interest income	0.5%	0.4%
Interest expense	(0.5%)	(0.6%)
Other income, net	0.9%	0.5%
Income before income taxes	14.6%	11.7%
Income tax expense	5.7%	4.6%
Net income	8.9%	7.1%

## NET SALES

Net sales increased 10.9% to \$48.9 million for the three months ended August 2, 2003 compared to \$44.1 million for the same period in fiscal year 2003. The increase in net sales was comprised of increases in the sports and transportation markets and a decline in the business market. In addition, sales outside of the United States grew significantly in the first quarter of fiscal year 2004 as compared to the first quarter of fiscal year 2003. Within the sports markets, the growth in the first quarter of fiscal year 2004 as compared to the first quarter of fiscal year 2003 was especially strong in the major league sports area as the Company continued work on a number of larger professional football, hockey and basketball facilities which related primarily to orders booked prior to the beginning of the quarter. Net sales in the mid-sized sports installations, primarily colleges, universities, minor league sports facilities and larger municipal stadiums and arenas were also up quarter over quarter. Net sales in the smaller sports related facilities, primarily high schools, were down quarter over quarter due mainly to the effects of a large transaction recorded in the first quarter of fiscal year 2003. The Company expects that sales will be up for the year in the small and mid-sized facilities and to be down in the larger professional facilities, although for the first quarter of fiscal year 2004 orders for the professional facilities were higher than expected as explained below. The growth in the sports market as a whole was due to a number of factors, including the overall level of order bookings during the quarter and the mix of the backlog at the beginning of the quarter, which allowed the Company to generate more revenue earlier in the quarter as compared to the first quarter of fiscal year 2003. In addition, the Company benefits from its network of sales and service offices throughout the country, giving it the ability to serve its customers more effectively. The Company believes that the effects of the slow economy have a lesser impact on the sports market, as compared to its other markets, since its products are generally revenue generation tools (through advertising) for facilities and the sports business in general is a more resistant to negative factors in the economy as a whole.

Orders in the sports market were also up quarter over quarter with increases in all levels of facilities from small municipal and high school facilities to major league sports facilities. During the quarter, the Company also benefited from growth opportunities presented through its sports marketing business as it signed additional orders which included sponsorships by advertisers. This has helped drive sales in smaller facilities as well as mid-sized facilities. The Company believes that the growth in the sports market continues to be driven by a growth in market share, new product development and expanding market as the Company's products have become more affordable to more institutions, and its overall product offerings, which the Company believes are the most complete and integrated systems in the marketplace.

Net sales in the transportation market were also up slightly in the first quarter of fiscal year 2004 as compared to the first quarter of fiscal year 2003. The increase was due primarily to the orders booked during the quarter and the ongoing effects of the Company's expansion of its transportation related customer base which includes departments of transportation and transportation system integrators, which has resulted in repeat sales. Within the transportation market, net sales in the aviation portion were flat for the first quarter of fiscal year 2004 as compared to the same quarter of fiscal year 2003. Orders in the transportation market are expected to increase for the year over fiscal year 2003, although the actual results will depend to a large degree on Congress appropriating federal funds which is expected to occur during the second half of calendar year 2003.

Net sales in the business market were down in the first quarter of fiscal year 2004 as compared to the same quarter of fiscal year 2003 and partially offset the increase in the other markets. The decline was in both standard orders and larger custom projects. During the quarter, however, order bookings were up significantly in the business markets as compared to the first quarter of fiscal year 2003 as the Company saw an increase in its national account business as well as an increase in orders for its standard products. Finally, a couple of larger orders in horse racing facilities were booked during the quarter. As a result of the favorable levels of order bookings during the quarter and various other factors, the Company believes that it will see a growth in net sales in the business market for fiscal year 2004 as compared to fiscal year 2003.

The order backlog as of August 2, 2003 was approximately \$56 million as compared to approximately \$50 million as of August 3, 2002 and at the beginning of the quarter. The backlog was primarily in the sports markets. The business market backlog showed the greatest percentage increase quarter over quarter, while the backlog in the transportation market declined as compared to the end of the first quarter of fiscal year 2003. Backlog varies significantly quarter to quarter due to the effects of large orders and significant variations can be expected as explained previously herein. In addition, the Company's backlog is not necessarily indicative of future sales or net income, also as explained previously.

During the second half of fiscal year 2003 and into the first quarter of fiscal year 2004, there were significant changes in the mix of competitors, primarily in the large screen video display markets. The Company believes that it is still well positioned with respect to the competition.

## **GROSS PROFIT**

Gross profit increased 13.9% to \$17.5 million for the three months ended August 2, 2003 compared to \$15.3 million for the same period in fiscal year 2003. As a percent of net sales, gross profit increased from 34.7% in the first quarter of fiscal year 2003 to 35.7% in the first quarter of fiscal year 2004. The increase in gross profit dollars was due to the higher level of net sales mentioned above and an improvement in the gross profit percentage. The increase in the gross profit margins as a percent of net sales was due to a number of factors including improvements in raw materials costs, improvements in on-site project costs as compared to estimates, smaller charges for excess and obsolete inventory as compared to the first quarter of fiscal year 2003 and overall improvement in expected margins at contract signing. The gross margin increases were also stronger in the sports and business market, while margins in the transportation market were flat quarter over quarter. The increases in gross margin were offset slightly by higher freight costs. The Company continues to strive towards higher gross margins, as a percent of net sales, although depending on the actual mix and level of future sales, margin percentages may not increase. The Company expects that the gross margin percentages will decline to lower levels for the rest of the fiscal year, but that it can continue to increase margins over the long term.

## **OPERATING EXPENSES**

*Operating expenses.* Operating expenses, which are comprised of selling, general and administrative and product design and development costs, increased by approximately 4.5% from \$10.3 million in the first quarter of fiscal year 2003 to \$10.8 million dollars in the first quarter of fiscal year 2004. As a percent of net sales, operating expenses decreased from 23.3% to 22.0%. All components of operating expenses were impacted as a result of the first quarter of fiscal year 2004 containing 13 weeks as opposed to the 14 weeks included in the first quarter of fiscal year 2003.

*Selling Expenses.* Selling expenses consist primarily of salaries, other employee related costs, travel and entertainment, facilities-related costs for sales and service offices, and expenditures for marketing efforts including such things as collateral materials, conventions and trade shows, product demos and supplies.

Selling expenses decreased 5.6% to \$6.4 million for the three months ended August 2, 2003 compared to \$6.8 million for the same period in fiscal year 2003. Selling expenses were 13.1% and 15.4% of net sales for the three months ended August 2, 2003 and August 3, 2002, respectively. The decreases in both actual amounts spent and the percentage of net sales resulted from declines in the level of bad debt expenses and a decline in the costs of product demonstration equipment. These decreases were offset by an increase in travel costs related primarily to the increased level of net sales. Included in bad debt expense in the first quarter of fiscal year 2003 was \$300,000 related to a single transaction. During the first quarter of fiscal year 2004, no similar transaction occurred, although the Company did record an expense of \$0.15 million related to a single account. In addition, the first quarter of fiscal year 2003 included a \$0.3 million write-down of the carrying costs of demonstration equipment primarily due to technology improvements and replacement with new equipment. There were no similar charges in the first quarter of fiscal year 2004. The Company expects selling expenses to increase slightly each quarter for the rest of the fiscal year given its current outlook, however as a percentage of net sales, selling expenses are expected at levels similar to the level achieved for all of fiscal year 2003.

*General and Administrative.* General and administrative expenses consist primarily of salaries, other employee-related costs, professional fees, shareholder relations fees, facilities and equipment related costs for administration departments, amortization of intangibles, and supplies.

General and administrative expenses increased 28.5% to \$2.1 million for the three months ended August 2, 2003 compared to \$1.7 million for the same period in fiscal year 2003. General and administrative expenses were 4.3% and 3.7% of net sales for the first quarter of fiscal year 2004 and 2003, respectively. The increase for the first quarter of fiscal year 2004 as compared to the first quarter of fiscal year 2003 was primarily due an increases in payroll and payroll related costs, and increases in software and software implementation costs.

*Product Design and Development.* Product design and development expenses consist primarily of salaries, other employee-related costs, facilities and equipment related costs, and supplies.

Product design and development expenses increased 20.5% to \$2.2 million for the three months ended August 2, 2003 compared to \$1.8 million for the same period in fiscal year 2003. As a percentage of net sales, product design and development expenses were 4.5% and 4.1% of net sales for the first quarter of fiscal year 2004 and 2003, respectively. Generally, product design and development expenses increase during times when the Company's engineering resources are not

dedicated to long-term contracts, as the same personnel who work on research and development also work on long-term contracts. Although historically, based on the foregoing, product development costs would have declined, the Company invested more during the quarter on product development, primarily in further development of its controllers, software, video displays and new products. The Company expects that product design and development expenses will slightly exceed 4.0% of net sales for fiscal year 2004.

## **INTEREST INCOME**

The Company occasionally sells products on an installment basis, under lease arrangements or in exchange for the rights to sell and retain advertising revenues from the scoreboard or display, which result in long-term receivables. Interest income resulting from these long-term receivables increased 23.4% to \$0.23 million for the three months ended August 2, 2003 as compared to \$0.18 million for the first quarter of fiscal year 2003. The increase was the result of higher average levels of long-term receivables outstanding during the first quarter of fiscal year 2004 which resulted primarily from one large transaction entered into during the fourth quarter of fiscal year 2003.

## **INTEREST EXPENSE**

Interest expense is comprised primarily of interest costs on the Company's notes payable and long-term debt. Interest expense decreased 8.2% to \$0.23 million for the three months ended August 2, 2003 as compared to \$0.26 million for the three months ended August 3, 2002. The decrease was due to the reduction of debt outstanding under the Company's line of credit and decreases in average long-term debt outstanding which was partially offset by penalties the Company paid to retire debt ahead of its scheduled maturity.

## **OTHER INCOME (EXPENSE)**

Other income (expense) increased 128.9% from \$ 0.19 million to \$0.44 million. This increase was the result of gains realized on the sale of the rental equipment used by the Company's video display rental subsidiary.

## **LIQUIDITY AND CAPITAL RESOURCES**

Working capital was \$39.3 million at August 2, 2003 and \$39.7 million at May 3, 2003. The Company has historically financed working capital needs through a combination of cash flow from operations and borrowings under bank credit agreements.

Cash provided by operations for the three months ended August 2, 2003 was \$6.6 million. Net income of \$4.3 million plus depreciation and amortization of \$1.6 million, an increase in accounts payable, accrued expenses, customer deposits and income taxes payable and a decrease in accounts receivable, was offset by an increase in inventories, costs and estimated earnings in excess of billings, net of billings in excess of costs and estimated earnings, and the effects of changes in various other operating assets and liabilities.

Cash used by investing activities consisted of \$1.7 million of purchases of property and equipment. During the first quarter of fiscal year 2004, the Company invested approximately \$0.3 million in transportation equipment, approximately \$0.3 million in computer hardware and software, approximately \$0.2 million in equipment held for rent, approximately \$0.4 million in manufacturing equipment and \$0.2 in demonstration equipment. These purchases were made to support the Company's continued growth and to replace obsolete equipment.

Cash used by financing activities included \$0.1 million in proceeds under the Company's Canadian subsidiary's line of credit, \$0.1 million in proceeds from the exercise of stock options, and \$0.1 proceeds under long-term debt arrangements by the Company's Canadian subsidiary. These sources of cash were offset by \$3.9 million used to pay down the Company's long-term debt.

Included in accounts receivable as of August 2, 2003, was approximately \$ 0.6 million of retainage on long-term contracts, all of which is expected to be collected within one year.

The Company has used and expects to continue to use cash reserves and bank borrowings to meet its short-term working capital requirements. On large product orders, the time between order acceptance and project completion may extend up to and exceed 18 months depending on the amount of custom work and the customer's delivery needs. The Company often receives a down payment or progress payments on these product orders. To the extent that these payments are not sufficient to fund the costs and other expenses associated with these orders, the Company uses working capital and bank borrowings to finance these cash requirements.

The Company's product development activities include the enhancement of existing products and the development of new products from existing technologies. Product design and development expenses were \$2.2 million for the three months ended August 2, 2003. The Company intends to continue to incur these expenditures to develop new display products using various display technologies to offer higher resolution, and more cost effective and energy efficient displays. The Company also intends to continue developing software applications for its display controllers to enable these products to continue to meet the needs and expectations of the marketplace.

The Company has a credit agreement with a bank that provides for a \$20.0 million line of credit, which includes up to \$2.0 million for standby letters of credit. The interest rate on the line of credit is equal to LIBOR rate plus 1.55% (2.66% at August 2, 2003) and is due on October 1, 2004. As of August 2, 2003, no advances under the line of credit were outstanding. Two standby letters of credit were issued and outstanding for approximately \$1.1 million as of August 2, 2003. The credit agreement is unsecured and requires the Company to meet certain covenants including the maintenance of tangible net worth of at least \$40 million, a minimum liquidity ratio, a limit on dividends and distributions, and a minimum adjusted fixed charge coverage ratio. Daktronics Canada, Inc. the Company's Canadian subsidiary, has various credit agreements that provide up to \$0.3 million in borrowings under lines of credit. The interest rate on the lines of credit are equal to 1.5% above the prime rate of interest (4.75% at August 2, 2003). As of August 3, 2003, \$0.3 had been drawn under the line. The lines are secured primarily by accounts receivables, inventory and other assets of the subsidiary. SportsLink, Ltd. has a credit agreement with a bank that provides for a \$0.1 line of credit and is due September 13, 2003. The rate on the line of credit is equal to the prime rate of interest (4.0% as of August 2, 2003). As of August 2, 2003, no advances were outstanding under the line. The credit agreement is secured by the assets of the subsidiary and is guaranteed by the Company.

The Company is sometimes required to obtain performance bonds for display installations and currently has a bonding line available through a surety company that provides for an aggregate of \$100.0 million in bonded work outstanding. At August 2, 2003, the Company had approximately \$8.3 million of bonded work outstanding against this line.

The Company believes that if its growth continues, it may need to increase the amount of its credit facility. The Company anticipates that it will be able to obtain any needed funds under commercially reasonable terms from its current lender. The Company believes that cash from operations, from its existing or

increased credit facility, and its current working capital will be adequate to meet the cash requirements of its operations in the foreseeable future.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### FOREIGN CURRENCY EXCHANGE RATES

Through August 2, 2003 substantially all of the Company's net sales were denominated in United States dollars, and its exposure to foreign currency exchange rate changes has not been significant. Net sales originating outside the United States for the first quarter of fiscal year 2004 were 13.3% of total net sales. The Company operates in Canada through a majority owned subsidiary. Sales of the Canadian subsidiary comprised 3% of net sales in the first quarter of fiscal year 2004. In the event the Company believed that currency risk in Canada was significant it would utilize foreign exchange hedging contracts to manage its exposure to the Canadian dollar.

During the first quarter of fiscal year 2004, the Company entered into a order denominated in euros. To minimize its risk on fluctuations in euros versus the dollar, it entered into a forward contract to sell euros, net of its euro denominated obligations on the contact.

It is expected that in the future net sales denominated in foreign currency may increase as a percentage of net sales. As a result, operating results may become subject to fluctuations based upon changes in the exchange rates of certain currencies in relation to the United States dollar. To the extent that the Company engages in international sales denominated in United States dollars, an increase in the value of the United States dollar relative to foreign currencies could make the Company's products less competitive in international markets. Although the Company will continue to monitor and minimize its exposure to currency fluctuations, and, when appropriate, may use financial hedging techniques in the future to minimize the effect of these fluctuations, exchange rate fluctuations as well as differing economic conditions, changes in political climates, differing tax structures and other rules and regulations could adversely affect the Company's financial results in the future.

#### Interest rate risks

The Company's exposure to market rate risk for changes in interest rates relates primarily to the Company's debt and long-term accounts receivable. The Company maintains a blend of both fixed and floating rate debt instruments. As of August 2, 2003, the Company's outstanding debt approximated \$4.9 million, substantially all of which was in fixed rate obligations. Each 100 basis point increase or decrease in interest rates would have an insignificant annual effect on variable rate debt interest based on the balances of such debt as of as of August 2, 2003. For fixed rate debt, interest rate changes affects its fair market value, but do not impact earnings or cash flows.

In connection with the sale of certain video displays, scoreboards and message display centers, the Company has entered into various types of financings. The aggregate amounts due from customers include an imputed interest element. The majority of these financings carry fixed rates of interest. As of August 2, 2003, the Company's outstanding long-term receivables were approximately \$10.8 million. Each 25 basis point increase in interest rates would have an associated annual opportunity cost of approximately \$0.02 million.

The following table provides information about the Company's financial instruments that are sensitive to changes in interest rates, including debt obligations for the three quarters ending May 1, 2004 and fiscal years following fiscal year 2004.

**Principal (Notional) Amount by Expected Maturity**  
(in thousands)

	<b>Fiscal Year Ending</b>					<b>There-</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>after</b>
<b>Assets:</b>						
Long-term receivables, including current portion						
Fixed rate	2,334	1,533	2,889	959	908	2,129
Average interest rate	6.2%	10.1%	9.6%	8.4%	8.3%	7.2%
<b>Liabilities:</b>						
Long and short term debt						
Fixed rate	1,917	1,489	1,067	72	48	35
Average interest rate	6.6%	8.0%	8.5%	9.0%	10.0%	11.4%
Variable rate	283	-	-	-	-	-
Average interest rate	4.8%	-	-	-	-	-

The carrying amounts reported on the balance sheet for long-term receivables and long and short-term debt approximate their fair values.

Substantially all of the Company's cash balances are denominated in United States dollars. Cash balances in foreign currencies are operating balances maintained in accounts of the Company's Canadian subsidiary and euro denominated accounts. These balances are not significant to the Company as a whole.

### Item 4. CONTROLS AND PROCEDURES

Based on an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, James B. Morgan, President and Chief Executive Officer of the Company, and William R. Retterath, Chief Financial Officer and Treasurer of the Company, have concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

None

**Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

None

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The following items and the results were submitted to the shareholders at the annual meeting held on August 20, 2003:

1. Election of the following three nominees as directors of the Company, until their successors are duly elected and qualified:

Frank J. Kurtenbach:	For <u>14,951,991</u>	Withheld <u>2,495,783</u>
Roland J. Jensen:	For <u>17,430,296</u>	Withheld <u>17,478</u>
James A. Vellenga:	For <u>17,337,036</u>	Withheld <u>110,738</u>

2. Ratification of the appointment of Ernst & Young LLP as independent auditors for the Company for the fiscal year ending May 1, 2004.

For <u>17,174,459</u>	Against <u>258,197</u>	Abstain <u>15,118</u>
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**Item 5. OTHER INFORMATION**

None

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**Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits

Ex 4.5	AMENDED AND RESTATED 2001 INCENTIVE STOCK OPTION PLAN
Ex 4.6	AMENDED AND RESTATED 2001 OUTSIDE DIRECTORS STOCK OPTION PLAN
Ex 10.2	AMENDED 1993 OUTSIDE DIRECTORS STOCK OPTION PLAN
Ex 31.1	CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER REQUIRED BY RULE 13a-14(a) OR RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
Ex 31.2	CERTIFICATION OF THE CHIEF FINANCIAL OFFICER REQUIRED BY RULE 13a-14(a) OR RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
Ex 32.1	CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
Ex 32.2	CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

(b) Reports on Form 8-K

None.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

By: /s/ William R. Retterath  
Daktronics, Inc.  
William R. Retterath,  
Chief Financial Officer and Treasurer  
Principal Financial Officer

Date: August 29, 2003

**2001 INCENTIVE STOCK OPTION PLAN, Amended 30 July 2003**

1. Purpose. The purpose of the 2001 Incentive Stock Option Plan is to induce certain designated persons to continue to provide valuable services to Daktronics, Inc. (the "Company") and to encourage such persons to secure or increase on reasonable terms their stock ownership in the Company. The Board of Directors of the Company believes the Plan is in the best interest of the Company and will promote the success of the Company. This success will be achieved by encouraging continuity of management and increased incentive and personal interest in the welfare of the Company by those who are primarily responsible for shaping and implementing the long-range plans of the Company.

Certain Options granted under this Plan are intended to be Incentive Stock Options qualified under Section 422 of the Code.

2. Definitions. For purposes of this Plan, the following terms shall have the meanings indicated below:

- (a) "Capital Stock" or "Common Stock": any of the Company's authorized but unissued shares of common stock, each without par value.
- (b) "Code": the Internal Revenue Code of 1986, as amended from time to time.
- (c) "Fair Market Value": (i) the average between the high and low reported sale prices for the Common Stock on the Option Date (or, if there were no such sales on that date, on the next most recent date on which there were such sales) as reported on the Composite Tape if the Common Stock is listed on the New York Stock Exchange ("NYSE") or on the National Association of Securities Dealers National Market System ("NMS"), (ii) if the Common Stock is not then listed on the NYSE or the NMS, the average between the closing bid and asked price quotations for the Common Stock on that date (or if none on that date, on the next most recent date on which there were such quotations) as reported by the National Association of Securities Dealers Automatic Quotation System or any successor thereto or (iii) if the Common Stock is not then listed as described above, such value as is reasonably determined by the Committee (see Section 4) based on the then current fair market value of the Common Stock at the time any Option is granted. Fair Market Value of Incentive Stock Options shall be determined consistent with the Code and regulations.
- (d) "Incentive Stock Option": an option defined in Section 422 of the Code to purchase shares of the common stock of the Company.
- (e) "Non-Qualified Stock Option": an option, not intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code, to purchase Common Stock of the Company.
- (f) "Option": the term shall refer to a Stock Option granted under this Plan.
- (g) "Option Agreement": a written agreement pursuant to which the Company grants an Option to an Optionee and sets the terms and conditions of the Option.
- (h) "Option Date": the date upon which an Option Agreement for an option granted pursuant to this Plan is duly executed by or on behalf of the Company.
- (i) "Option Stock": the Common Stock of the Company (subject to adjustment as described in Section 7) reserved for options pursuant to this Plan, or any other class of stock of the Company which may be substituted therefore by exchange, stock split or otherwise.
- (j) "Optionee": a person who is eligible to receive an Option under Section 5 of the Plan and to whom an Option has been granted under the Plan.
- (k) "Plan": this 2001 Stock Option Plan effective August 15, 2001, and as amended hereafter from time to time. (l) A "Subsidiary": any corporation in an unbroken chain of corporations beginning with the Company, if, at the
- (l) A "Subsidiary": any corporation in an unbroken chain of corporations beginning with the Company, if, at the time of granting the option, each of the corporations other than the last corporation in the chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. The term shall include any subsidiaries which become such after adoption of this Plan.

3. Options Available Under Plan. An aggregate of 1,200,000 shares of the Company's authorized but unissued shares of Common Stock are hereby made available for grant, and shall be reserved for issuance, under this Plan. The aggregate number of shares available under this Plan shall be subject to adjustment on the occurrence of any of the events and in the manner set forth in Section 7. If an Option shall expire or terminate for any reason without having been exercised in full, the unpurchased shares, shall (unless the Plan shall have been terminated) become available for other Options under the Plan.

4. Administration. The Plan shall be administered by the Board of Directors of the Company. At all times subject to the authority of the Board of Directors, the Board of Directors may from time to time delegate some or all of its authority under the Plan to a committee consisting of three (3) or more Directors (the "Committee"), and/or obtain assistance or recommendations from such Committee. If no separate committee is appointed, the Board shall constitute the Committee, and references to the Committee shall include the entire Board of Directors.

The Company shall grant Options pursuant to the Plan upon determinations of the Committee as to which of the eligible persons shall be granted Options, the number of shares to be Optioned and the term during which any such Options may be exercised. At all times, a majority of the members of the Committee making determinations about the grant of Options to employee-directors or employee-officers must be disinterested in the grant being made. The Committee may from time to time adopt rules and procedures for carrying out the Plan and interpretations and constructions of any provision of the Plan, which shall be final and conclusive.

5. Eligibility for Stock Options. Incentive Stock Options under the Plan may only be granted to such employees of the Company or any Subsidiary thereof, as selected by the Committee.

In selecting the employees or other persons to whom Stock Options shall be granted, as well as determining the number of shares subject to each Option, the Committee shall take into consideration such factors as it deems relevant in connection with accomplishing the purpose of the Plan. For any calendar year, the

aggregate Fair Market Value (determined at the Option Date) of the stock with respect to which any Incentive Stock Options are exercisable for the first time by any individual employee (under all Incentive Stock Option plans of the Company and all subsidiary corporations) shall not exceed \$100,000. Subject to the provisions of Section 3, an optionee who has been granted an Option may, if he or she is otherwise eligible, be granted an additional Option or Options if the Committee shall so determine. Any Incentive Stock Option that becomes exercisable and exceeds the above limitation shall be treated as a Non-Qualified Option.

No Stock Option may be granted under this Plan later than the expiration at the end of the fiscal year 2011.

6. Terms and Conditions of Options. Whenever the Committee shall designate an Optionee, it shall communicate to the Secretary of the Company the name of the Optionee, the number of shares to be Optioned and such other terms and conditions as it shall determine, not inconsistent with the provisions of this Plan. The President or other officer of the Company shall then enter into an Option Agreement with the Optionee, complying with and subject to the following terms and conditions and setting forth such other terms and conditions of the Option as determined by the Committee:

(a) Number of shares and option price. The Option Agreement shall state the total number of shares to which it pertains. The price of Incentive Stock Option Stock shall be not less than one hundred percent (100%) of the Fair Market Value of the Option Stock at the Option Date. In the event an Incentive Stock Option is granted to an employee, who, at the Option Date, owns more than ten percent (10%) of the voting power of all classes of the Company's stock then outstanding, the price of the shares of Option Stock which will be covered by such Option shall be not less than one hundred ten percent (110%) of the Fair Market Value of the Option Stock at the Option Date. Non-Qualified Options may be granted at a price equal to, greater than or less than Fair Market Value at the date of grant. The Option price shall be subject to adjustment as provided in Section 7 hereof.

(b) Period of options and right to exercise. Options granted under this Plan shall be subject to such terms and conditions, shall be exercisable at such times and shall be evidenced by such form of written Option Agreement as the Committee shall determine, provided that such determinations are not inconsistent with Code Section 422 and the regulations thereunder. The Option Agreement may, at the discretion of the Committee, provide for the acceleration of vesting of Options upon a "Change in Control" of the Company, as defined in Section 6(h) below.

In addition, no Option granted, shall by its terms, be exercisable after the expiration of ten (10) years from the date such Option is granted. Except, however, Incentive Stock Options granted to any employee who at the Option Date owns more than ten percent (10%) of the voting power of all shares of the classes of Company's stock then outstanding, may not be exercisable after expiration of five (5) years from the Option Date. The period during which the Option may be exercised, once it is granted, shall not be reduced, except as provided in paragraphs (c), (d) and (e) below. The exercise of any Option will be contingent upon receipt by the Company of payment as provided in paragraph (f) below for the full purchase price of such shares. No Optionee or his or her legal representatives, legatees or distributees, as the case may be, will be, or will be deemed to be, a holder of any shares subject to an Option unless and until certificates for such shares are issued under the terms of the Plan.

(c) Termination of Employment or Service. In the event that an Optionee shall cease to be employed by the Company for any reason other than death, subject to the condition that no Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the date it is granted, and unless the Option Agreement provides otherwise, such Optionee shall have the right to exercise any outstanding Options at any time within three (3) months after the termination of employment or service.

(d) Death of Optionee. If the Optionee shall die (i) while in the employ of or while providing services to the Company or any Subsidiary, or (ii) within a period of three (3) months after the termination of his or her employment or as a corporate director with the Company or any subsidiary as provided in paragraph (c) of this section, and in either case shall not have fully exercised his or her Options, any Options granted pursuant to the Plan shall be exercisable until the earlier of the originally stated date of termination or one year from the date of death. Such Option shall be exercised pursuant to subparagraph (f) of this Section by the person or persons to whom the Optionee's rights under the Option shall pass by the Optionee's will or by the laws of descent and distribution, and only to the extent that such Options were exercisable at the time of his or her death.

(e) Transfer of Option. Each Option granted hereunder shall, by its terms, not be transferable by the Optionee other than by will or by the laws of descent and distribution, and shall be, during the Optionee's lifetime, exercisable only by the Optionee. Except as permitted by the preceding sentence, each Option granted under the Plan and the rights and privileges thereby conferred shall not be transferred, assigned or pledged in any way (whether by operation of law or otherwise), and shall not be subject to execution, attachment or similar process. Upon any attempt to so transfer, assign, pledge, or otherwise dispose of the Option, or of any right or privilege conferred thereby, contrary to the provisions of the Option or the Plan, or upon levy of any attachment or similar process upon such rights and privileges, the Option, and such rights and privileges, shall immediately become null and void.

(f) Manner of Exercise of Options. An Option may be exercised, in whole or in part, at such time or times and with respect to such number of shares, as the Board of Directors, in its sole discretion, shall determine at the time that the Option is granted. The Option terms shall be set forth in the Option Agreement granting the Option. Such Option shall be exercisable only within the Option period and only by (i) written notice to the Company of intent to exercise the Option with respect to a specified number of shares of stock; (ii) tendering the original Option Agreement to the Company; and (iii) payment to the Company of the amount of the Option purchase price for the number of shares of stock with respect to which the Option is then exercised. When shares of stock are issued to the Optionee pursuant to the exercise of an Option, the fact of such issuance shall be noted on the Option Agreement by the Company before the Agreement is returned to the Optionee. When all shares of Optioned stock covered by the Option Agreement have been issued to the Optionee, or the Option shall expire, the Option Agreement shall be canceled and retained by the Company.

(g) Payment of Option Price. Payment of the Option purchase price may be made (i) in cash, by cashier's check (by personal check at the discretion of the Company); (ii) by a 'cashless exercise' procedure established between the optionee and a stock brokerage firm, subject to compliance with applicable securities laws; or (iii) in shares of the Company's Common Stock owned by the Optionee for at least six months (which are not the subject of any pledge or other security interest) having a Fair Market Value equal to the Option purchase price, or in a combination of cash and such shares of Common Stock.

(h) Delivery of Certificate. As promptly as practicable after receipt of the written notice and payment specified above, the Company shall deliver to the Optionee certificates for the number of shares with respect to which the Option has been exercised, issued in the Optionee's name; provided, however, that such delivery shall be deemed effected for all purposes when the Company, or the stock transfer agent for the Company, shall have deposited such certificates in the United States mail, postage prepaid, addressed to the Optionee at the address specified in the written notice of exercise.

(i) Change in Control. A "Change in Control" shall, unless the Board otherwise directs by resolution adopted prior thereto, be deemed to occur if (i) any "person" (as that term is used in Sections 13 and 14(d)(2) of the Securities Exchange Act of 1934 as amended ("Exchange Act")) is or becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of 50% or more of the voting Capital Stock of the

Company ("Voting Stock") or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's shareholders of each new director was approved by a vote of at least three-quarters of the directors then still in office who were directors at the beginning of the period. Any merger, consolidation or corporate reorganization in which the owners of the Company's capital stock entitled to vote in the election of directors prior to said combination, own 50% or more of the resulting entity's Voting Stock shall not, by itself, be considered a change in control for the purposes of this Plan.

(j) Other Provisions. The Option Agreements authorized under this Section may contain such other provisions as the Committee shall deem advisable.

7. Adjustment of Number of Shares. If, and to the extent that, the number of issued shares of the Capital Stock of the Company shall be increased or reduced by change in par value, recapitalization, reorganization, merger, consolidation, split up, distribution of a dividend payable in stock or the like, the number of shares subject to the Option and the Option price therefor shall be equitably adjusted by the Committee consistent with such change to prevent substantial dilution or enlargement of the rights granted to or available to Optionees.

Subject to the foregoing, the grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

8. No Rights as Stockholder. An Optionee shall not, by reason of any Option granted hereunder, have any right of a stockholder of the Company with respect to the shares covered by his or her Option until such shares shall have been issued to the Optionee.

9. No Obligation to Exercise Option. The granting of an Option shall impose no obligation upon the Optionee to exercise such Option. Neither shall the Plan confer upon the Optionee any rights respecting continued employment nor limit the Optionee's rights or the employer Company's rights to terminate such employment.

10. Withholding Taxes. If required by law, upon a disqualified disposition of an Incentive Stock Option, the Company shall have the right to require any Optionee that is or was an employee as of the Option Date, to remit to the Company an amount sufficient to satisfy any required statutory minimum federal and state withholding or other employment taxes, if any, resulting from such option exercise or early disposition of Option Stock. Payment of such amount may be made in the same manner as payment of the exercise price .

11. Common Stock Acquired for Investment. Common Stock acquired by an Optionee under this Plan by exercise of any Option shall be acquired by the Optionee for investment and without intention of resale, unless, in the opinion of counsel of the Company, such common stock may be purchased without any investment representation. Where an investment representation is deemed necessary, the Committee may require a written representation to that effect by the Optionee as a condition of the Optionee exercising an Option under this Plan, and the Committee may place an appropriate legend on the common stock issued to the Optionee indicating that such common stock has not been registered under federal or state securities laws. Each Option shall be subject to the requirement that if, at any time, the Committee shall determine in its discretion that the listing, registration or qualification of the shares subject to such Option upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Option or the issuance or purchase of shares thereunder, then such Option shall not be granted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. Nothing contained herein shall require the Company to register the Options or the shares of voting common stock purchased upon the exercise of said Options.

12. Effective Date. This Plan shall be effective August 15, 2001 (the "Effective Date") as approved by the Board of Directors, subject to approval by the shareholders of the Company. However, unless within 12 months after the Plan is adopted by the Board of Directors, the Plan is approved by the vote of the holders of a majority of the outstanding Capital Stock of the Company, the Plan and options granted hereunder shall not qualify under Section 422 of the Code.

13. Liquidation. Upon the complete liquidation of the Company, any unexercised Options theretofore granted under this Plan shall be deemed canceled, except as otherwise provided in Section 7 in connection with a merger, consolidation or reorganization of the Company.

14. Termination and Amendment of the Plan. This Plan shall terminate at the end of the fiscal year 2011 or at such earlier time as the Board of Directors shall determine. Any termination shall not affect any Options then outstanding under the Plan.

The Board may make such modifications of the Plan as it shall deem advisable, but may not, without further approval of the stockholders of the Company, except as provided in Section 7 hereof, (a) increase the number of shares reserved for Options under this Plan, (b) change the manner of determining the Option price for Incentive Stock Options, (c) increase the maximum term of the Options provided for herein or (d) change the class of persons eligible to receive Options under the Plan.

15. Governing law. The Plan shall be governed by and construed in accordance with the internal laws of the State of South Dakota without reference to the principles of conflicts of law thereof.

## 2001 OUTSIDE DIRECTORS STOCK OPTION PLAN, Amended 30 July 2003

### 1. Purpose

The purpose of the Daktronics, Inc. 2001 Outside Directors Stock Option Plan (the "Plan") is to provide a means whereby Daktronics, Inc. (the "Company") may grant options to purchase common stock of the Company to those members of the Company's Board of Directors who are not employees of the Company or any of its subsidiaries ("Eligible Directors"). Options granted under the Plan are not intended to and do not qualify as incentive stock options as described in Section 422A of the Internal Revenue Code (the "Code").

### 2. Number of Shares Available under the Plan

Options will be granted by the Company at the times described below, to Eligible Directors to purchase an aggregate of up to 400,000 shares of common stock, without par value, of the Company and 400,000 shares shall be reserved for options granted under the Plan (subject to adjustment as provided in Section 4.9 below). The shares issued upon exercise of options granted under the Plan may be authorized and unissued shares or reacquired shares held by the Company. If any option granted under the Plan shall terminate, expire or with the consent of the optionee, be canceled as to any shares, new options may thereafter be granted covering such shares without affecting the amount of the option reserve noted above.

### 3. Administration

The Plan shall be administered by a Committee consisting of the President and Chief Financial Officer of the Company who are not eligible to participate in the Plan (the "Committee"). Committee members shall have no discretion concerning the grant of options, the price at which options are to be granted or times at which options may be exercised.

The Committee may interpret the Plan, amend and rescind any rules and regulations necessary or appropriate for the administration of the Plan and make other determinations and take such other action as it deems necessary or advisable. No such action will affect the rights of Eligible Directors who have been granted options prior to such action. Any interpretation or other action made or taken by the Committee shall be final, binding and conclusive.

### 4. Terms and Conditions

4.1 Time of Grant and Form. Each option granted under the Plan shall be evidenced by an option agreement which shall be subject to the terms and conditions of the Plan, for the following respective grants of options:

- (a) Each Eligible Director who is appointed, elected or re-elected to the Board of Directors on or after August 15, 2001, shall receive a grant of options for the purchase of shares of common stock of the Company, effective on the date of appointment, election or re-election to the Board in an amount equal to a maximum of 12,000 options for each year of the term of that person's directorship (i.e., up to 12,000 options for a one year term, or lesser period; up to 24,000 options for a two year term, or lesser period exceeding one year; or up to 36,000 options for a three year term, or lesser period exceeding two years).

The foregoing respective dates of grant are referred to herein as the "Grant Date." Notwithstanding the foregoing, if on the scheduled Grant Date, the President determines, in his discretion, that the Company is in possession of material, undisclosed information that would prevent the Company from issuing securities, then the grant of options to Eligible Directors pursuant to this Section 4.1 will be suspended until the third day after public dissemination of such information. The President may only suspend the grant; the amount and other terms of the grant will remain as set forth in the Plan, with the exercise price of the option to be determined in accordance with the Plan on the date the option is finally granted.

4.2 Exercisability. Subject to Sections 4.6 and 4.7 below, each option agreement shall provide that the option will vest and become first exercisable annually in increments of up to 12,000 shares of Common Stock commencing on the first anniversary of the grant date. If the Plan is not approved by the shareholders, all options granted under the Plan shall thereupon lapse.

4.3 Option Period. Subject to Sections 4.6 and 4.7 below, each option agreement shall provide that the option shall expire at the end of seven (7) years from the date granted or upon dissolution of the Company, if earlier.

4.4 Option Price. The exercise price per share for options granted under the Plan shall be the "Fair Market Value" (as defined herein) as of the Common Stock on the Grant Date. As used herein, "Fair Market Value" shall mean: (a) the average between the high and low reported sale prices for the Common Stock on the date of determination (or, if there were no such sales on that date, on the next most recent date on which there were such sales) as reported on the Composite Tape if the Common Stock is listed on the New York Stock Exchange ("NYSE") or on the National Association of Securities Dealers National Market System ("NMS"), (b) if the Common Stock is not then listed on the NYSE or the NMS, the average between the closing bid and asked price quotations for the Common Stock on that date (or if none on that date, on the next most recent date on which there were such quotations) as reported by the National Association of Securities Dealers Automatic Quotation System or any successor thereto or (c) if the Common Stock is not then listed as described above, such value as is reasonably determined by the Committee based on the then current fair market value of the Common Stock.

4.5 Payment of Option Price. The purchase price of the shares as to which an option shall be exercised shall be paid: (i) in cash, check, bank draft or money order made payable to the Company, (ii) by a "cashless exercise" procedure established between the optionee and a stock brokerage firm, subject to compliance with applicable securities laws or (iii) in shares of the Company's Common Stock owned by the optionee for at least six months (which are not the subject of any pledge or other security interest) having a Fair Market Value equal to the option exercise price or in a combination of cash and such shares of Common Stock.

4.6 Exercise in the Event of Death or Ceasing to be a Board Member. Each option agreement shall be subject to the following:

- (a) If an optionee ceases to be a director of the Company (other than by death or a "Change in Control" (as defined herein), the options which are then exercisable (vested) may be exercised until seven (7) years from the date of grant, and shall thereafter lapse.
- (b) If an optionee ceases to be a director of the Company because of death or a "Change in Control," all outstanding options, whether or not vested, shall immediately become exercisable until seven (7) years from the date of grant, and shall thereafter lapse.

Options that are not exercisable (not vested) as of the date an optionee ceases to be a director of the Company (other than by death or due to a Change in Control) shall immediately lapse on that date.

4.7 Change in Control. A "Change in Control" shall, unless the Board otherwise directs by resolution adopted prior thereto, be deemed to occur if (i) any "person" (as that term is used in Sections 13 and 14(d)(2) of the Securities Exchange Act of 1934 as amended ("Exchange Act")) is or becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of 50% or more of the voting capital stock of the Company ("Voting Stock") or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company's shareholders of each new director was approved by a vote of at least three-quarters of the directors then still in office who were directors at the beginning of the period. Any merger, consolidation or corporate reorganization in which the owners of the Company's capital stock entitled to vote in the election of directors prior to said combination, own 50% or more of the resulting entity's Voting Stock shall not, by itself, be considered a change in control for the purposes of this Plan.

4.8 Adjustment of Number of Shares. If, and to the extent that, the number of issued shares of the Capital Stock of the Company shall be increased or reduced by change in par value, recapitalization, reorganization, merger, consolidation, split up, distribution of a dividend payable in stock or the like, the number of shares subject to any outstanding option and the option price therefor shall be equitably adjusted by the Committee consistent with such change to prevent substantial dilution or enlargement of the rights granted to or available to optionees.

Subject to the foregoing, the grant of an option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

4.9 No Rights as Stockholder. An optionee shall not, by reason of any option granted hereunder, have any right of a stockholder of the Company with respect to the shares covered by his or her option until such shares shall have been issued to the optionee.

4.10 No Obligation to Exercise Option. The granting of an option shall impose no obligation upon the optionee to exercise such option. Neither shall the Plan confer upon the optionee any rights respecting continued directorship.

4.11 Withholding Taxes. Prior to the delivery of any certificates or certificates for shares issuable upon exercise of an option, the Company shall have the right to require any optionee to remit to the Company an amount sufficient to satisfy any required statutory minimum federal and state withholding or other taxes, if any, resulting from such option exercise. Payment of such amount may be made in the same manner as payment of the exercise price.

4.12 Common Stock Acquired for Investment. Common Stock acquired by an optionee under this Plan by exercise of any option shall be acquired by the optionee for investment and without intention of resale, unless, in the opinion of counsel of the Company, such common stock may be purchased without any investment representation. Where an investment representation is deemed necessary, the Committee may require a written representation to that effect by the optionee as a condition of the optionee exercising an option under this Plan, and the Committee may place an appropriate legend on the common stock issued to the optionee indicating that such common stock has not been registered under federal or state securities laws. Each option shall be subject to the requirement that if, at any time, the Committee shall determine in its discretion that the listing, registration or qualification of the shares subject to such option upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issuance or purchase of shares thereunder, then such option shall not be granted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. Nothing contained herein shall require the Company to register the options or the shares of voting common stock purchased upon the exercise of said options.

4.13 Liquidation. Upon the complete liquidation of the Company, any unexercised options theretofore granted under this Plan shall be deemed canceled, except as otherwise provided in the Plan in connection with a merger, consolidation or reorganization of the Company.

4.14 Transfer of Option. Each option granted hereunder shall, by its terms, not be transferable by the optionee other than by will or by the laws of descent and distribution, and shall be, during the optionee's lifetime, exercisable only by the optionee. Except as permitted by the preceding sentence, each option granted under the Plan and the rights and privileges thereby conferred shall not be transferred, assigned or pledged in any way (whether by operation of law or otherwise), and shall not be subject to execution, attachment or similar process. Upon any attempt to so transfer, assign, pledge, or otherwise dispose of the option, or of any right or privilege conferred thereby, contrary to the provisions of the option or the Plan, or upon levy of any attachment or similar process upon such rights and privileges, the option, and such rights and privileges, shall immediately become null and void.

4.15 Governing law. The Plan shall be governed by and construed in accordance with the internal laws of the State of South Dakota without reference to the principles of conflicts of law thereof.

4.16 Expiration Date. The Plan shall terminate at the end of the Company's fiscal year in 2011, or on such earlier date determined by the Board. Any termination shall not affect any options then outstanding under the Plan. No options may be granted after termination.

## 5. Amendment and Termination.

The Board may from time to time amend, suspend or discontinue the Plan provided that, subject to the provisions of Section 4.8 above, no action of the Board may permit the granting of any option at the option price less than that determined in accordance with Section 4.4 above; adjust or change the Grant Date determined under Section 4.1 above; or shorten the period provided for in Section 4.3 above. However, the Plan may not be amended more than once every six months other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder. Without the written consent of an optionee, no amendment or suspension of the Plan shall alter or impair any option previously granted to him or her under the Plan. The Board may, subject to limitations in the Plan, modify, extend or renew outstanding options granted under the Plan, or accept the surrender of outstanding options to the extent unexercised.

## 6. Effective Date

The Plan was adopted by the Board of Directors of the Company to be effective as of August 15, 2001, and its effectiveness is subject to approval by the shareholders of the Company and is also subject to the termination of the 1993 Outside Directors Stock Option Plan, as amended, effective as of the close of business on August 14, 2001.

DAKTRONICS, INC.  
1993 OUTSIDE DIRECTORS STOCK OPTION PLAN  
AS AMENDED in 1998  
Further amended 30 July 2003

I.

PURPOSE OF PLAN

1.1 The purpose of the Daktronics, Inc. 1993 Outside Directors Stock Option Plan (the "Plan") is to provide a means whereby Daktronics, Inc. (the "Company") may grant options to purchase common stock of the Company to those members of the Company's Board of Directors who are not employees of the Company or any of its subsidiaries ("Eligible Directors"). Options granted under the Plan are not intended to and do not qualify as incentive stock options as described in Section 422A of the Internal Revenue Code (the "Code").

II.

NUMBER OF SHARES AVAILABLE UNDER THE PLAN

2.1 Options will be granted by the Company at the times described below, to Eligible Directors to purchase an aggregate of up to 160,000 shares of common stock, without par value, of the Company (after giving effect to the 10-for-1 stock split authorized on the Common Stock on November 18, 1993) and 160,000 shares shall be reserved for options granted under the Plan (subject to adjustment as provided in Section 4.9 below). The shares issued upon exercise of options granted under the Plan may be authorized and unissued shares or reacquired shares held by the Company. If any option granted under the Plan shall terminate, expire or with the consent of the optionee, be canceled as to any shares, new options may thereafter be granted covering such shares without affecting the amount of the option reserve noted above.

III.

ADMINISTRATION

3.1 The Plan shall be administered by a Committee consisting of the President and Chief Financial Officer of the Company who are not eligible to participate in the Plan (the "Committee"). Committee members shall have no discretion concerning the grant of options, the price at which options are to be granted or times at which options may be exercised.

The Committee may interpret the Plan, amend and rescind any rules and regulations necessary or appropriate for the administration of the Plan and make other determinations and take such other action as it deems necessary or advisable. No such action will affect the rights of Eligible Directors who have been granted options prior to such action. Any interpretation or other action made or taken by the Committee shall be final, binding and conclusive.

IV.

TERMS AND CONDITIONS

4.1 Time of Grant and Form. Each option granted under the Plan shall be evidenced by an option agreement which shall be subject to the terms and conditions of the Plan, for the following respective grants of options:

- (a) Each Eligible Director of record on November 18, 1993 whose term expires at the 1994 annual meeting of shareholders shall receive a grant of options for the purchase of 1,000 shares of common stock of the Company effective November 18, 1993.
- (b) Each Eligible Director of record on November 18, 1993 whose term expires at the 1995 annual meeting of shareholders shall receive a grant of options for the purchase of 2,000 shares of common stock of the Company effective November 18, 1993.
- (c) Each Eligible Director of record on November 18, 1993 whose term expires at the 1996 annual meeting of shareholders shall receive a grant of options for the purchase of 3,000 shares of common stock of the Company effective November 18, 1993.
- (d) Each Eligible Director who is appointed, elected or re-elected to the Board of Directors on or after August 19, 1998, shall receive a grant of options for the purchase of shares of common stock of the Company, effective on the date of appointment, election or re-election to the Board in an amount equal to 3,000 options for each year of the term of that person's directorship (i.e., 3,000 options for a one year term, or lesser period; 3,000 options for a two year term, or lesser period exceeding one year; or 9,000 options for a three year term, or lesser period exceeding two years).

The foregoing respective dates of grant are referred to herein as the "Grant Date." Notwithstanding the foregoing, if on the scheduled Grant Date, the President determines, in his discretion, that the Company is in possession of material, undisclosed information that would prevent the Company from issuing securities, then the grant of options to Eligible Directors pursuant to this Section 4.1 will be suspended until the third day after public dissemination of such information. The President may only suspend the grant; the amount and other terms of the grant will remain as set forth in the Plan, with the exercise price of the option to be determined in accordance with the Plan on the date the option is finally granted.

4.2 Exercisability. Subject to Sections 4.6 and 4.7 below, each option agreement dated prior to August 19, 1998 shall provide that the option will vest and become first exercisable annually in increments of 1,000 shares of Common Stock commencing on the first anniversary of the Grant Date. Subject to Sections 4.6 and 4.7 below, each option agreement date on or after August 19, 1998, shall provide that the option will vest and become first exercisable annually in increments of 3,000 shares of Common Stock commencing on the first anniversary of the grant date. If the Plan is not approved by the shareholders, all options granted under the Plan shall thereupon lapse.

4.3 Option Period. Subject to Sections 4.6 and 4.7 below, each option agreement shall provide that the option shall expire at the end of seven (7) years from the date granted or upon dissolution of the Company, if earlier.

4.4 Option Price. The exercise price per share for options granted under the Plan shall be the “Fair Market Value” (as defined herein) as of the Common Stock on the Grant Date. As used herein, “Fair Market Value” shall mean: (a) the average between the high and low reported sale prices for the Common Stock on the date of determination (or, if there were no such sales on that date, on the next most recent date on which there were such sales) as reported on the Composite Tape if the Common Stock is listed on the New York Stock Exchange (“NYSE”) or on the National Association of Securities Dealers National Market System (“NMS”), (b) if the Common Stock is not then listed on the NYSE or the NMS, the average between the closing bid and asked price quotations for the Common Stock on that date (or if none on that date, on the next most recent date on which there were such quotations) as reported by the National Association of Securities Dealers Automatic Quotation System or any successor thereto or (c) if the Common Stock is not then listed as described above, such value as is reasonably determined by the Committee based on the then current fair market value of the Common Stock.

4.5 Payment of Option Price. The purchase price of the shares as to which an option shall be exercised shall be paid: (i) in cash, check, bank draft or money order made payable to the Company, (ii) by a “cashless exercise” procedure established between the optionee and a stock brokerage firm, subject to compliance with applicable securities laws or (iii) in shares of the Company’s Common Stock owned by the optionee for at least six months (which are not the subject of any pledge or other security interest) having a Fair Market Value equal to the option exercise price or in a combination of cash and such shares of Common Stock.

4.6 Exercise in the Event of Death or Ceasing to be a Board Member. Each option agreement shall be subject to the following:

- (a) If an optionee ceases to be a director of the Company (other than by death or a “Change in Control” (as defined herein)), the options which are then exercisable (vested) may be exercised until seven (7) years from the date of grant, and shall thereafter lapse.
- (b) If an optionee ceases to be a director of the Company because of death or a “Change in Control,” all outstanding options, whether or not vested, shall immediately become exercisable until seven (7) years from the date of grant, and shall thereafter lapse.

Options that are not exercisable (not vested) as of the date an optionee ceases to be a director of the Company (other than by death or due to a Change in Control) shall immediately lapse on that date.

4.7 Change in Control. A “Change in Control” shall, unless the Board otherwise directs by resolution adopted prior thereto, be deemed to occur if (i) any “person” (as that term is used in Sections 13 and 14(d)(2) of the Securities Exchange Act of 1934 as amended (“Exchange Act”)) is or becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of 50% or more of the voting capital stock of the Company (“Voting Stock”) or (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election by the Company’s shareholders of each new director was approved by a vote of at least three-quarters of the directors then still in office who were directors at the beginning of the period. Any merger, consolidation or corporate reorganization in which the owners of the Company’s capital stock entitled to vote in the election of directors prior to said combination, own 50% or more of the resulting entity’s Voting Stock shall not, by itself, be considered a change in control for the purposes of this Plan.

4.8 Adjustment of Number of Shares. If, and to the extent that, the number of issued shares of the Capital Stock of the Company shall be increased or reduced by change in par value, recapitalization, reorganization, merger, consolidation, split up, distribution of a dividend payable in stock or the like, the number of shares subject to the option and the option price therefore shall be equitably adjusted by the Committee consistent with such change to prevent substantial dilution or enlargement of the rights granted to or available to optionees.

Subject to the foregoing, the grant of an option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

4.9 No Rights as Stockholder. An optionee shall not, by reason of any option granted hereunder, have any right of a stockholder of the Company with respect to the shares covered by his or her option until such shares shall have been issued to the optionee.

4.10 No Obligation to Exercise Option. The granting of an option shall impose no obligation upon the optionee to exercise such option. Neither shall the Plan confer upon the optionee any rights respecting continued directorship.

4.11 Withholding Taxes. Prior to the delivery of any certificates or certificates for shares issuable upon exercise of an option, the Company shall have the right to require any optionee to remit to the Company an amount sufficient to satisfy any required statutory minimum federal and state withholding or other taxes, if any, resulting from such option exercise. Payment of such amount may be made in the same manner as payment of the exercise price.

4.12 Common Stock Acquired for Investment. Common Stock acquired by an optionee under this Plan by exercise of any option shall be acquired by the optionee for investment and without intention of resale, unless, in the opinion of counsel of the Company, such common stock may be purchased without any investment representation. Where an investment representation is deemed necessary, the Committee may require a written representation to that effect by the optionee as a condition of the optionee exercising an option under this Plan, and the Committee may place an appropriate legend on the common stock issued to the optionee indicating that such common stock has not been registered under federal or state securities laws. Each option shall be subject to the requirement that if, at any time, the Committee shall determine in its discretion that the listing, registration or qualification of the shares subject to such option upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issuance or purchase of shares thereunder, then such option shall not be granted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee. Nothing contained herein shall require the Company to register the options or the shares of voting common stock purchased upon the exercise of said options.

4.13 Liquidation. Upon the complete liquidation of the Company, any unexercised options theretofore granted under this Plan shall be deemed canceled, except as otherwise provided in the Plan in connection with a merger, consolidation or reorganization of the Company.

4.14 Transfer of Option. Each option granted hereunder shall, by its terms, not be transferable by the optionee other than by will or by the laws of descent and distribution, and shall be, during the optionee’s lifetime, exercisable only by the optionee. Except as permitted by the preceding sentence, each option granted under the Plan and the rights and privileges thereby conferred shall not be transferred, assigned or pledged in any way (whether by operation of law or otherwise), and shall not be subject to execution, attachment or similar process. Upon any attempt to so transfer, assign, pledge, or otherwise dispose of the option, or of any right or privilege conferred thereby, contrary to the provisions of the option or the Plan, or upon levy of any attachment or similar process upon such rights and privileges, the option, and such rights and privileges, shall immediately become null and void.

4.15 Governing law. The Plan shall be governed by and construed in accordance with the internal laws of the State of South Dakota without reference to the principles of conflicts of law thereof.

4.16 Expiration Date. The Plan shall terminate November 17, 2003, or on such earlier date determined by the Board. Any termination shall not affect any options then outstanding under the Plan. No options may be granted after termination.

V.

AMENDMENT AND TERMINATION

5.1 The Board may from time to time amend, suspend or discontinue the Plan provided that, subject to the provisions of Section 4.8 above, no action of the Board may permit the granting of any option at the option price less than that determined in accordance with Section 4.4 above; adjust or change the Grant Date determined under Section 4.1 above; or shorten the period provided for in Section 4.3 above. However, the Plan may not be amended more than once every six months other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder. Without the written consent of an optionee, no amendment or suspension of the Plan shall alter or impair any option previously granted to him or her under the Plan. The Board may, subject to limitations in the Plan, modify, extend or renew outstanding options granted under the Plan, or accept the surrender of outstanding options to the extent unexercised.

VI.

EFFECTIVE DATE

6.1 The Plan was adopted by the Board of Directors of the Company effective November 18, 1993, and its effectiveness is subject to approval by the shareholders of the Company. The plan was amended effective August 19, 1998, and the effectiveness of the amendment is subject to approval by the shareholders of the Company.

**Daktronics, Inc.**  
**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER REQUIRED BY RULE 13a-14(a) OR RULE**  
**15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO**  
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James B. Morgan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ending August 2, 2003 of Daktronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
  - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in the report any change in registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting; and

By: /s/ James B. Morgan  
James B. Morgan,  
Chief Executive Officer

Date: August 29, 2003

\* A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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**Daktronics, Inc.**  
**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER REQUIRED BY RULE 13a-14(a) OR RULE**  
**15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO**  
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William R. Retterath, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ending August 2, 2003 of Daktronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
  - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in the report any change in registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting; and

By: /s/ William R. Retterath  
Daktronics, Inc.  
William R. Retterath,  
Chief Financial Officer and Treasurer  
Principal Financial Officer

Date: August 29, 2003

\* A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**DAKTRONICS, INC.**  
**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO**  
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Daktronics, Inc. and subsidiaries (the "Company") for the quarterly period ending August 2, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James B. Morgan, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ James B. Morgan  
James B. Morgan,  
Chief Executive Officer  
August 29, 2003

\* A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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**DAKTRONICS, INC.**  
**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO**  
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Daktronics, Inc. and subsidiaries (the "Company") for the quarterly period ending August 2, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William R. Retterath, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ William R. Retterath  
William R. Retterath,  
Chief Financial Officer  
August 29, 2003

\* A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.