

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

FORM 10-Q

*(Mark One)*

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

**For the Quarterly Period Ended January 28, 2006**

**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 of incorporation)

**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 a large accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (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 February 14, 2006 was 19,389,526.**

**DAKTRONICS, INC. AND SUBSIDIARIES**  
FORM 10-Q  
For the Quarter Ended January 28, 2006

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**EXHIBITS****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 Section 21B of the Securities Exchange Act of 1934, as amended, including statements regarding our 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 our intent, belief or current expectations with respect to, among other things: (i) our financing plans; (ii) trends affecting our financial condition or results of operations; (iii) our growth strategy and operating strategy; and (iv) the declaration and payment of dividends. The words "may," "would," "could," "will," "expect," "estimate," "anticipate," "believe," "intend," "plan" 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 risks and uncertainties, many of which are beyond our 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 our filings with the Securities and Exchange Commission, including in our Annual Report on Form 10-K for the fiscal year ended April 30, 2005 in the section entitled "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Business Risks and Uncertainties."

**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****DAKTRONICS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	January 28, 2006 (unaudited)	April 30, 2005 (note 1)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 8,657	\$ 15,961
Marketable securities	8,207	8,105
Accounts receivable, less allowance for doubtful accounts	38,590	23,762
Current maturities of long-term receivables	6,114	5,196
Inventories	32,686	24,612
Costs and estimated earnings in excess of billings	20,994	15,301
Prepaid expenses and other	1,613	1,725
Deferred income taxes	5,651	5,076
Income tax receivable	1,265	1,812
Rental equipment available for sale	—	2,733
	<hr/>	<hr/>
Total current assets	123,777	104,283
	<hr/>	<hr/>
Advertising rights, net	1,854	1,722
Long-term receivables, less current maturities	9,264	9,900

Goodwill	2,692	2,621
Intangible and other assets	1,152	1,101
Deferred income taxes	444	782
	<u>15,406</u>	<u>16,126</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Land	1,224	1,084
Buildings	18,986	15,386
Machinery and equipment	21,775	17,592
Office furniture and equipment	22,044	19,382
Equipment held for rental	1,132	835
Demonstration equipment	5,089	5,245
Transportation equipment	4,575	3,810
	<u>74,825</u>	<u>63,334</u>
Less accumulated depreciation	36,766	32,281
	<u>38,059</u>	<u>31,053</u>
	<u>\$177,242</u>	<u>\$151,462</u>

See notes to consolidated financial statements.

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

	January 28, 2006 (unaudited)	April 30, 2005 (note 1)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable, bank	\$ —	\$ 79
Accounts payable	19,011	17,121
Accrued expenses and warranty obligations	14,442	10,973
Current maturities of long-term debt	86	909
Current maturities of long-term marketing obligations	380	304
Billings in excess of costs and estimated earnings	11,354	5,463
Customer deposits	5,406	4,164
Deferred maintenance revenue	3,864	2,983
	<u>54,543</u>	<u>41,996</u>
Long-term debt, less current maturities	174	171
Long-term marketing obligations, less current maturities	583	595
Long-term warranty obligations	2,359	1,357
Deferred income taxes	1,629	3,433
	<u>4,745</u>	<u>5,556</u>
<b>TOTAL LIABILITIES</b>	<b>59,288</b>	<b>47,552</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, no par value, authorized 60,000,000 shares, and shares issued at 19,388,566 and 19,165,369 January 28, 2006 and April 30, 2005, respectively	19,223	17,739
Additional paid-in capital	3,201	2,684
Retained earnings	95,277	83,337
Treasury stock, at cost, 19,680 shares	(9)	(9)
Accumulated other comprehensive income	262	159
	<u>117,954</u>	<u>103,910</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>117,954</b>	<b>103,910</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$177,242</b>	<b>\$ 151,462</b>

See notes to consolidated financial statements.

(in thousands, except per share data)  
(unaudited)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>January 28, 2006</u>	<u>January 29, 2005</u>	<u>January 28, 2006</u>	<u>January 29, 2005</u>
Net sales	\$ 71,050	\$ 50,818	\$ 219,197	\$ 169,000
Cost of goods sold	49,024	35,457	152,660	113,527
<b>Gross profit</b>	<b>22,026</b>	<b>15,361</b>	<b>66,537</b>	<b>55,473</b>
Operating expenses:				
Selling	10,417	8,186	29,405	22,913
General and administrative	2,479	2,459	7,784	7,292
Product design and development	2,890	2,522	8,124	7,622
	15,786	13,167	45,313	37,827
<b>Operating income</b>	<b>6,240</b>	<b>2,194</b>	<b>21,224</b>	<b>17,646</b>
Nonoperating income (expense):				
Interest income (expense), net	417	316	1,206	830
Other income (expense), net	(25)	(171)	(102)	284
<b>Income before income taxes</b>	<b>6,632</b>	<b>2,339</b>	<b>22,328</b>	<b>18,760</b>
Income tax expense (benefit)	2,591	(116)	8,471	6,085
<b>Net income</b>	<b>\$ 4,041</b>	<b>\$ 2,455</b>	<b>\$ 13,857</b>	<b>\$ 12,675</b>
Weighted average number of fully diluted shares and common equivalent shares	20,297	20,196	20,181	20,180
Earnings per share:				
Basic	\$ 0.21	\$ 0.13	\$ 0.72	\$ 0.67
Diluted	\$ 0.20	\$ 0.12	\$ 0.69	\$ 0.63
Cash dividend paid per share	\$ —	\$ —	\$ 0.10	\$ —

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

	<u>Nine Months Ended</u>	
	<u>January 28, 2006</u>	<u>January 29, 2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 13,857	\$ 12,675
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,224	5,454
Amortization	44	77
(Gain) loss on sale of property and equipment	(319)	15
Provision for doubtful accounts	(254)	(178)
Deferred income taxes, net	(2,041)	(32)
Change in operating assets and liabilities	(9,989)	1,387
<b>Net cash provided by operating activities</b>	<b>7,522</b>	<b>19,398</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>		
Cash consideration paid for acquired business	(165)	(1,024)
Purchase of property and equipment	(13,227)	(8,235)
Sales (purchases) of marketable securities, net	(103)	—
Proceeds from sale of property and equipment	655	79
<b>Net cash used in investing activities</b>	<b>(12,840)</b>	<b>(9,180)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>		

Dividend paid	(1,917)	—
Principal payments on long-term debt	(894)	(1,170)
Net payments on notes payable	(87)	(157)
Proceeds from exercise of stock options and warrants	859	542
Proceeds from issuance of long-term debt	—	51
<b>Net cash used in financing activities</b>	<b>(2,039)</b>	<b>(734)</b>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	53	91
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,304)	9,575
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	15,961	16,255
CASH AND CASH EQUIVALENTS END OF PERIOD	\$ 8,657	\$ 25,830
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	\$ 187	\$ 176
Income taxes, net of refunds	9,615	5,742
Supplemental schedule of non-cash investing and financing activities:		
Tax benefits related to exercise of stock options	\$ 517	\$ 990
Property and equipment acquired through accounts payable	304	—

See notes to consolidated financial statements

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

**Note 1. Basis of Presentation**

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to fairly present our 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 April 30, 2005 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 our financial statements and notes thereto for the year ended April 30, 2005, which are contained in our 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 our wholly-owned subsidiaries, Daktronics GmbH, Star Circuits, Inc., Sports Link, Ltd., MSC Technologies, Inc., Daktronics UK, Ltd., Daktronics Hong Kong, Ltd., Daktronics Shanghai Co., Ltd. and Daktronics Canada, Inc. Investments in affiliates owned 50% or less are accounted for by the equity method. Intercompany balances and transactions have been eliminated in consolidation.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the estimated total costs on long-term contracts, estimated costs to be incurred for product warranty, inventory valuation reserves for doubtful accounts and estimated effective annual tax rates. Changes in estimates are reflected in the periods in which they become known.

**Note 2. Significant Accounting Policies**

Stock-based compensation. At January 28, 2006, we had four stock-based employee compensation plans, which are described more fully in our Annual Report on Form 10-K. We account 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 we had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based compensation.

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	January 28, 2006	January 29, 2005	January 28, 2006	January 29, 2005
Net Income as reported	\$ 4,041	\$ 2,455	\$ 13,857	\$ 12,675
Deduct: Total stock-based method employee compensation expense				

determined under fair value based method for all awards, net of related tax effects

	(224)	(254)	(560)	(533)
Pro forma net income	\$ 3,817	\$ 2,201	\$ 13,297	\$ 12,142
Earnings per share:				
Basic – as reported	\$ 0.21	\$ 0.13	\$ 0.72	\$ 0.67
Basic – pro forma	0.20	0.12	0.69	0.64
Diluted – as reported	0.20	0.12	0.69	0.63
Diluted – pro forma	0.19	0.11	0.66	0.60

**Commitments and Contingencies.** In connection with certain sales of equipment, we have agreed to accept a specified level of recourse on the money owed by our customers to other financial institutions. At January 28, 2006 and at April 30, 2005, we were contingently liable on such recourse agreements in the amount of \$250.

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

**Product Warranties.** We offer standard warranty coverages on many of our products, which include parts and, in some cases, labor, maintenance and support, for periods varying from one to 10 years. The specific terms and conditions of these warranties vary depending on the product sold and other factors. We estimate the costs that may be incurred under the warranty and record a liability in the amount of such costs at the time the product is shipped in the case of standard orders and prorated over the construction period in the case of custom projects. Factors that affect our warranty liability include historical and anticipated costs. We periodically assess the adequacy of our recorded warranty costs and adjust the amounts as necessary.

Changes in our product warranties for the nine months ended January 28, 2006 consisted of the following:

	<u>Amount</u>
Beginning accrued warranty costs	\$ 5,028
Warranties issued during the period	4,784
Settlements made during the period	(3,343)
Changes in accrued warranty costs for preexisting warranties during the period, including expirations	517
Ending accrued warranty costs	<u>\$ 6,986</u>

**Lease Commitments.** We lease office space for various sales and service locations and various equipment, primarily office equipment. Rental expense for operating leases was \$991 and \$911 for the nine months ended January 28, 2006 and January 29, 2005, respectively. Future minimum payments under noncancelable operating leases, excluding executory costs such as management and maintenance fees, with initial or remaining terms of one year or more consisted of the following at January 28, 2006:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 232
2007	668
2008	372
2009	216
2010	110
Thereafter	45
Total	<u>\$ 1,643</u>

**Purchase Commitments.** From time to time, we commit to purchase inventory and advertising rights over periods that extend over a year. As of January 28, 2006, we were obligated to purchase inventory and advertising rights through fiscal year 2008 as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 3
2008	54
2009	54
Total	<u>\$ 111</u>

**Sublease Commitments.** We sublease office space in our Florida office location. Future minimum lease payments under non-cancelable operating leases, excluding executory costs such as management and maintenance fees, with initial or remaining terms of one year or more consisted of the following at January 28, 2006:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 49
2007	47
2008	12
2009	35

2010	35
Total	\$ 178

### Note 3. Recently Issued Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 154, “Accounting Changes and Error Corrections”. SFAS No. 154 supersedes APB Opinion No. 20, “Accounting Changes”, and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements.” Generally, the provisions of SFAS No. 154 are similar to the provisions of both APB Opinion No. 20 and SFAS No. 3. However, SFAS No. 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle. Recognition of the cumulative effect of a voluntary change in accounting principle in net earnings in the period of change would be permitted only if retrospective application to prior periods’ financial statements is impractical. SFAS No. 154 is effective for fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 is not expected to have any impact on our consolidated results of operations, financial position or cash flows.

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs”. SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. SFAS No. 151 requires that those items be recognized as current period charges regardless of whether they meet the criterion of “so abnormal.” In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 are effective for fiscal years beginning after June 15, 2005. We do not expect that implementation of SFAS No. 151 will have a material effect on our consolidated financial condition or results of operations.

On December 16, 2004, the FASB issued SFAS No. 123R, “Share-Based Payment,” which is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation.” SFAS No. 123R supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and amends FASB Statement No. 95, “Statement of Cash Flows.” Generally, the approach in SFAS No. 123R is similar to the approach described in SFAS No. 123. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. SFAS No. 123R must be adopted no later than the first annual period beginning after June 15, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued.

As permitted by SFAS No. 123, we currently account for share-based payments to employees using APB Opinion No. 25’s intrinsic value method and, as such, recognize no compensation cost for employee stock options. Accordingly, the adoption of SFAS No. 123R’s fair value method will have an impact on our result of operations, although it will have no impact on our overall financial position. The ultimate impact of the adoption of SFAS No. 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future and other factors. However, had we adopted SFAS No. 123R in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share in Note 2 to our consolidated financial statements. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow as required under current literature. This requirement will reduce our net operating cash flows and increase net financing cash flows in periods after adoption. We are currently analyzing the impact of these provisions.

### 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:* We recognize revenue on equipment sales, other than long-term contracts, when title passes, which is usually upon shipment and then only if the revenue is fixed and determinable.

*Long-term receivables and advertising rights:* We occasionally sell and install our products at facilities in exchange for the rights to sell or to retain future advertising revenues. For these transactions, we recognize 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, and we record the related receivable in long-term receivables. On those transactions where we have not sold the advertising for the full value of the equipment at normal margins, we record the related cost of equipment as advertising rights. Revenue to the extent of the present value of the advertising payments is recognized in long-term receivables when it becomes fixed and determinable under the provisions of the applicable advertising contracts. At the time the revenue is recognized, costs of the equipment are recognized based on an estimate of overall margin expected.

In cases where we receive advertising rights, as opposed to only cash payments, in exchange for the equipment, revenue is recognized as it becomes earned, and the related costs of the equipment are amortized over the term of the advertising rights, which were owned by us. On these transactions, advance collections of advertising revenues are recorded as deferred income.

The cost of advertising rights, net of amortization, was \$1,854 as of January 28, 2006 and \$1,722 as of April 30, 2005.

*Product maintenance:* In connection with the sale of our products, we also occasionally sell separately priced extended warranties and product maintenance contracts. The revenue related to such contracts is deferred and recognized ratably as net sales over the term of the contracts, which varies from one to 10 years.

*Software:* We sell our proprietary software bundled with 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 and 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 all of the above-mentioned criteria have been met.

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

*Derivatives:* SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, requires companies to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value of a derivative instrument

depends on whether it has been designated and qualifies as part of a hedging relationship and also on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a fair value hedge (that is, hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the same line item associated with the hedged item in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (that is, hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in other income/expense in current earnings during the period of change. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign currency, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective. Any ineffective portions of net investment hedges are recognized in other income/expense in current earnings during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in other income/expense in current earnings during the period of change. Currently, we have not designated any hedges as fair value hedges or as hedges of a net investment in a foreign currency.

**Cash Flow Hedging Strategy** — To protect against the reduction in value of forecasted foreign currency cash flows resulting from certain expected export sales, we have instituted a foreign currency cash flow hedging program. We hedge portions of our forecasted revenue denominated in foreign currencies with forward contracts. When the dollar strengthens significantly against the foreign currencies, the decline in value of future foreign currency revenue is offset by gains in the value of the forward contracts designated as hedges. Conversely, when the dollar weakens, the increase in the value of future foreign currency cash flows is offset by losses in the value of the forward contracts.

**Derivatives** — We utilize derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates on those transactions that are denominated in a currency other than our functional currency, which is the US Dollar. We enter into currency forward contracts to manage these economic risks. As of January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and No. 138. SFAS No. 133, as amended, requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in the fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in accumulated other comprehensive gain (loss) until the hedged item is recognized in earnings.

To protect against the reduction in value of forecasted foreign currency cash flows resulting from export sales over the next year, we have instituted a foreign currency cash flow hedging program. We hedge portions of our forecasted revenue denominated in foreign currencies with forward contracts. When the dollar strengthens significantly against the foreign currencies, the decline in value of future foreign currency revenue is offset by gains in the value of the forward contracts designated as hedges. Conversely, when the dollar weakens, the increase in the value of future foreign currency cash flows is offset by losses in the value of the forward contracts.

During the nine months ended January 28, 2006, we did not recognize any net gain or loss related to the ineffective portion of our hedging instruments, or any net gain or loss related to the portion of the hedging instrument excluded from the assessment of hedge effectiveness. The fair value of all derivatives is included in prepaid expenses and other in the statement of financial condition.

As of January 28, 2006, we expect to reclassify \$21 of net gains on derivative instruments from accumulated other comprehensive income to earnings during the next 12 months due to actual export sales.

## Note 5. Earnings Per Share

Basic earnings per share (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 our earnings.

A reconciliation of the income and common share amounts used in the calculation of basic and diluted EPS for the three months ended January 28, 2006 and January 29, 2005 follows:

	Net Income	Shares	Per Share Amount
For the three months ended January 28, 2006:			
Basic earnings per share	\$ 4,041	19,282,816	\$ 0.21
Effect of dilutive securities:			
Exercise of stock options	—	897,778	(0.01)
Diluted earnings per share	\$ 4,041	20,180,594	\$ 0.20
For the three months ended January 29, 2005:			
Basic earnings per share	\$ 2,455	18,998,527	\$ 0.13
Effect of dilutive securities:			
Exercise of stock options	—	1,197,720	(0.01)
Diluted earnings per share	\$ 2,455	20,196,247	\$ 0.12
For the nine months ended January 28, 2006:			
Basic earnings per share	\$ 13,857	19,353,362	\$ 0.72
Effect of dilutive securities:			
Exercise of stock options	—	943,221	(0.03)



Diluted earnings per share	\$	13,857	20,296,583	\$	0.69
For the nine months ended January 29, 2005:					
Basic earnings per share	\$	12,675	18,940,130	\$	0.67
Effect of dilutive securities:					
Exercise of stock options		—	1,240,298		(0.04)
Diluted earnings per share	\$	12,675	20,180,428	\$	0.63

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

We account for goodwill and other intangible assets in accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” and we complete an impairment analysis on at least an annual basis and more frequently if circumstances warrant.

Goodwill, net of accumulated amortization, was \$2,692 at January 28, 2006 and \$2,621 at April 30, 2005. Accumulated amortization was \$157 at January 28, 2006 and at April 30, 2005. We performed our annual impairment analysis of goodwill as of October 30, 2005. The result of this analysis indicated that no goodwill impairment existed as of that date.

As required by SFAS No. 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 \$786 at January 28, 2006 and \$560 at April 30, 2005. Accumulated amortization was \$568 and \$524 at January 28, 2006 and April 30, 2005, 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 January 28, 2006 is \$8, \$47, \$47, \$47, \$47 and \$23 for the fiscal years 2006, 2007, 2008, 2009, 2010 and thereafter, respectively.

#### Note 7. Inventories

Inventories consist of the following:

	January 28, 2006	April 30, 2005
Raw materials	\$ 14,119	\$ 10,446
Work-in-progress	8,269	5,208
Finished goods	10,298	8,958
	\$ 32,686	\$ 24,612

#### Note 8. Segment Disclosure

Our chief operating decision maker reviews 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 operating decisions. Accordingly, we consider ourselves to be operating in a single industry segment. We do not manage our business by solution or focus area.

We do not maintain information on sales by products and, therefore, disclosure of such information is not practical.

The following table presents information about us by geographic area:

	United States	Other	Total
Net sales for the nine months ended:			
January 28, 2006	\$ 194,516	\$ 24,681	\$ 219,197
January 29, 2005	152,692	16,308	169,000
Long-lived assets at:			
January 28, 2006	36,898	1,161	38,059
January 29, 2005	29,574	1,479	31,053

#### Note 9. Equipment Held for Sale

In accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” we review long-lived assets to be held and used and long-lived assets to be disposed of, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the future undiscounted net cash flows expected to be generated by the asset. Recoverability of assets held for sale is measured by comparing the carrying amount of the assets to their estimated fair market value. If any assets are considered to be impaired, the impairment is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value.

During the second quarter of fiscal year 2005, we entered into a plan to sell the rental equipment owned by a wholly-owned subsidiary to allow us to focus more on sales of our new line of ProTour™ displays and to provide deeper support of the display rental market. As a result, this equipment was classified in the April 30, 2005 balance sheet as rental equipment held for sale, and based on our analysis of recoverability, no loss had been recognized related to the equipment,

in accordance with SFAS No. 144. During the first quarter of fiscal year 2006, we completed the transaction. The sale and related costs of sold equipment were reported in income from operations.

#### Note 10. Acquisitions

In fiscal year 2006, we acquired certain assets, primarily intangible assets, for a total consideration of approximately \$200. In connection with these acquisitions, no goodwill was recognized. On November 30, 2004, we acquired all of the assets and assumed certain liabilities of Dodge Electronics, Inc. ("Dodge"), and on December 14, 2004, we acquired 100% of the outstanding stock of European Timing Systems, Ltd. Both acquisitions were paid for in cash, and the related acquisition agreements contain provisions for contingent consideration based on the gross profit of future transactions connected with each business. The amount of the contingent consideration is not expected to be significant and will be treated as compensation expense as it becomes earned. No contingent consideration had been earned through January 28, 2006. We are also currently leasing facilities in Topeka, Kansas from the seller of Dodge for a term of up to five years.

The aggregate cost of these acquisitions was approximately \$1,024. Goodwill in the amount of \$1,126 was recognized, and that amount is expected to be fully deductible for tax purposes. Because these transactions are not material to us, no pro forma disclosures have been made.

#### Note 11. Comprehensive Income

We follow the provisions of SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income and its components. Comprehensive income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For us, comprehensive income represents net income adjusted for foreign currency translation adjustments and net gains and losses on derivative instruments. The foreign currency translation adjustment included in comprehensive income has not been tax effected, as the investment in the foreign affiliate is deemed to be permanent. In accordance with SFAS No. 130, we have chosen to disclose comprehensive income in the consolidated statement of shareholders' equity.

	<u>Nine Months Ended</u>	
	<u>January 28, 2006</u>	<u>January 29, 2005</u>
Net income	\$ 13,857	\$ 12,675
Net foreign currency translation adjustment	242	74
Net gain on derivatives	20	—
Total comprehensive income	<u>\$ 14,119</u>	<u>\$ 12,749</u>

## 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 the consolidated financial statements.

### OVERVIEW

We design, manufacture and sell a wide range of display systems to customers in a variety of markets throughout the world. We focus our sales and marketing efforts on geographical regions, markets and products. The primary categories of markets include sport, commercial and transportation.

Our net sales and profitability historically have fluctuated due to the impact of large product orders, such as display systems for professional sport facilities and colleges and universities, as well as the seasonality of the sports market. Net sales and gross profit percentages also have fluctuated due to other seasonality factors including the impact of holidays, which primarily impact our third quarter. Our gross margins on large product orders tend to fluctuate more than those for smaller standard orders. Large product orders that involve competitive bidding and substantial subcontract work for product installation generally have lower gross margins. Although we follow the percentage of completion method of recognizing revenues for large custom orders, we nevertheless have experienced fluctuations in operating results and expect that our future results of operations may be subject to similar fluctuations.

Orders are booked only upon receipt of a firm contract and, depending on terms, only after receipt of any required deposits related to the order. As a result, certain orders for which we have 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.

We operate on a 52-53 week fiscal year, with fiscal years ending on the Saturday closest to April 30 of each year. Fiscal years 2006 and 2005 each contains 52 weeks.

For a summary of recently issued accounting pronouncements and the effects of those pronouncements on our financial results, refer to Note 3 of the notes to our consolidated financial statements, 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 our 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 us 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, we evaluate our 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. Our 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.

We believe the following critical accounting policies require significant judgments and estimates in the preparation of our 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 estimatable. Generally, contracts we enter into 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 we revise our estimates. Our practice is to revise estimates as soon as such changes in estimates are known.

*Allowance for doubtful accounts.* We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. To identify impairment in the customer's ability to pay, we review aging reports, contact customers in connection with collection efforts and review other available information. As of January 28, 2006 we had an allowance for doubtful accounts balance of approximately \$1.3 million.

*Warranties.* We have created a reserve for warranties on our products equal to our estimate of the actual costs to be incurred in connection with our performance under the warranties. Generally, estimates are based on historical experience taking into account known or expected changes. If we would become aware of an increase in our warranty reserves, additional reserves may become necessary, resulting in an increase in costs of goods sold. As of January 28, 2006, we had approximately \$6.9 million reserved for these costs.

*Extended warranty and product maintenance.* We have deferred revenue related to separately priced extended warranty and product maintenance agreements. The deferred revenue is recognized ratably over the contractual term. If we would become aware of an increase in our estimated costs under these agreements in excess of our deferred revenue, additional reserves may be necessary, resulting in an increase in costs of goods sold. In determining if additional reserves are necessary, we examine cost trends and other information on the contracts and compare that to the deferred revenue. As of January 28, 2006, we had \$3.9 million of deferred revenue related to extended warranty and product maintenance.

*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 (that is, 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, we estimate 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 they occur. 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 our consolidated statements of income for the periods indicated:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>January 28, 2006</u>	<u>January 29, 2005</u>	<u>January 28, 2006</u>	<u>January 29, 2005</u>
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	69.0%	69.8%	69.6%	67.2%
Gross profit	31.0%	30.2%	30.4%	32.8%
Operating expenses	22.2%	25.9%	20.7%	22.4%
Operating income	8.8%	4.3%	9.7%	10.4%
Interest income (expense), net	0.5%	0.7%	0.6%	0.6%
Other income (expense), net	0.0%	(0.3%)	(0.1%)	0.2%
Income before income taxes	9.3%	4.6%	10.2%	11.1%
Income tax expense (benefit)	3.6%	(0.2%)	3.9%	3.6%
Net income	5.7%	4.8%	6.3%	7.5%

## NET SALES

Net sales increased 29.7% to \$219 million for the nine months ended January 28, 2006 as compared to \$169.0 million for the same period in fiscal year 2005. Net sales increased 39.8% to \$71.1 million for the quarter ended January 28, 2006 as compared to \$50.8 million for the same period in fiscal year 2005. For the nine months and quarter ended January 28, 2006, net sales increased in all our markets, with the commercial market experiencing growth rates in excess of 60% for the nine-month period and the sports market growing more than 12% year to date. For the quarter, sports and commercial markets were up over 19% and 70%, respectively. Net sales in the transportation business were up slightly as compared to the prior year period for both the quarter and year to date. Net sales overall for the quarter ended January 28, 2006 were up domestically but down on an international basis. Year to date, however, international sales were up more than 25% as a result of the strong order performance in the first quarter of fiscal year 2006. As a percent of overall net sales, standard product orders were approximately 28% of net sales for the third quarter and 30% year to date.

*Sports Market.* Within the sports markets, the increase in net sales in the third quarter of fiscal year 2006 as compared to the third quarter of fiscal year 2005 was the result of increases in the professional and small sports facilities, while sales to mid-sized facilities were down. Net sales in the small facilities business, which had been less than expected in the first two quarters of the year, rebounded and were up more than 15%. Orders there continued to expand as well, reinforcing our expectation that the first half of the year was not a trend of declining growth rates.

The growth in the sports market includes higher sales of both standard product orders and custom contract orders; however, the percentage growth in custom products is greater than standard products. The growth overall continues to be due to opportunities for larger systems which include more and larger displays and tighter pixel pitches, technology enhancements and the expanding markets for our products. In addition, we benefit from our network of sales and service offices, giving us the ability to serve our customers more effectively, which enhances sales. We believe that the effects of the economy have a lesser impact on our sports market as compared to our other markets, since our products are generally revenue generation tools (through advertising) for facilities and the sports business in general is more resistant to negative factors in the economy as a whole.

Net sales in the sports market internationally were down for the third quarter of fiscal 2006 and year to date as compared to the same periods in fiscal year 2005. This continues to be a reflection of the inherent volatility of large orders and the timing of when orders are booked, and over the next few quarters we expect international sales will increase year over year.

Order growth in the sports markets is generally subject to the same factors described above relating to net sales, although the timing of large orders tends to cause differing short-term results. For the third quarter of fiscal year 2006, order bookings were up as compared to the third quarter of fiscal 2005. On a year to date basis, orders were up more than 20%. The lack of growth was due to timing of orders, which were delayed into the fourth quarter of fiscal year 2006. Orders for the quarter were again positively impacted by an additional order for the Dolphins Stadium in Miami, Florida, which approximated \$4 million, bringing the total order to more than \$12 million. We expect that for the year, orders in the sports market will be up 20%. This expectation is subject to the risks of timing of the orders and the risk of a competitive environment. We believe that the growth in the sports market over the long term is driven by growth in average transaction size in the larger facilities, new product development, new uses for existing products, an expanding market as our products become more affordable to more institutions, growth internationally, and our overall product offerings, which we believe are the most complete systems in the marketplace.

*Commercial Market.* Net sales in the commercial market grew during the third quarter and first nine months of fiscal year 2006 as compared to the same periods of fiscal year 2005. Sales of custom video systems and standard products were both strong. The increasing interest in LED digital billboards, growing acceptance of our standard Galaxy® display product line, sales to national account customers, and an increasing demand for large video systems continue to fuel growth along with the improved economic conditions and the greater acceptance of LED technologies for advertising. We continue to see more momentum in the LED digital billboard niche, which is dominated by three large outdoor advertising companies who are in various stages of deployment of LED digital displays. This has had a positive effect on net sales and orders for the current quarter and is expected to have positive results in the near term. However, given that the business is dominated by three companies, there are greater risks in terms of how much business we can capture and retain. We believe that the key success factors in maintaining this growth for the long-term involves competitive pricing, reliable product and superior service and support. We believe that we are positioned properly for this business, although it could require additional capital investments, depending on the ultimate rate of growth. Finally, we believe that there are a number of limitations on how fast this business can grow, including local sign codes, the time to market of the displays and various other factors.

The commercial market has experienced the greatest percentage growth as compared to our other markets for the third fiscal quarter of 2006 and year to date as compared to the same periods in fiscal 2005. On an international basis, net sales were down for the quarter and up year to date as compared to the last fiscal year. The performance for the quarter is a reflection of the volatility of large orders, while the performance on a year to date basis is due to a number of orders booked earlier in the year and during the quarter in the Middle East, Central America and Asia-Pacific regions.

Order bookings in the commercial market were also up significantly for the third quarter of fiscal year 2006 and year to date as compared to the same periods of fiscal year 2005, in spite of a decline in order bookings internationally for the quarter, which is attributable to the inherent volatility of the business. Although sales and orders in the commercial market depend to a large degree on current economic conditions, we have been able to grow the business due to our product offerings and growing acceptance and demand for our products, our international expansion, our network of sales and service offices throughout the United States, the development of resellers, primarily in the United States, and the integrated offerings we provide. As we continue to penetrate the opportunities in the commercial market, including national accounts and business outside of the United States, and further develop our regional sales force, we expect the trend of increasing standard order volume and large video systems to continue at double-digit percentage growth rates.

*Transportation Market.* Net sales in the transportation markets increased during the third quarter of fiscal year 2006 as compared to the same period of fiscal 2005 and are flat on a year to date basis. Year to date orders in the transportation markets are up more than 15% primarily due to the level of bookings in the first and third quarter of fiscal year 2006. We expect that for fiscal year 2006, the transportation market will increase as compared to fiscal year 2005 in orders and net sales.

*Other Markets.* We occasionally sell products in exchange for the advertising revenues generated from use of products. These sales represented less than 1% and 0.7% of net sales for the third quarter and nine months ended January 28, 2006. The gross profit percents on these transactions have typically been higher than the gross profit percents on other transactions of similar size, although the selling expenses associated with these transactions are typically higher.

*Backlog.* The order backlog as of January 28, 2006 was approximately \$83 million as compared to \$53 million as of January 29, 2005 and \$81 million at the beginning of the third quarter of fiscal year 2006. Historically, our backlog varies due to the timing of large orders. The increase in ending backlog for the third quarter of fiscal year 2006 as compared to the same time one year ago was across all markets. As compared to the beginning of the third quarter of fiscal year 2006, the backlog declined in the transportation market and increased in the commercial and sports markets. The changes were the result of the combination of the changes in orders and net sales discussed above. Typically, we enter the third quarter with the lowest backlog of the fiscal year as a result of the usual lower level of orders in the second quarter of a fiscal year, which causes the third quarter net sales to typically be the lowest of the year. Due to the level of order bookings in fiscal year 2006, which contributed to the higher backlog, third quarter sales did not decline sequentially by as much as our history would indicate. This is also partially attributable to the growing contribution of the commercial market, which contains less seasonality than the sports markets.

We are beginning to see more opportunities to expand our business in the media sales and services for digital networks where the display media is primarily LCD and plasma screens. We expect that these opportunities could require investments of capital, although the ultimate amount of the investment is yet to be determined. We would expect to begin seeing revenue from these opportunities in fiscal year 2007.

As a result of expected increases in order bookings we projected in early fiscal 2005, we began increasing plant capacity in fiscal year 2005. The majority of the expansion, however, was planned for fiscal year 2006. During the fourth quarter of fiscal year 2005 and throughout the current fiscal year, order bookings have surpassed expectations and have caused our manufacturing personnel and other personnel to work extra shifts and caused us to outsource more activities and make additional capital investments related to increasing capacity. The rate at which we can ramp up our capacity has been somewhat of a limitation on our net sales. We will continue to ramp up our capacity, including a 30% increase in manufacturing space, through the end of the current fiscal year. We have also significantly expanded our manufacturing workforce. Finally, we are taking steps to redesign parts of our manufacturing process to better reflect the higher volumes and are beginning the initial planning for another expansion to the facilities in Brookings during fiscal year 2007.

## **GROSS PROFIT**

Gross profit increased 43.4% to \$22.0 million for the third quarter of fiscal 2006 as compared to \$15.4 million for the third quarter of fiscal year 2005. For the nine months ended January 28, 2006, gross profit increased 19.9% to \$66.5 million compared to \$55.5 million for the nine months ended January 29, 2005. As a percent of net sales, gross profit was 31.0% and 30.4% for three and nine months ended January 28, 2006 as compared to 30.2% and 32.8% for the three and nine months ended January 29, 2005. The gross margin percentage increased in the third quarter of fiscal 2006 as compared to the third quarter of fiscal year 2005 due primarily to the greater stability in the competitive environment and the margin on orders at the time of booking. The gross profit percentage was slightly higher than expected for the quarter as a result of the mix of business and improvements in efficiency in manufacturing as we better adjust to the demand. We strive towards higher gross margins as a percent of net sales, although depending on the actual mix, plant capacities, performance on larger projects and level of

future sales, margin percentages may not increase and could decrease. We expect that the gross margin percent in the fourth quarter will be approximately 31%, although the actual margins can vary significantly.

## **OPERATING EXPENSES**

*Operating expenses.* Operating expenses, which are comprised of selling, general and administrative expenses and product design and development costs, increased by approximately 19.9% from \$13.2 million in the third quarter of fiscal year 2005 to \$15.8 million in the third quarter of fiscal year 2006. As a percent of net sales, operating expenses decreased from 25.9% of net sales to 22.2% of net sales. For the nine months ended January 28, 2006, operating expenses increased 19.8% from \$37.8 million for the nine months ended January 29, 2005 to \$45.3 million for the nine months ended January 28, 2006.

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

Selling expenses increased 27.3% to \$10.4 million for the three months ended January 28, 2006 as compared to \$8.2 million for the same period in fiscal year 2005. Selling expenses increased 28.3% to \$29.4 million for the nine months ended January 28, 2006 from \$22.9 million for the same period in fiscal year 2005. Selling expenses decreased to 14.7% of net sales for the third quarter of fiscal year 2006 from 16.1% of net sales for the third quarter of fiscal year 2005. For the nine months ended January 28, 2006, selling expenses were 13.4% of net sales as compared to 13.6% of net sales for the nine months ended January 29, 2005.

Selling expenses for the quarter and the nine months ended January 28, 2006 were higher as a result of an increase in personnel costs as we continued to build our sales infrastructure in all markets and internationally, including commercial products, digital signage, mobile and modular products, sports marketing, higher travel and entertainment costs due to the order volume, increased costs of expatriates in foreign locations, increased bad debt expense, and higher commission and consulting fees. We expect selling expense dollars to remain stable on a sequential basis in the fourth quarter of fiscal 2006.

*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 0.8% to \$2.5 million for the third quarter of fiscal year 2006 as compared to \$2.5 million for the third quarter of fiscal year 2005. General and administrative expenses increased 6.7% to \$7.8 million for the nine months ended January 28, 2006 as compared to \$7.3 million for the nine months ended January 29, 2005. General and administrative expenses decreased to 3.5% as a percent of net sales for the third quarter of fiscal year 2006 from 4.8% of net sales for the third quarter of fiscal year 2005. For the nine months ended January 28, 2006, general and administrative expenses decreased to 3.6% of net sales as compared to 4.3% of net sales for the nine months ended January 29, 2005.

The increase in general and administrative expenses for the first nine months of fiscal year 2006 as compared to the first nine months of fiscal year 2005 was due to increases in personnel related costs across all departments within general and administration due to our growth, information systems maintenance and support costs, international expansion, and higher banking costs. We expect that general and administrative costs will increase in the fourth quarter of fiscal year 2006.

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

Product design and development expenses increased 14.6% to \$2.9 million for the three months ended January 28, 2006 compared to \$2.5 million for the same period in fiscal year 2005. Product design and development expenses increased 6.6% to \$8.1 million for the nine months ended January 28, 2006 as compared to \$7.6 million for the nine months ended January 29, 2005. Product design and development expense was 4.1% of net sales for the third quarter of fiscal year 2006 and 5.0% of net sales for third quarter of 2005. For the nine months ended January 28, 2006, product design and development expenses were 3.7% of net sales as compared to 4.5% of net sales for the nine months ended January 29, 2005.

Generally, product design and development expenses increase during times when fewer of our engineering resources are dedicated to long-term contracts, as some of the same personnel who work on research and development also work on long-term contracts. The increase in product development and design expense, both year to date and the quarter, are consistent with our goal of investing approximately 4% of net sales into product design and development. Included in fiscal year 2005 product design and development expenses were costs related to our development of ProTour™ displays, which caused the fiscal 2005 levels to exceed this goal. As we stated in prior quarters, we expected product development and design expenses as a percent of net sales to return to this level for fiscal year 2006.

## **INTEREST INCOME AND EXPENSE**

We occasionally generate interest income through product sales on an installment basis, under lease arrangements or in exchange for the rights to sell and retain advertising revenues from displays, which results in long-term receivables. We also invest excess cash in short-term temporary cash investments and marketable securities that generate interest income. Interest expense is comprised primarily of interest costs on our notes payable and long-term debt. Interest income (expense), net resulting from these items increased 32.0% to \$0.4 million for the three months ended January 28, 2006 as compared to \$0.3 million for the third quarter of fiscal year 2005. For the nine months ended January 28, 2006, interest income (expense), net increased 45.3% to \$1.2 million from \$0.8 million for the nine months ended January 29, 2005. The increase for both periods was the result of higher average levels of temporary cash investments, marketable securities and long-term receivables outstanding during the respective periods as well as lower levels of debt outstanding.

## **OTHER INCOME (EXPENSE), NET**

Other income (expense), net decreased to less than (\$0.1) million for the third quarter of fiscal year 2006 as compared to (\$0.1) million in the third quarter of fiscal year 2005. For the first nine months of fiscal year 2006, other income (expense), net decreased to (\$0.1) million from \$0.3 million for the same period in fiscal year 2005. The change for both the quarter and year to date results from the effects of currency gains and losses on advances to foreign affiliates.

## **INCOME TAX EXPENSE**

Income taxes were approximately \$2.6 million in the third quarter of fiscal year 2006 and a benefit of \$0.1 million for the third quarter of fiscal year 2005. For the first nine months of fiscal year 2006, income taxes increased to \$8.5 million as compared to \$6.1 million for the first nine months of fiscal year 2005. The

effective tax rate for the nine months ended January 28, 2006 was 37.9% as compared to 32.4% for the first nine months of fiscal year 2005. The effective rate was higher in fiscal year 2006 as a result of claims for research and development tax credits for prior fiscal years, which we partially recognized in the third quarter of fiscal year 2005. Offsetting this were the benefits of the new deduction under Section 199 of the Internal Revenue Code for domestic manufacturing, which were partially offset by an increase in our valuation allowance for foreign net operating loss carry forwards resulting from our updated estimates of their future realizability. We are currently under examination by the Internal Revenue Service as a result of our claims for refunds related to the credits. We believe that the results of the examination will not have any adverse effect on our financial position. We are also optimistic that as a result of perceived improvements in our international business, we will begin generating taxable income in foreign jurisdictions, which would allow us to recognize the benefits related to net operating loss carryforwards which have been offset by a valuation reserve.

## **LIQUIDITY AND CAPITAL RESOURCES**

Working capital was \$69.2 million at January 28, 2006 and \$62.3 million at April 30, 2005. We have 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 nine months ended January 28, 2006 was \$7.5 million. Net income of \$13.9 million plus depreciation and amortization of \$6.2 million, a decrease in income taxes receivable, prepaid expenses, equipment available for sale and an increase in accounts payable, accrued expenses, customer deposits, and billings in excess of costs and estimated earnings, were offset by an increase in inventory, accounts receivable, deferred income taxes, costs and estimated earnings in excess of billings and the effects of changes in various other operating assets and liabilities. The changes in operating assets and liabilities were related to the growth we experienced during the nine months of the year, higher inventory levels related to the specific orders included in our backlog and increased stocking of certain higher volume products. As of January 28, 2006, approximately \$12 million in receivables was due us under five contracts, most of which has been subsequently collected.

Cash used by investing activities consisted of \$12.8 million for purchases of property and equipment for the nine months ended January 28, 2006. During the first nine months of fiscal year 2006, we invested approximately \$3.5 million in facilities additions, primarily related to manufacturing facilities in Brookings, South Dakota, \$0.7 million in transportation equipment, \$4.5 million in manufacturing equipment, \$2.5 million in information systems infrastructure, including software, and \$1.2 million in product demonstration equipment. These investments were made to support our continued growth and to replace obsolete equipment. During the third quarter of fiscal 2005, we made two acquisitions for consideration totaling approximately \$1.1 million in cash for the operating assets of Dodge Electronics and 100% of the outstanding stock of European Timing Systems, Ltd. Included in the acquisitions was approximately \$1.1 million of goodwill.

In early fiscal 2006, we began construction of a 116,000 square foot addition to our facilities in Brookings, South Dakota. The majority of the addition is designed to be used for manufacturing purposes and is expected to be complete in late fiscal 2006. The total cost of the building and related equipment is approximately \$7 million. We are taking steps to redesign parts of our manufacturing process to better reflect the higher volumes, and we have begun the initial planning for another expansion to the facilities in Brookings during fiscal year 2007. At this time, we have not determined the effect on cash that could result from additional expansion, but it is expected to be significant.

Cash used by financing activities consisted of \$2.0 million, including the dividend paid to shareholders of \$1.9 million on June 28, 2005, which was partially offset by option exercises.

Included in receivables as of January 28, 2006 was approximately \$1.0 million of retainage on long-term contracts, all of which is expected to be collected in one year.

We have used and expect to continue to use cash reserves and bank borrowings to meet our 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. We often receive 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, we use working capital and bank borrowings to finance these cash requirements.

Our product development activities include the enhancement of existing products and the development of new products from existing technologies. Product design and development expenses were \$2.9 million for the quarter ended January 28, 2006. We intend 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. We also intend to continue developing software applications for our display controllers to enable these products to continue to meet the needs and expectations of the marketplace.

We have a credit agreement with a bank that provides for a \$20.0 million line of credit, which includes up to \$10.0 million for standby letters of credit. The interest rate on the line of credit is equal to LIBOR plus 1.55% (4.6% at January 28, 2006) and is due on October 1, 2007. As of January 28, 2006, no advances under the line of credit were outstanding. Nine standby letters of credit were issued and outstanding for approximately \$6.0 million as of January 28, 2006. The credit agreement is unsecured and requires us to meet certain covenants, including the maintenance of tangible net worth of at least \$75 million, a minimum liquidity ratio, a limit on dividends and distributions, and a minimum adjusted fixed charge coverage ratio. Daktronics Canada, Inc., our subsidiary, has various credit agreements that provide up to \$0.2 million in borrowings under lines of credit. The interest rate on the lines of credit is equal to 1.0% above the prime rate of interest (5.25% at January 28, 2006). As of January 28, 2006, no advances under the line of credit were outstanding. The lines are secured primarily by accounts receivables, inventory and other assets of the subsidiary.

On May 26, 2005, our Board of Directors approved a dividend of \$0.10 per share, or a total of approximately \$1.9 million, which was paid on June 28, 2005 to shareholders of record on June 14, 2005. Although we intend to pay regular annual dividends for the foreseeable future, all subsequent dividends will be reviewed annually and declared by our Board of Directors at its discretion.

We are sometimes required to obtain performance bonds for display installations, and we have a bonding line available through a surety company that provides for an aggregate of \$100 million in bonded work outstanding. At January 28, 2006, we had approximately \$6.9 million of bonded work outstanding against this line.

We believe that based on our current growth estimates over the next 12 months, we have sufficient capacity under our lines of credit. Beyond that time, we may need to increase the amount of our credit facilities depending on various factors. We anticipate that we will be able to obtain any needed funds under commercially reasonable terms from our current lender. We believe that cash from operations, from our existing or increased credit facility, and from our current working capital will be adequate to meet the cash requirements of our operations in the foreseeable future.

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

## FOREIGN CURRENCY EXCHANGE RATES

Through January 28, 2006, most of our net sales were denominated in United States dollars, and our exposure to foreign currency exchange rate changes was not significant. Net sales originating outside the United States for the third quarter of fiscal year 2006 were 9.2% of total net sales. We operate in various countries in Europe and Asia and in Canada through wholly-owned subsidiaries. Sales of these foreign subsidiaries comprised less than 1% of net sales in the third quarter of fiscal year 2006. If we believed that currency risk in any foreign location was significant, we would utilize foreign exchange hedging contracts to manage our exposure to the currency fluctuations. Sales of other foreign subsidiaries were immaterial. If we believed that currency risk in any other foreign subsidiary was significant, we would utilize foreign exchange hedging contracts to manage the exposure to the foreign currency.

We expect net sales to international markets in the future to increase as a percentage of net sales and that a greater portion of this business will be denominated in foreign currencies. 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 we engage in international sales denominated in United States dollars, an increase in the value of the United States dollar relative to foreign currencies could make our products less competitive in international markets. This effect is also impacted by the sources of raw materials from international sources. We will continue to monitor and minimize our exposure to currency fluctuations and, when appropriate, we will use financial hedging techniques, including foreign currency forward contracts and options, to minimize the effect of these fluctuations. However, exchange rate fluctuations as well as differing economic conditions, changes in political climates, differing tax structures and other rules and regulations could adversely affect our financial results in the future.

## INTEREST RATE RISKS

Our exposure to market rate risk for changes in interest rates relates primarily to our debt and long-term accounts receivables. We maintain a blend of both fixed and floating rate debt instruments. As of January 28, 2006, our outstanding debt approximated \$0.3 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 January 28, 2006. For fixed-rate debt, interest rate changes affect its fair market value but do not affect earnings or cash flows.

In connection with the sale of certain display systems, we have entered into various types of financings with customers. The aggregate amounts due from customers include an interest element. The majority of these financings carry fixed rates of interest. As of January 28, 2006, our outstanding long-term receivables were approximately \$15.4 million. Each 25 basis point increase in interest rates would have an associated annual opportunity cost to us of approximately \$0.2 million.

The following table provides information about our financial instruments that are sensitive to changes in interest rates, including debt obligations, for the three quarters ended January 28, 2006 and subsequent fiscal years.

	Principal (Notional) Amount by Expected Maturity (in thousands)					
	2006	2007	Fiscal Year 2008	2009	2010	There- after
Assets:						
Long-term receivables, including current maturities:						
Fixed-rate	\$4,002	\$3,092	\$2,490	\$1,811	\$1,589	\$2,394
Average interest rate	6.4%	7.6%	7.4%	7.0%	6.9%	7.5%
Liabilities:						
Long- and short-term debt:						
Fixed-rate	\$18	\$113	\$55	\$24	\$24	\$26
Average interest rate	6.1%	4.5%	2.2%	—	—	—
Long-term marketing obligations, including current portion:						
Fixed-rate	\$49	\$338	\$200	\$175	\$148	\$53
Average interest rate	10.4%	8.3%	8.2%	8.2%	8.6%	7.9%

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

Substantially all of our cash balances are denominated in United States dollars. Cash balances in foreign currencies are operating balances maintained in accounts of our Canada, Germany, China, Hong Kong and United Kingdom subsidiaries and accounts to settle Euro-based and Australian-based payments. These balances are immaterial as a whole.

## Item 4. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures," as that term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as of January 28, 2006, which is the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of January 28, 2006 our disclosure controls and procedures were effective.

Based on the evaluation described in the foregoing paragraph, the Company's Chief Executive Officer and Chief Financial Officer concluded that during the quarter ended January 28, 2006, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

Not Applicable

**Item 1A. RISK FACTORS**

Not Applicable

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not Applicable

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable

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

Not Applicable

**Item 5. OTHER INFORMATION**

Not Applicable

**Item 6. EXHIBITS**

The following exhibits are filed with this Quarterly Report on Form 10-Q:

Ex 31.1	Certification Of Chief Executive Officer Pursuant To Rules 13a-14(a)/15d-14(a) Under The Securities Exchange Act of 1934
Ex 31.2	Certification Of Chief Financial Officer Pursuant To Rules 13a-14(a)/15d-14(a) Under The Securities Exchange Act of 1934
Ex 32.1	Section 1350 Certification Of the Chief Executive Officer
Ex 32.2	Section 1350 Certification Of the Chief Financial Officer

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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.

/s/ William R. Retterath

Daktronics, Inc.

William R. Retterath

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Date: February 17, 2006



**DAKTRONICS, INC.**  
**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO RULES 13a-14(e)/**  
**15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, James B. Morgan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended January 28, 2006 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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) Disclosed in this 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(s) 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

/s/ James B. Morgan

James B. Morgan

Chief Executive Officer

Date: February 17, 2006

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**DAKTRONICS, INC.**  
**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO RULES 13a-14(e)/**  
**15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, William R. Retterath, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended January 28, 2006 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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) Disclosed in this 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(s) 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

/s/ William R. Retterath  
William R. Retterath  
Chief Financial Officer  
Date: February 17, 2006

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**DAKTRONICS, INC.**  
**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C SECTION 1350,**  
**AS ADOPTED 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 ended January 28, 2006 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 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.

/s/ James B. Morgan

James B. Morgan  
Chief Executive Officer  
Date: February 17, 2006

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**DAKTRONICS, INC.**  
**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350,**  
**AS ADOPTED 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 ended January 28, 2006 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.

/s/ William R. Retterath

William R. Retterath  
Chief Financial Officer  
Date: February 17, 2006

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