SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

-----------

# FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 28, 2001

Commission file number
0-23246

DAKTRONICS, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| South Dakota | 46-0306862 |
| (State or other jurisdiction of incorporation of organization) | (I.R.S. Employer Identification No.) |

331 32nd Avenue Brookings, SD 57006
(Address of principal executive offices) (Zip Code)

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

(Former name, address, and/or fiscal year, if changed since last report)

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 __X__ No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at August 31, 2001 |
|---|---|
| Common Stock, No par value | 18,143,464 |

Daktronics, Inc. and Subsidiaries

Table of Contents

Part I.
Item 1.

DAKTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

| ASSETS | JULY 28, 2001 (UNAUDITED) | APRIL 28, 2001 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 797 | $ 2,896 |
| Accounts receivable less allowance for doubtful accounts of $302 at July 28, 2001 and $271 at April 28, 2001 | 22,092 | 21,090 |
| Current maturities of long-term receivables | 1,452 | 2,030 |
| Inventories | 21,373 | 19,719 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 16,753 | 10,890 |
| Prepaid expenses and other | 489 | 529 |
| Income taxes receivable | -- | 97 |
| Deferred income taxes | 2,103 | 2,103 |
| Total current assets | 65,059 | 59,354 |
| LONG-TERM RECEIVABLES AND OTHER ASSETS | | |
| Advertising rights | 1,245 | 1,281 |
| Long-term receivables, less current maturities | 5,064 | 5,269 |
| Goodwill, net of accumulated amortization | 1,425 | 1,469 |
| Intangible and other assets, other than goodwill, net | 880 | 970 |
| | 8,614 | 8,989 |
| PROPERTY AND EQUIPMENT, at cost | | |
| Land | 542 | 542 |
| Buildings | 11,917 | 9,451 |
| Machinery and equipment | 20,293 | 19,308 |
| Office furniture and equipment | 8,516 | 7,487 |
| Transportation equipment | 2,268 | 1,901 |
| | 43,536 | 38,689 |
| Less accumulated depreciation | 17,853 | 16,818 |
| | 25,683 | 21,871 |
| | $ 99,356 | $ 90,214 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

DAKTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Dollars in thousands)

| LIABILITIES AND SHAREHOLDERS' EQUITY | JULY 28, 2001 (UNAUDITED) | APRIL 28, 2001 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Notes payable, bank | $ 8,713 | $ 7,911 |
| Current maturities of long-term debt | 3,935 | 3,883 |
| Accounts payable | 13,142 | 10,199 |
| Customer deposits | 2,526 | 1,236 |
| Accrued expenses | 6,208 | 6,981 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 2,863 | 2,177 |
| Income taxes payable | 644 | -- |
| Total current liabilities | 38,031 | 32,387 |
| LONG-TERM DEBT less current maturities | 11,591 | 10,344 |
| DEFERRED INCOME | 886 | 531 |
| DEFERRED INCOME TAXES | 1,039 | 1,050 |
| MINORITY INTEREST IN SUBSIDIARY | 74 | 79 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, no par value Authorized 30,000,000 shares Issued July 28, 2001 18,110,384 shares; April 28, 2001 18,016,066 shares | 13,232 | 12,900 |
| Additional paid-in capital | 341 | 341 |
| Retained earnings | 34,174 | 32,600 |
| Less cost of treasury stock, 19,680 shares | (9) | (9) |
| Foreign currency translation adjustment | (3) | (9) |
| | 47,735 | 45,823 |
| | $ 99,356 | $ 90,214 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

DAKTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(unaudited)

| | THREE MONTHS ENDED | |
|---|---|---|
| | JULY 28, 2001 (13 WEEKS) | JULY 29, 2000 (13 WEEKS) |
| Net sales | $ 40,247 | $ 34,536 |
| Cost of goods sold | 28,283 | 24,211 |
| Gross profit | 11,964 | 10,325 |
| Operating expenses: | | |
| Selling | 5,536 | 4,461 |
| General and administrative | 2,089 | 1,212 |
| Product design and development | 1,658 | 1,304 |
| | 9,283 | 6,977 |
| Operating income | 2,681 | 3,348 |
| Nonoperating income (expense): | | |
| Interest expense | (401) | (286) |
| Other income, net | 79 | 230 |
| Income before income taxes and minority interest | 2,533 | 3,488 |
| Income tax expense | 964 | 1,366 |
| Income before minority interest | 1,569 | 2,122 |
| Minority interest in loss of subsidiary | (5) | -- |
| Net income | $ 1,574 | $ 2,122 |
| Earnings per share: | | |
| Basic (1) | $ .09 | $ .12 |
| Diluted (1) | $ .08 | $ .11 |

(1) Share and per share amounts for the three months ended July 29, 2000 have been restated to reflect a two-for-one stock split in the form of a stock dividend (Note A).

The accompanying notes are an integral part of these Consolidated Financial Statements.

DAKTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(unaudited)

| | THREE MONTHS ENDED JULY 28, 2001 (13 WEEKS) | THREE MONTHS ENDED JULY 29, 2000 (13 WEEKS) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 1,574 | $ 2,122 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 1,035 | 734 |
| Amortization | 67 | 66 |
| Minority interest in loss of subsidiary | (5) | -- |
| Provision for doubtful accounts | 75 | 36 |
| Deferred taxes | (11) | -- |
| Net change in operating assets and liabilities | (2,421) | (427) |
| Net cash provided by operating activities | 314 | 2,531 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (2,697) | (1,663) |
| Minority investment in subsidiary | (5) | -- |
| Net cash (used in) investing activities | (2,702) | (1,663) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net borrowings on note payable | 802 | 1,559 |
| Principal payments on long-term debt | (851) | (564) |
| Proceeds from exercise of stock options | 332 | 5 |
| Net cash provided by financing activities | 283 | 1,000 |
| Effect of exchange rate changes on cash | 6 | -- |
| Increase (decrease) in cash and cash equivalents | (2,099) | 1,868 |
| Cash and cash equivalents: | | |
| Beginning | 2,896 | 1,217 |
| Ending | $ 797 | $ 3,085 |

Supplemental schedule of Noncash Investing and Financing Activities

| | | |
|---|---|---|
| Purchase of building and equipment through contract for deed | $ 2,150 | $ -- |

The accompanying notes are an integral part of these Consolidated Financial Statements.

DAKTRONICS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)
(unaudited)

## NOTE A. GENERAL

The consolidated financial statements include the accounts of Daktronics, Inc. and its subsidiaries (Company). Intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions for Form 10-Q and, accordingly, do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the consolidated financial position of the Company as of July 28, 2001 and the results of its operations and cash flows for the three months ended July 28, 2001 and July 29, 2000. These results may not be indicative of the results to be expected for the full fiscal year.

These statements should be read in conjunction with the financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended April 28, 2001, previously filed with the Securities and Exchange Commission (SEC).

Earnings per common share have been computed on the basis of the weighted-average number of common shares outstanding during each period presented. A reconciliation of the income and common stock share amounts used in the calculation of basic and diluted earnings per share (EPS) for the three months ended July 28, 2001 and July 29, 2000 follows:

| | Net Income | Shares | Per Share Amount |
|---|---|---|---|
| For the three months ended July 28, 2001: | | | |
| Basic EPS | $ 1,574 | 18,045,481 | $ 0.09 |
| Effect of dilutive securities: | | | |
| Exercise of stock options and warrants | -- | 1,407,703 | 0.01 |
| Diluted EPS | $ 1,574 | 19,453,184 | $ 0.08 |
| For the three months ended July 29, 2000: | | | |
| Basic EPS | $ 2,122 | 17,729,830 | $ 0.12 |
| Effect of dilutive securities: | | | |
| Exercise of stock options | -- | 854,022 | 0.01 |
| Diluted EPS | $ 2,122 | 18,583,852 | $ 0.11 |

On December 7, 1999 and May 24, 2001, the Company declared a two-for-one stock split in the form of a stock dividend of one share of common stock for each one share outstanding, payable to shareholders of record on December 20, 1999 and on June 11, 2001, respectively. All data related to common shares has been retroactively adjusted based upon the new shares outstanding after the effect of the two-for-one stock split for all periods presented.

## NOTE B. INVENTORIES

Inventories consist of the following:

| | July 28, 2001 | April 28, 2001 |
|---|---|---|
| Raw materials ........ | $ 9,846 | $ 9,610 |
| Work-in-process ...... | 4,462 | 2,439 |
| Finished goods ....... | 7,065 | 7,670 |
| | $ 21,373 | $ 19,719 |

## NOTE C. LITIGATION

There are no pending material legal transactions against the Company.

## NOTE D. RECENT ACCOUNTING PRONOUNCEMENTS

In July, 2001, the Financial Accounting Standards Board (FASB) issued two statements - Statement 141, BUSINESS COMBINATIONS, and Statement 142, GOODWILL AND OTHER INTANGIBLE ASSETS, which will impact the Company's accounting for its reported goodwill.

Statement 141:

* Eliminates the pooling method for accounting for business combinations.

* Requires that intangible assets that meet certain criteria be reported separately from goodwill.

* Requires negative goodwill arising from a business combination to be recorded as an extraordinary gain.

Statement 142:

* Eliminates the amortization of goodwill and other intangibles that are determined to have an indefinite life.

* Requires, at a minimum, annual impairment tests for goodwill and other intangible assets that are determined to have an indefinite life.

* Requires the carrying value of goodwill which exceeds its implied fair value to be recognized as an impairment loss.

Upon adoption of these Statements, the Company is required to:

* Re-evaluate goodwill and other intangible assets that arose from business combinations entered into before July 1, 2001. If the recorded other intangible assets do not meet the criteria for recognition, they should be reclassified to goodwill. Similarly, if there are other intangible assets that meet the criteria for recognition but were not separately recorded from goodwill, they should be reclassified from goodwill.

* Reassess the useful lives of intangible assets and adjust the remaining amortization periods accordingly.

* Recognize any remaining negative goodwill as income.

The provisions of FASB Statement 141 apply to all business combinations initiated after June 30, 2001 and all business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. The provisions of FASB Statement 142 will be implemented by the Company in the first quarter of its fiscal year 2003 financial statements. The Company has not yet completed its full assessment of the effects of these new pronouncements on its financial statements and is uncertain as to the impact.

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.

In addition to statements of fact, this report contains forward-looking statements reflecting the Company's expectations or beliefs concerning future events which could materially affect Company performance in the future. The Company cautions that these and similar statements involve risk and uncertainties including changes in economic and market conditions, seasonality of business in certain market niches, impact of large orders, management of growth, and other risks noted in the Company's SEC filings which may cause actual results to differ materially. Forward-looking statements are made in the context of information available as of the date stated. The Company undertakes no obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur.

### GENERAL

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 markets rather than products. Major 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 the Olympic Games and major league sports, as well as the seasonality of the sports market. 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 these large 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 operates on a 52 - 53 week fiscal year, with fiscal years ending on the Saturday closest to April 30 of each year. The first three quarters end on the Saturday closest to July 31, October 31 and January 31.

### RESULTS OF OPERATIONS

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

| | THREE MONTHS ENDED | |
|---|---|---|
| | JULY 28, 2001 (13 WEEKS) | JULY 29, 2000 (13 WEEKS) |
| Net sales | 100.0% | 100.0% |
| Cost of goods sold | 70.3% | 70.1% |
| Gross profit | 29.7% | 29.9% |
| Operating expenses | 23.0% | 20.2% |
| Operating income | 6.7% | 9.7% |
| Interest income | 0.4% | 0.5% |
| Interest expense | (1.0%) | (0.8%) |
| Other income, net | 0.2% | 0.7% |
| Income before income taxes and minority interest | 6.3% | 10.1% |
| Income tax expense | 2.4% | 4.0% |
| Income before minority interest | 3.9% | 6.1% |
| Minority interest in loss of subsidiary | 0.0% | 0.0% |
| Net income | 3.9% | 6.1% |

NET SALES

Net sales were $40.2 million for the three months ended July 28, 2001 compared to $34.5 million for the three months ended July 29, 2000. The increase was the result of increased sales in the business, sports and transportation markets.

GROSS PROFIT

Gross profit increased to $12.0 million for the three months ended July 28, 2001 from $10.3 million for the three months ended July 29, 2000. The increase in gross profit dollars was due to increased sales. Gross profit as a percentage of net sales for the three months ended July 28, 2001 decreased slightly to 29.7% from 29.9% for the three months ended July 29, 2000.

OPERATING EXPENSES

Selling expenses were $5.5 million for the three months ended July 28, 2001 and $4.5 million for the three months ended July 29, 2000. As a percent of sales, selling expenses increased .8%. The increase was primarily attributable to the expansion of sales staff as the Company continues to expand its marketing efforts to increase sales.

General and administrative expenses were $2.1 million for the three months ended July 28, 2001 compared to $1.2 million for the three months ended July 29, 2000. The increase was due to increased administrative support to sustain future Company sales growth, including increased depreciation on computer equipment, office furniture, and buildings.

Product design and development expenses increased to $1.7 million for the three months ended July 28, 2001 from $1.3 million for the three months ended July 29, 2000. The increase was due to the continued development and improvement of the family of ProStar(R) Video displays, and ProAd(TM) digital advertising and information systems, and adapting other products to LED technology.

INTEREST INCOME

The Company occasionally sells products on an installment basis or in exchange for advertising revenues from the scoreboard or display, both of which result in long-term receivables. Interest income decreased to $174,000 for the three months ended July 28, 2001 from $196,000 for the three months ended July 29, 2000.

INTEREST EXPENSE

Interest expense increased to $401,000 for the three months ended July 28, 2001 from $286,000 for the three months ended July 29, 2000. The increase was the result of an increase in average loan balances as the Company utilized its line of credit and long-term debt.

INCOME TAX EXPENSE

Income tax expense as a percentage of income before income taxes and minority interest was 38% for the three months ended July 28, 2001 and was 39% for the three months ended July 29, 2000.

NET INCOME

Net income decreased to $1.6 million from $2.1 million for the three months ended July 28, 2001 and July 29, 2000, respectively. The decrease in net income was due to the increase in operating expenses as a percentage of sales.

Management believes that one of the principal factors that will continue to affect the Company's rate of growth is the Company's ability to increase the marketing of its current and future products in existing markets and expand the marketing of its products to new markets.

LIQUIDITY AND CAPITAL RESOURCES

Working capital was $27.0 million at July 28, 2001 and $27.0 million at April 28, 2001. Working capital provided by net income, depreciation and amortization was offset by purchases of property and equipment and repayment of long-term debt. 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 July 28, 2001 was $314,000. Net income of $1.6 million plus depreciation and amortization of $1.1 million were offset by an increase in accounts receivable, an increase in inventories, including costs and estimated earnings in excess of billings on uncompleted contracts, net an increase in accounts payable and an increase in customer deposits. Cash used by investing activities consisted of $4.8 million of purchases of building and equipment, of which $2.1 million was purchased through a contract for deed. Cash provided by financing activities included $802,000 net borrowings under the Company's line of credit. Cash used for financing activities consisted of $851,000 of repayment of long-term debt.

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 12 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 development expenses were $1.7 million for the three months ended July 28, 2001 and $1.3 million for the three months ended July 29, 2000. 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. The credit agreement provides for a $20.0 million line of credit. The line of credit is at the LIBOR rate plus 1.55% (5.325% at July 28, 2001) and is due on October 1, 2003. As of July 28, 2001, $8.7 million had been drawn on the line of credit. The credit agreement is unsecured and requires the Company to meet certain covenants. Financial covenants include the maintenance of tangible net worth of at least $23 million, a minimum liquidity ratio, a limit on dividends and distributions, and a minimum adjusted fixed charge coverage ratio.

The Company is sometimes required to obtain performance bonds for display installations. The Company currently has a bonding line available through an insurance company that provides for an aggregate of $100 million in bonded work outstanding. At July 28, 2001, the Company had $7.9 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 needs. The Company anticipates that it will be able to obtain any needed funds under commercially reasonable terms from its current lender or other sources. The Company believes that its working capital available from all sources will be adequate to meet the cash requirements of its operations in the foreseeable future.

BUSINESS RISKS AND UNCERTAINTIES

A number of risks and uncertainties exist which could impact the Company's future operating results. These uncertainties include, but are not limited to, general economic conditions, competition, the Company's success in developing new products and technologies, market acceptance of new products, and other factors, including those set forth in the Company's SEC filings, including its current report on Form 10-K for the year ended April 28, 2001.

RECENT ACCOUNTING PRONOUNCEMENTS

In July, 2001, the FASB issued two statements - Statement 141, BUSINESS COMBINATIONS, and Statement 142, GOODWILL AND OTHER INTANGIBLE ASSETS, which will impact the Company's accounting for its reported goodwill. The provisions of FASB Statement 141 apply to all business combinations initiated after June 30, 2001 and all business combinations accounted for by the purchase method for which the date of acquisition is July 1, 2001, or later. The provisions of FASB Statement 142 will be implemented by the Company in the first quarter of its fiscal year 2003 financial statements. The Company has not yet completed its full assessment of the effects of these new pronouncements on its Financial statements and is uncertain as to the impact. See Note D in the Notes to Consolidated Financial Statements for further information.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not believe its operations are exposed to significant market risk relating to interest rates or foreign exchange risk.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8K

Refer to Form 8K filed on June 7, 2001

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.

/s/ Aelred J. Kurtenbach, Chairman and Acting CFO
--------------------------------------------------

Daktronics, Inc.

(Dr. Aelred J. Kurtenbach)

(Chairman)

(Acting Chief Financial Officer)

Date  September 10, 2001