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 August 2, 1997

Commission file number
0-23246

## DAKTRONICS, INC.

| | |
|---|---|
| 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)

Registrants telephone number, including area code (605) 697-4000

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(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, 1997 |
|---|---|
| Common Stock, No par value | 4,306,420 |

Daktronics, Inc.

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DAKTRONICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands)

| ASSETS | AUGUST 2, 1997 (UNAUDITED) | MAY 3, 1997 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 295 | $ 118 |
| Accounts receivable less allowance for doubtful accounts of $206 at Aug. 2, 1997 and $194 at May 3, 1997 | 10,656 | 11,889 |
| Current maturities of long-term receivables | 906 | 1,072 |
| Inventories | 7,943 | 8,025 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 3,757 | 1,251 |
| Prepaid expenses and other | 46 | 129 |
| Deferred income tax benefit | 1,185 | 1,185 |
| Total current assets | $ 24,788 | $ 23,669 |
| LONG-TERM RECEIVABLES AND OTHER ASSETS | | |
| Advertising rights | $ 1,646 | $ 1,766 |
| Long-term receivables, less current maturities | 3,068 | 3,038 |
| Intangible assets and other | 1,116 | 1,216 |
| | $ 5,830 | $ 6,020 |
| PROPERTY AND EQUIPMENT, at cost | | |
| Land | $ 492 | $ 492 |
| Buildings | 4,298 | 4,283 |
| Machinery and equipment | 10,267 | 9,975 |
| Office furniture and equipment | 245 | 242 |
| Transportation equipment | 591 | 546 |
| | $ 15,893 | $ 15,538 |
| Less accumulated depreciation | 8,435 | 8,091 |
| | $ 7,458 | $ 7,447 |
| | $ 38,076 | $ 37,136 |

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

DAKTRONICS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands)

| LIABILITIES AND SHAREHOLDERS' EQUITY | AUGUST 2, 1997 (UNAUDITED) | MAY 3, 1997 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Notes payable, bank | $ 3,558 | $ 2,675 |
| Current maturities of long-term debt | 562 | 713 |
| Accounts payable | 4,930 | 4,089 |
| Accrued expenses | 2,559 | 2,892 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 1,273 | 1,075 |
| Accrued loss on uncompleted contracts | 229 | 399 |
| Income taxes payable | 276 | 903 |
| Total current liabilities | $ 13,387 | $ 12,746 |
| LONG-TERM DEBT, less current maturities | $ 1,589 | $ 1,706 |
| DEFERRED INCOME | $ 628 | $ 481 |
| DEFERRED INCOME TAXES | $ 453 | $ 453 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, no par value Authorized 15,000,000 shares Issued 4,311,340 shares | $ 11,680 | $ 11,680 |
| Retained earnings | 10,348 | 10,079 |
| | $ 22,028 | $ 21,759 |
| Less: Cost of 4,920 treasury shares | (9) | (9) |
| | $ 22,019 | $ 21,750 |
| | $ 38,076 | $ 37,136 |

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

DAKTRONICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except earnings per share)
(unaudited)

| | Three Months Ended | |
|---|---|---|
| | AUGUST 2, 1997 (13 WEEKS) | AUGUST 3, 1996 (14 WEEKS) |
| Net sales | $ 15,768 | $ 17,022 |
| Cost of goods sold | 11,760 | 12,614 |
| Gross profit | $ 4,008 | $ 4,408 |
| Operating expenses: | | |
| Selling | $ 2,207 | $ 2,056 |
| General and administrative | 719 | 649 |
| Product design and development | 628 | 571 |
| | $ 3,554 | $ 3,276 |
| Operating income | $ 454 | $ 1,132 |
| Nonoperating income (expense): | | |
| Interest income | 96 | 93 |
| Interest expense | (113) | (204) |
| Other income | 7 | 60 |
| Income before income taxes | $ 444 | $ 1,081 |
| Income tax expense | 175 | 441 |
| Net income | $ 269 | $ 640 |
| Earnings per share | $ .06 | $ .15 |
| Weighted average number of common and common equivalent shares | 4,313 | 4,228 |

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

DAKTRONICS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

| | THREE MONTHS ENDED | |
|---|---|---|
| | AUGUST 2, 1997 (13 weeks) | AUGUST 3, 1996 (14 weeks) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 269 | $ 640 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 344 | 287 |
| Amortization | 220 | 195 |
| Provision for doubtful accounts | 12 | 33 |
| Change in operating assets and liabilities | (928) | (3,116) |
| Net cash used in operating activities | $ (83) | $ (1,961) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | $ (355) | $ (737) |
| Proceeds from sale of real estate held for sale | -- | 1,126 |
| Other, net | -- | 45 |
| Net cash provided by (used by) investing activities | $ (355) | $ 434 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net borrowings on notes payable | $ 883 | $ 2,615 |
| Principal payments on long-term debt | (268) | (1,051) |
| Net cash provided by financing activities | $ 615 | $ 1,564 |
| Increase (Decrease) in cash | $ 177 | $ 37 |
| Cash: | | |
| Beginning | 118 | 218 |
| Ending | $ 295 | $ 255 |

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

DAKTRONICS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE A. GENERAL

The consolidated financial statements include the accounts of Daktronics, Inc. and its wholly-owned subsidiary, Star Circuits, Inc. Intercompany accounts and transactions have been eliminated in consolidation.

Earnings per common and common equivalent share are calculated by dividing the earnings for the period by the weighted average number of common and common equivalent shares outstanding during the period, which includes the dilutive effect of outstanding stock options and warrants.

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 and its subsidiary as of August 2, 1997 and the results of its operations and cash flows for the three months ended August 2, 1997 and August 3, 1996. These results may not be indicative of the results to be expected for the full fiscal year.

NOTE B. INVENTORIES

Inventories consist of the following (in thousands):

| | August 2, 1997 | May 3, 1997 |
|---|---|---|
| Raw materials | $ 4,488 | $ 4,638 |
| Work-in-process | 1,957 | 1,168 |
| Finished goods | 1,498 | 2,219 |
| | $ 7,943 | $ 8,025 |

NOTE C. LITIGATION

On May 4, 1995, the Company was served with a complaint alleging that the Company infringed on the plaintiff's patent rights. Based on the opinion of the Company's patent counsel, management of the Company believes that there is no infringement and intends to defend the litigation vigorously. The Company's trial counsel is unable to evaluate the likelihood of an unfavorable outcome or the potential range of loss, if any.

Another party has asserted the Company has infringed one certain patent. The Company commenced an action seeking a declaratory judgment that the patent is invalid and not infringed by the Company. Based on the opinion of the Company's patent counsel, management of the Company believes there has been no infringement. The Company's trial counsel is unable to evaluate the likelihood of an unfavorable outcome or the potential range of loss, if any.

During the year ended May 3, 1997, a lawsuit was brought by another party alleging the Company breached contracts, committed tortious interference with contract, intentionally inflicted emotional distress and is responsible for compensatory and punitive damages. It is the opinion of the management of the Company that the claims are unfounded and the Company is aggressively defending the lawsuit. Discovery is currently in process and the Company's trial counsel is unable to evaluate the likelihood of an unfavorable outcome, or an estimate of the range or amount of possible loss, if any.

The Company has recorded estimated legal costs to be incurred in connection with litigation described above.

ITEM 2. FINANCIAL REVIEW

(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 review should be read in conjunction with the accompanying Consolidated Financial Statements and Notes to Consolidated Financial Statements.

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 Sports, Business and Government.

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. The fiscal year ending May 3, 1997, was a 53 week year.

RESULTS OF OPERATIONS

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

| | Three Months Ended | |
|---|---|---|
| | AUGUST 2, 1997 (13 WEEKS) | AUGUST 3, 1996 (14 WEEKS) |
| Net sales | 100.0% | 100.0% |
| Cost of goods sold | 74.6% | 74.1% |
| Gross profit | 25.4% | 25.9% |
| Operating expenses | 22.5% | 19.2% |
| Operating income | 2.9% | 6.7% |
| Interest income | 0.6% | 0.5% |
| Interest expense | (0.7%) | (1.2%) |
| Other income | --% | 0.3% |
| Income before income taxes | 2.8% | 6.3% |
| Income tax expense | 1.1% | 2.6% |
| Net income | 1.7% | 3.7% |

## NET SALES

Net sales were $15.8 million for the three months ended August 2, 1997 compared to $17.0 million for the three months ended August 3, 1996. The decrease in net sales was due primarily to decreases in net sales in the federation and major league niches of the sports markets. The decrease in the federation niche was due to the sales relating to the 1997 Summer Olympics in the first quarter of fiscal 1997. The decrease in the major league niche was the result of fewer stadium projects in that market. The Company also experienced lower than expected first quarter net sales due to delays associated with the introduction of the Company's new Prostar(TM) LED (ligHT emitting diode) stadium display with video replay capability.

## GROSS PROFIT

Gross profit decreased from $4.4 million for the three months ended August 3, 1996 to $4.0 million for the three months ended August 2, 1997. The decrease in gross profit was primarily the result of a decrease in net sales. Gross profit as a percentage of net sales for the two periods were comparable.

Due in part to the impact of large orders and the amount of subcontracting work associated with the installation of these products, the Company expects that its gross profit margin will continue to fluctuate in future periods.

## OPERATING EXPENSES

Selling expenses increased 5% from $2.1 million for the three months ended August 3, 1996 to $2.2 million for the three months ended August 2, 1997. The increase was due primarily to increased selling activity.

General and administrative expenses were $719,000 for the three months ended August 2, 1997 compared to $649,000 for the three months ended August 3, 1996. The increase was primarily attributable to increases in salary and personnel.

Product design and development expenses increased from $571,000 for the three months ended August 3, 1996 to $628,000 for the three months ended August 2, 1997. The increase was due to a greater number of product development projects which included new products, primarily the Company's new LED video product, and upgrading and expanding existing products.

## 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 increased from $93,000 for the three months ended August 2, 1996 to $96,000 for the three months ended August 2, 1997. The increase was due to higher average balances of long-term receivables.

## INTEREST EXPENSE

Interest expense decreased from $204,000 for the three months ended August 3, 1996 to $113,000 for the three months ended August 2, 1997. The decrease was the result of a decrease in average loan balances.

## INCOME TAX EXPENSE

Income tax expense as a percentage of income before income taxes was 41% for both the three months ended August 3, 1996 and August 2, 1997, respectively.

## NET INCOME

Net income decreased from $640,000 to $269,000 for the three months ended August 3, 1996 and August 2, 1997, respectively. The decrease was due primarily to the decrease in gross profit and net sales and an increase in operating expenses.

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

## LIQUIDITY AND CAPITAL RESOURCES

Working capital was $11.4 million at August 2, 1997 and $10.9 million at May 3, 1997. 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 used by operations for the three months ended August 2, 1997 was $83,000. Net income of $269,000 plus depreciation and amortization of $564,000 were offset by an increase in receivables including costs and estimated earnings in excess of billings on uncompleted contracts. Cash used by investing activities consisted of $355,000 of purchases of property and equipment. Cash provided from financing activities included $883,000 net borrowings under the Company's line of credit and was offset by $268,000 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 acceptance and 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 $628,000 for the three months ended August 2, 1997 and $571,000 for the three months ended August 3, 1996. The Company intends to continue to incur these expenditures to develop new display products using various display technologies to offer higher resolution, more cost effective and energy efficient displays. Daktronics 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 $15.0 million line of credit during the period June 1 through December 31 of each year. And $10.0 million during the period January 1 through May 31 of each year, which includes up to $2.0 million for standby letters of credit. The line of credit is at the prime rate of interest established by the bank from time to time (8.50% at August 2, 1997) and is due on September 30, 1998. As of August 2, 1977, $3.6 million had been drawn on the line of credit and no standby letters of credit had been issued by the bank. 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 $19.5 million, a minimum liquidity ratio and a maximum ratio of liabilities to tangible net worth.

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 $25.0 million in bonded work outstanding. At August 2, 1997, the Company had $2.1 million of bonded work outstanding against this line.

The Company believes that if its growth continues, it may need to increase the amount of its credit facility. The Company anticipates that it will be able to obtain any needed funds under commercially reasonable terms from its current lender. The Company believes that cash from operations, from its existing or increased credit facility, and its current working capital will be adequate to meet the cash requirements of its operations in the foreseeable future.

# PART II - OTHER INFORMATION

## Item 1 - LITIGATION

There have been no changes in the status of the various lawsuits that were disclosed in the Company's 1997 fiscal year annual report.

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, President
Daktronics, Inc.
(Dr. Aelred J. Kurtenbach, President)
(President)

Date  September 12, 1997

/s/ Paul J. Weinand, Treasurer
Daktronics, Inc.
(Paul J. Weinand, Treasurer)
(Principal Financial Officer)

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1,000

3-MOS
MAY-02-1998
MAY-04-1997
AUG-02-1997
295
0
10,656
206
7,943
24,788
15,893
7,458
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