NICE SYSTEMS LTD
Form 20-F
May 17, 2006

As filed with the United States Securities and Exchange Commission on May 17, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

Annual Report pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2005

Commission file number 0-27466

NICE-SYSTEMS LTD.

(Exact name of Registrant as specified in its charter and translation of Registrant s name into English)

Israel

(Jurisdiction of incorporation or organization)

8 Hapnina Street, P.O. Box 690, Ra anana 43107, Israel

(Address of principal executive offices)
Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
None	**None**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

American Depositary Shares, each representing one Ordinary Share, par value one New Israeli Shekel per share

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

24,137,643 Ordinary Shares, par value NIS 1.00 Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

o Yes x No

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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statements the registrant has elected to follow:

Item 17 o Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

PRELIMINARY NOTE

This annual report contains historical information and forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 with respect to NICE s business, financial condition and results of operations. The words anticipate, believe, estimate, expect, intend, may, plan, project, should, strategy, continue, goal and target and similar expre NICE or its management, are intended to identify forward-looking statements. Such statements reflect the current views and assumptions of NICE with respect to future events and are subject to risks and uncertainties. The forward-looking statements relate to, among other things: operating results; anticipated cash flows; gross margins; adequacy of resources to fund operations; our ability to maintain our average selling prices despite the aggressive marketing and pricing strategies of our competitors; our ability to maintain and develop profitable relationships with our key distribution partners, one of which constitutes 21% of our revenues; the financial strength of our key distribution partners; and the market s acceptance of our technologies, products and solutions.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. Many factors could cause the actual results, performance or achievements of NICE to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, changes in general economic and business conditions, changes in currency exchange rates and interest rates, difficulties or delays in absorbing and integrating acquired operations, products, technologies and personnel, changes in business strategy and various other factors, both referenced and not referenced in this annual report. These risks are more fully described under Item 3, Key Information Risk Factors of this annual report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. NICE does not intend or assume any obligation to update these forward-looking statements. Investors should bear this in mind as they consider forward-looking statements and whether to invest or remain invested in NICE-Systems Ltd. s securities.

In this annual report, all references to NICE, we, us or our are to NICE-Systems Ltd., a company organized under the laws of the State of Israel, and its wholly owned subsidiaries, Nice Systems Inc., NICE Systems GmbH, NICE Systems Canada Ltd., NICE CTI Systems UK Ltd., STS Software Systems (1993) Ltd., NiceEye BV, NICE Systems S.A.R.L., NICE APAC Ltd., NiceEye Ltd., Racal Recorders Systems Ltd., NICE Interactive Solutions India Private Ltd., Nice Systems Latin America, Inc., Nice Japan Ltd., Nice Systems (Singapore) Pte. Ltd., Nice Systems Australia PTY Ltd., Nice Switzerland AG, Fast Video Security GmbH and Fast Video Security (UK) Ltd.

In this annual report, unless otherwise specified or unless the context otherwise requires, all references to $ or dollars are to U.S. dollars and all references to NIS are to New Israeli Shekels. Except as otherwise indicated, the financial statements of and information regarding NICE are presented in U.S. dollars.

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PART I

Item 1. **Identity of Directors, Senior Management and Advisers.**

Not Applicable.

Item 2. **Offer Statistics and Expected Timetable.**

Not Applicable.

Item 3. **Key Information.**

Selected Financial Data

The following selected consolidated financial data as of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005 have been derived from our audited consolidated financial statements. These financial statements have been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global. The consolidated selected financial data as of December 31, 2001, 2002 and 2003 and for the years ended December 31, 2001 and 2002 has been derived from other consolidated financial statements not included in this annual report and have also been prepared in accordance with U.S. GAAP and audited by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5, Operating and Financial Review and Prospects and the consolidated financial statements and notes thereto and other financial information included elsewhere in this annual report.

	Year Ended December 31,				
	2001	2002	2003	2004	2005
	(in thousands of U.S. dollars, except per share data)				
OPERATING DATA:					
Revenues					
Products	$ 99,395	$ 127,896	$ 168,055	$ 182,616	$ 206,355
Services	14,474	27,445	56,203	70,027	104,755
Total revenues	113,869	155,341	224,258	252,643	311,110
Cost of revenues					
Products	47,781	55,453	64,231	64,432	67,543
Services	19,446	26,054	42,084	49,876	68,683
Total cost of revenues	67,227	81,507	106,315	114,308	136,226
Gross profit	46,642	73,834	117,943	138,335	174,884
Operating expenses:					
Research and development, net	18,843	17,122	22,833	24,866	30,896
Selling and marketing	33,683	38,685	53,351	61,855	72,829
General and administrative	23,410	23,806	29,840	31,269	37,742
Amortization of acquired intangible assets	3,414	58	350	317	1,331
Other special charges	17,862	29,092	7,082	-	-
Total operating expenses	97,212	108,763	113,456	118,307	142,798
Operating income (loss)	(50,570)	(34,929)	4,487	20,028	32,086
Financial income, net	4,254	3,992	2,034	3,556	5,398
Other income (expenses), net	(4,846)	(4,065)	292	54	(13)
Income (loss) before taxes on income	(51,162)	(35,002)	6,813	23,638	37,471
Taxes on income	198	350	1,205	2,319	902
Net income (loss) from continuing operations	(51,360)	(35,352)	5,608	21,319	36,569
Net income (loss) from discontinuing operations	4,565	1,370	1,483	3,236	-
Net income (loss)	$ (46,795)	$ (33,982)	$ 7,091	$ 24,555	$ 36,569
Basic earnings (loss) per share:					
Continuing operations	$ (3.94)	$ (2.56)	$ 0.35	$ 1.22	$ 1.91
Discontinued operations	0.35	0.10	0.09	0.18	-
Net earnings (loss)	$ (3.59)	$ (2.46)	$ 0.44	$ 1.40	$ 1.91
Weighted average number of shares used in computing basic earnings (loss) per share (in thousands)	13,047	13,795	16,038	17,497	19,121
Diluted earnings (loss) per share:					
Continuing operations	$ (3.94)	$ (2.56)	$ 0.33	$ 1.14	$ 1.77
Discontinued operations	0.35	0.10	0.09	0.17	-

Net earnings (loss)	$ (3.59)	$ (2.46)	$ 0.42	$ 1.31	$ 1.77
Weighted average number of shares used in computing diluted earnings (loss) per share (in thousands)	13,047	13,795	16,781	18,703	20,646

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	At December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
BALANCE SHEET DATA:					
Working capital	$ 70,572	$ 79,583	$ 56,174	$ 51,428	$ 274,708
Total assets	210,012	236,288	249,415	298,311	617,250
Total debt	-	24	-	-	-
Shareholders equity	167,018	154,536	176,831	222,871	487,041

Risk Factors

General Business Risks Relating to Our Business Portfolio and Structure

The markets in which we operate are characterized by rapid technological changes and frequent new products and service introductions. We may not be able to keep up with these rapid technological and other changes.

We are operating in several markets, each characterized by rapidly changing technology, new product introductions and evolving industry standards. The introduction of products embodying new technology and the emergence of new industry standards can render existing products obsolete and unmarketable and can exert price pressures on existing products. We anticipate that a number of existing and potential competitors will be introducing new and enhanced products that could adversely affect the competitive position of our products. Our most significant market is the market for voice recording platforms and related enhanced applications (or Voice Platforms and Applications). Voice Platforms and Applications are utilized by entities operating in the contact center, trading floor, public safety and air traffic control segments to capture, store, retrieve and analyze recorded data. The market for our Voice Platforms and Applications is, in particular, characterized by a group of highly competitive vendors that are introducing rapidly changing competitive offerings around evolving industry standards.

Our ability to anticipate changes in technology and industry standards and to successfully develop and introduce new, enhanced and competitive products, on a timely basis, in all the markets where we operate, will be a critical factor in our ability to grow and be competitive. As a result, we expect to continue to make significant expenditures on research and development, particularly with respect to new software applications, which are continuously required in all our business areas. The convergence of voice and data networks and wired and wireless communications could require substantial modification and customization of our current products and business models, as well as the introduction of new products. Further, customer acceptance of these new technologies may be slower than we anticipate. We cannot assure you that the market or demand for our products will grow as rapidly as we expect, or if at all, that we will successfully develop new products or introduce new applications for existing products, that such new products and applications will achieve market acceptance or that the introduction of new products or technological developments by others will not render our products obsolete. In addition, our products must readily integrate with major third party security, telephone, front-office and back-office systems. Any changes to these third party systems could require us to redesign our products, and any such redesign might not be possible on a timely basis or achieve market acceptance. Our inability to develop products that are competitive in technology and price and responsive to customer needs could have a material adverse effect on our business, financial condition and results of operations. Additional factors that could have a material adverse effect on our business, financial condition and results of operations include industry specific factors; our ability to continuously develop, introduce and deliver commercially viable products, solutions and technologies, the market s rate of acceptance of the product solutions and technologies we offer; and our ability to keep pace with market and technology changes and to compete successfully.

Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments. In particular, we may not succeed in making additional acquisitions or be effective in integrating such acquisitions.

As part of our growth strategy, we have made a number of acquisitions and have made minority investments in complementary businesses, products or technologies. We frequently evaluate the tactical or strategic opportunity available related to complementary businesses, products or technologies. The process of integrating an acquired company s business into our operations and/or of investing in new technologies, may result in unforeseen operating difficulties and large expenditures and may absorb significant management attention that would otherwise be available for the ongoing development of our business. Other risks commonly encountered with acquisitions include the effect of the acquisition on our financial and strategic position and reputation, the failure of the acquired business to further our strategies, the inability to successfully integrate or commercialize acquired technologies or otherwise realize anticipated synergies or economies of scale on a timely basis and the potential impairment of acquired assets. Moreover, there can be no assurance that the anticipated benefits of any acquisition or investment will be realized. Future acquisitions or investments contemplated and/or consummated could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, and amortization expenses related to intangible assets, any of which could have a material adverse effect on our operating results and financial condition. There can be no assurance that we will be successful in making additional acquisitions or effective in integrating such acquisitions into our existing business. In addition, if we consummate one or more significant acquisitions in which the consideration consists, in whole or in part, of ordinary shares or American Depositary Shares (ADSs), representing our ordinary shares, shareholders would suffer dilution of their interests in us. We have also invested in companies which can still be considered in the start-up or development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. We could lose our entire initial investment in these companies.

We have expanded into new markets and may not be able to manage our expansion and anticipated growth effectively.

We have established a sales and service infrastructure in India by recruiting sales and service personnel in order to bring about further growth in revenue in the Asia Pacific market and have expanded our professional services group to include business consultants. Also, since 2002 we have been expanding our presence in Europe (mainly in the United Kingdom) and in the Middle East and Africa (the EMEA region) through organic growth and through our acquisition of Thales Contact Solutions (or TCS). The growth in our business in the EMEA region is still in its early stage, and in particular, we are just beginning to develop our digital video business in the EMEA region. We expect continued growth, particularly in connection with the enhancement and expansion of our operations in the EMEA region, as well as in the Asia Pacific region. We may establish additional operations within these regions or in other regions where growth opportunities are projected to warrant the investment. However, we cannot assure you that our revenues will increase as a result of this expansion or that we will be able to recover the expenses we incurred in effecting the expansion. Our failure to effectively manage our expansion of our sales, marketing, service and support organizations could have a negative impact on our business. To accommodate our global expansion, we are continuously implementing new or expanded business systems, procedures and controls. There can be no assurance that the implementation of such systems, procedures, controls and other internal systems can be completed successfully.

Our evolving business strategy could adversely affect our business.

Historically we have supplied the hardware and some software for implementing multimedia recording solutions. Our shift towards providing professional support services and an enterprise software business model has required and will continue to require substantial change, potentially resulting in some disruption to our business. These changes may include changes in management and technical personnel; expanded or differing competition resulting from entering the enterprise software market; increased need to expand our distribution network to include system integrators which could impact revenues and gross margins, and, as our applications are sold either to our installed base or to new customers together with our recording platforms, the rate of adoption of our software applications by the market.

The changes in our business may place a significant strain on our operational and financial resources. We may experience substantial disruption from changes and could incur significant expenses and write-offs. Failing to carefully manage expense and inventory levels consistent with product demand and to carefully manage accounts receivable to limit credit risk, could materially adversely affect our results of operations.

We depend upon outsourcers for the manufacture of our key products. The failure of our product manufacturers to meet our quality or delivery requirements would likely have a material adverse effect on our business, results of operations and financial condition.

In 2002, we entered into a manufacturing agreement with Flextronics Israel Ltd., a subsidiary of Flextronics, a global electronics manufacturing services company, or Flextronics. Under this agreement, Flextronics provides us with a comprehensive manufacturing solution that covers all aspects of the manufacture of our products from order receipt to product shipment, including purchasing, manufacturing, testing, configuration, and delivery services. This agreement covered all our products. In addition, in connection with the acquisition of Dictaphone Corporation s (or Dictaphone) Communications Recordings Systems division (or CRS), we assumed a contract manufacturing agreement with Dictaphone s EMS (EMS) division pursuant to which EMS manufactures all ex-CRS products. As a result of these arrangements, we are now fully dependent on Flextronics and EMS to process orders and manufacture our products. Consequently, the manufacturing process of our products is not in our control.

We may from time to time experience delivery delays due to the inability of Flextronics and EMS to consistently meet our quality or delivery requirements and we may experience production interruptions if any of Flextronics or EMS is for any reason unable to continue the production of our products. Should we have on-going performance issues with our contract manufacturers, the process to move from one contractor to another is a lengthy and costly process that could affect our ability to execute customer shipment requirements and/or might negatively affect revenue and/or costs. If these manufacturers or any other manufacturer were to cancel contracts or commitments with us or fail to meet the quality or delivery requirements needed to satisfy customer orders for our products, we could lose time-sensitive customer orders and have significantly decreased quarterly revenues and earnings, which would have a material adverse effect on our business, results of operations and financial condition.

Undetected problems in our products could directly impair our financial results.

If flaws in design, production, assembly or testing of our products (by us or our suppliers) were to occur, we could experience a rate of failure in our products that would result in substantial repair, replacement or service costs and potential liability and damage to our reputation. There can be no assurance that our efforts to monitor, develop, modify and implement appropriate test and manufacturing processes for our products will be sufficient to permit us to avoid a rate of failure in our products that results in substantial delays in shipment, significant repair or replacement costs or potential damage to our reputation, any of which could have a material adverse effect on our business, results of operations and financial condition.

If we lose our key suppliers, our business may suffer.

Certain components and subassemblies that are used in the manufacture of our existing products are purchased from a single or a limited number of suppliers. In the event that any of these suppliers are unable to meet our requirements in a timely manner, we may experience an interruption in production until an alternative source of supply can be obtained. Any disruption, or any other interruption of a supplier s ability to provide components to us, could result in delays in making product shipments, which could have a material adverse effect on our business, financial condition and results of operations. In addition, some of our major suppliers use proprietary technology and software code that could require significant redesign of our products in the case of a change in vendor. Further, as suppliers discontinue their products, or modify them in manners incompatible with our current use, or use manufacturing processes and tools that could not be easily migrated to other vendors, we could have significant delays in product availability, which would have a significant adverse impact on our results of operations and financial condition. Although we generally maintain an inventory for some of our components and subassemblies to limit the potential for an interruption and we believe that we can obtain alternative sources of supply in the event our suppliers are unable to meet our requirements in a timely manner, we cannot assure you that our inventory and alternative sources of supply would be sufficient to avoid a material interruption or delay in production and in availability of spare parts.

The European Union has issued directives relating to the sale in member countries of electrical and electronic equipment, including products sold by us. If our products fail to comply with these directives, we could be subject to penalties and sanctions that could materially adversely affect our business.

A directive issued by the European Union on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, or RoHS , comes into effect on July 1, 2006. The RoHS directive lists a number of substances including, among others, lead, mercury, cadmium and hexavalent chromium, which must either be removed or reduced to within maximum permitted concentrations in any products containing electrical or electronic components that are sold within the European Union. Our products fall within the scope of the RoHS directive and we are making every effort in order to ensure that all of our products sold in the European Union after July 1, 2006, will comply with the RoHS directive, without otherwise adversely affecting the quality and functionalities of such products. We, alongside other manufacturers, will be dependent on our suppliers for certain components and sub-system modules to comply with these requirements.

Compliance with the RoHS directive, especially with respect to the requirement that products be lead free, will require us to undertake significant expenses with respect to the redesign of our products. In addition, we may be required to pay higher prices for components that comply with this directive. We may not be able to pass these higher component costs or redesign costs on to our customers. We cannot at this point estimate the expense that will be required to redesign our products in order to include environmentally friendly components. We cannot be sure that we will be able to comply with these regulations in a timely manner, that we will be able to comply on a cost effective basis or that a sufficient supply of compliant components will be available to us. Our inability or failure to comply with these regulations may restrict us for a period of time from conducting certain business in the European Union and could have a material adverse effect on our results of operations. In addition, manufacturers of components that we use in our products that do not comply with these regulations may decide to stop manufacturing these components prior to the July 2006 compliance date. These actions by manufacturers of components could result in a shortage of components that could adversely affect our business and results of operations.

A further directive on Waste Electrical and Electronic Equipment, or WEEE , approved by the European Union in 2003, promotes waste recovery with a view to reducing the quantity of waste for disposal and saving natural resources, in particular by reuse, recycling and recovery of waste electrical and electronic equipment. The WEEE directive covers all electrical and electronic equipment used by consumers and electronic equipment intended for professional use. The directive, which partly came into effect in August 2005, requires that all new electrical and electronic equipment placed for sale in the European Union be appropriately labeled regarding waste disposal and contains other obligations regarding the collection and recycling of waste electrical and electronic equipment. Our products fall within the scope of the WEEE directive, and we are taking and will continue to take all requisite steps to ensure compliance. The WEEE directive is required to be implemented by each member country of the European Union through its own national legislation. Accordingly, we cannot at this time be certain that we will be able to comply with the specific regulations which will be enacted to implement the WEEE directive in each of the individual countries in the European Union.

The countries of the European Union, as a single market for our products, accounted in 2005 for approxy the outstanding balance of the loan. Hardship withdrawals are allowed for participants incurring an immediate and heavy financial need, as defined by the Plan. Hardship withdrawals are strictly regulated by the Internal Revenue Service ("IRS") and a participant must exhaust all available loan options and available distributions prior to requesting a hardship withdrawal. Benefits are recorded when paid.

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Investment fund information: Participants may individually direct employee contributions in various mutual funds, common collective trusts, money market mutual funds and Daktronics, Inc. common stock. Participants may change their investment options daily.

Notes receivable from participants: Participants may borrow from their accounts up to the lesser of $50,000 or 50 percent of their vested account balance. Loan transactions are transfers between the investment funds and the participant notes fund. Loan terms range from one to five years, or longer for the purchase of a primary residence. The loans are secured by the balance in the participant's account and bear a commercially reasonable rate of interest, which the Company has determined to be the prime rate as determined by the Plan's Trustee. Changes in the prime rate are implemented by the Trustee when it is reasonably administratively feasible to do so. Principal and interest are paid ratably no less than biweekly through payroll deductions. Loans are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income on participant loans is recorded when it is received or accrued by the Plan.

Excess contributions refundable: At April 30, 2013 and 2012, $19,430 and $20,347, respectively, were recorded for amounts refundable by the Plan to participants for contributions made in excess of amounts allowed by the IRS.

Forfeited accounts: During the years ended April 30, 2013 and 2012, respectively, forfeitures of the non-vested account balances of terminated participants of $20,301 and $11,086 were used to reduce employer contributions.

Administrative expenses: Administrative expenses, consisting of investment management services fees and audit fees, are paid by the Plan using forfeitures of the Company's contributions, and any remaining balance is netted against investment returns.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business of Plan Sponsor: The Company is engaged principally in the design, manufacture and sale of a wide range of electronic display systems and related products, which are sold in a variety of markets throughout the world, and rendering related maintenance and professional services. The Company's products are designed primarily to inform and entertain people through the communication of content.

Basis of accounting: The accompanying financial statements are prepared on the accrual basis of accounting.

Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes and supplemental schedule. Actual results could differ from those estimates.

Investment valuation and income recognition: The investments are stated at fair value as determined by quoted market prices on the last business day of the Plan year, except investment assets in common collective trusts, which is valued based on the net asset value as determined by using estimated fair value of the underlying assets held in the fund. Participant notes receivable are valued at their outstanding balances, which approximate fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Wells Fargo Stable Return Fund N is a common collective trust fund that is fully invested in Wells Fargo Stable Return Fund G, which is fully invested in contracts deemed to be fully benefit-responsive. The fair value of the common collective trust is adjusted to contract value, in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 946, Financial Services-Investment Companies, and ASC 962, Plan

Accounting-Defined Contribution Pension Plans.

As required under ASC 946, investments in the accompanying statements of net assets available for benefits include fully benefit-responsive investment contracts recognized at fair value. ASC 962 requires fully benefit-responsive investment contracts to be reported at fair value in the Plan's statements of net assets available for benefits, with a corresponding adjustment to reflect these investments at contract value. Contract value is the relevant measurement attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The contract value represents contributions plus earnings, less participant withdrawals and administrative expenses. The common collective trust fund is valued based on the net asset value as determined by using estimated fair value of the underlying assets held in the fund. Net asset value is used as a practical expedient for fair value.

Fully benefit-responsive investment contracts are recorded on Form 5500 at fair value whereas, in the Plan's financial statements, these investments are presented at fair value with an adjustment to contract value.

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New Accounting Pronouncements: In May 2011, the FASB issued Accounting Standards Update ("ASU") 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2011-04 amended ASC 820, Fair Value Measurement to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the Plan's financial statements.

Note 3. INVESTMENTS

During the years ended April 30, 2013 and 2012, the Plan’s investments (including investments purchased, sold and held during the year) appreciated/(depreciated) in fair value as determined by quoted market prices as follows:

	Year Ended April 30, 2013	April 30, 2012
Daktronics, Inc.* common stock	$4,811,623	$(5,592,048)
Mutual funds	5,080,607	(736,242)
Common collective trusts	64,431	69,835
	$9,956,661	$(6,258,455)

Investments that represent five percent or more of the fair value of the Plan’s net assets as of April 30, 2013 and 2012 are as follows:

	Year Ended April 30, 2013	April 30, 2012
Investments, at fair value:		
Daktronics, Inc.* common stock	$23,456,216	$18,216,605
Euro Pacific Growth Fund	6,597,330	6,183,824
Investment Company of America Fund	6,746,383	5,939,714
Growth Fund of America Fund	—	6,154,584
MFS Total Return Fund	4,835,443	4,256,539
T Rowe Price Mid-Cap Growth Fund	4,709,919	4,481,551
T Rowe Price Small-Cap Stock	5,815,709	4,882,243
JP Morgan Large Cap Growth	6,679,672	—

*Indicates a party-in-interest to the Plan.

The following represents the changes in Daktronics, Inc. common stock during the fiscal years ending April 30, 2013 and 2012:

	Year Ended April 30, 2013	April 30, 2012
Contributions	$2,249,148	$2,213,811
Dividends	1,760,042	1,343,300
Net realized and unrealized appreciation/(depreciation) in fair value	4,811,623	(5,592,048)
Distributions to participants and other transfers	(3,581,202)	(1,862,881)

$5,239,611	$(3,897,818)

Note 4. FAIR VALUE MEASUREMENT

ASC Topic 820, Fair Value Measurement, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

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Level 1- Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices included within Level 1 for the assets or liabilities, either directly or indirectly (for example, quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets or liabilities in markets not considered to be active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated input).

Level 3 – Unobservable inputs supported by little or no market activity based on our own assumptions used to measure assets and liabilities.

The fair value hierarchy requires the use of observable market data when available. In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level of input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following tables present the Plan's assets valued at fair value as of April 30, 2013 and 2012 by level within the fair value hierarchy:

	Assets at Fair Value as of April 30, 2013		
	Level 1	Level 2	Total
Daktronics, Inc.* common stock	$23,456,216	$—	$23,456,216
Stable Return Fund*	—	3,551,828	3,551,828
Mutual funds:			
Equity	36,932,799	—	36,932,799
Fixed Income	3,782,066	—	3,782,066
Balanced	6,433,535	—	6,433,535
Money market mutual fund*	1,498,217	—	1,498,217
	$72,102,833	$3,551,828	$75,654,661

	Assets at Fair Value as of April 30, 2012		
	Level 1	Level 2	Total
Daktronics, Inc.* common stock	$18,216,605	$—	$18,216,605
Stable Return Fund*	—	3,366,942	3,366,942
Mutual funds:			
Equity	33,192,012	—	33,192,012
Fixed Income	3,269,284	—	3,269,284
Balanced	4,256,539	—	4,256,539
Money market mutual fund*	1,951,200	—	1,951,200
	$60,885,640	$3,366,942	$64,252,582

*Indicates a party-in-interest to the Plan.

The following is a description of the valuation techniques and inputs used for each major class of assets measured at fair value by the Plan:

Daktronics, Inc. common stock and money market mutual funds: The fair values are derived from the quoted market prices of the active market on which the individual securities are traded.

Common collective trust: Common collective trust investments include the Wells Fargo Stable Return Fund that invests in fully benefit-responsive investment contracts. These investment contracts are recorded at fair value; however, since these contracts are fully benefit-responsive, an adjustment is reflected in the Statements of Net Assets Available for Benefits to present these investments at contract value. Contract value is the relevant measurement attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The contract value represents contributions plus earnings, less participant withdrawals and administrative expenses. The common collective trust investments are valued based on the net asset value as determined by using the estimated fair value of the underlying assets held in the fund, as the common collective trust itself is not actively traded on an exchange. The estimated fair value of the collective trust fund is net asset value, exclusive of the adjustment to contract value. The collective trust fund does not have a finite life, unfunded commitments related to this type of investment, or significant restrictions on redemptions.

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Mutual funds: Mutual funds are valued at the closing price reported on the active market on which the individual funds are traded. The bond funds are designed to deliver a high level of interest income by attempting to track the performance of a broad, market-weighted bond index. The balanced funds are funds that invest in both stocks and bonds. These funds are designed to deliver capital appreciation and reasonable amounts of current income, while providing a moderate level of risk to the investor. The domestic stock funds are designed to deliver long-term capital appreciation and income by tracking the performance of a benchmark index that measures the investment return of small- and mid-capitalization stocks or investment in a variety of companies' stock. The international stock funds are designed to provide long-term capital appreciation by investing primarily in the stocks of seasoned companies located outside of the United States that are considered to have above-average growth potential.

Note 5. RECONCILIATION OF FINANCIAL STATEMENTS TO THE FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 as of April 30, 2013 and 2012:

	April 30, 2013	April 30, 2012
Net assets available for benefits per the financial statements	$77,171,746	$65,736,986
Adjustment from contract value to fair value for fully benefit-responsive investment contracts	93,378	88,518
Deemed loan activity	(5,724)	(6,610)
Net assets available for benefits per Form 5500	$77,259,400	$65,818,894

The following is a reconciliation of changes in net assets available for Plan benefits as presented in these financial statements and Form 5500 for the year ended April 30, 2013:

	April 30, 2013
Increase in net assets per statements of changes in net assets available benefits	$11,434,760
Change in adjustment from contract value to fair value for fully benefit-responsive investment contracts	4,860
Deemed loan activity	886
Net income per Form 5500	$11,440,506

The accompanying financial statements present fully benefit-responsive contracts at contract value. The Form 5500 requires fully benefit-responsive investment contracts to be reported at fair value. Therefore, the adjustment from fair value to contract value for fully benefit-responsive investment contracts represents a reconciling item. In addition, deemed distributions of participant loans are recorded on the Form 5500 upon default by the participants; such amounts continue to be reported as participant loans in the financial statements until the participants' termination and actual distribution from the Plan.

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Note 6. PLAN TERMINATION

The Plan Sponsor has the right under the Plan to discontinue contributions at any time and to terminate the Plan subject to the provisions of ERISA. The Plan Sponsor has not expressed any intent to terminate the Plan. If the Plan is terminated, participants will become 100 percent vested in their accounts.

Note 7. FEDERAL INCOME TAX STATUS

The Plan was amended and restated in fiscal 2012 to make the Daktronics, Inc. common stock fund a qualified employee stock ownership plan under the Code. As a result of this change, the Plan has applied for but has not yet received a determination letter from the IRS stating that the Plan, as amended and restated remains qualified under Section 401(a) of the Code. Prior to the Plan amendment, the Plan was a non-standardized prototype plan that had received an opinion letter from the IRS dated March 31, 2008 stating that the form of the plan was qualified under Section 401(a) of the Code, and therefore, the related trust was tax exempt. In accordance with Revenue Procedure 2011-6 and Revenue Procedure 2011-49, the Plan Sponsor had determined that it was eligible to and chose to rely on the previous IRS prototype plan opinion letter. Furthermore, the plan administrator believes that the Plan, as restated, has been designed to comply with and is operating in accordance with the applicable requirements of the Code and therefore believes the Plan is qualified and the related trust is tax-exempt.

Accounting principles generally accepted in the United States require plan management to evaluate uncertain tax positions taken by the Plan. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of April 30, 2013, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examinations for years prior to the plan year ending April 30, 2010.

Note 8. RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the financial statements. Daktronics, Inc. common stock is included in investment accounts and represents approximately 30.4 percent and 27.7 percent of the net assets available for Plan benefits at April 30, 2013 and 2012, respectively. Fluctuations in the price of Daktronics, Inc. common stock may continue to materially affect the participants' account balances and the net assets available for Plan benefits as a whole.

Note 9. RELATED PARTY TRANSACTIONS

The Plan invests in mutual funds, a common/collective trust, and a money market security fund that are administered or managed by Wells Fargo Bank, N.A., the Plan's trustee. In addition, the Plan allows for loans to participants and investment in the common stock of Daktronics, Inc. These transactions qualify as party-in-interest transactions; however, they are exempt from the prohibited transactions rules under ERISA. As of April 30, 2013 and 2012, the Plan owned 2,347,943 and 2,237,868 shares of common stock of Daktronics, Inc, respectively.

Note 10. SUBSEQUENT EVENTS

On May 23, 2013, the Board of Directors declared a dividend of $0.12 per share payable on June 24, 2013 to shareholders of record of our common stock on June 3, 2013.

On August 22, 2013, the Board of Directors declared a dividend of $0.09 per share payable on September 20, 2013 to shareholders of record of our common stock on September 6, 2013.

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DAKTRONICS, INC. 401(k) PLAN
EIN-46-0306862 PLAN 002
SCHEDULE H, LINE 4i

SCHEDULE OF ASSETS (HELD AT END OF YEAR)
APRIL 30, 2013

Identity of Issue, Borrower, Lessor, or Similar Party	Shares	Cost	Current Value
Common Stock:			
Daktronics, Inc.* common stock	2,347,943	$20,816,545	$23,456,216
Stable Value Fund:			
Wells Fargo Stable Return Fund*	68,744	3,366,926	3,551,828
Mutual Funds:			
Pimco Total Return Fund	333,516	3,717,552	3,782,066
Euro Pacific Growth Fund	150,418	5,805,999	6,597,330
Investment Company of America Fund	198,950	5,399,971	6,746,383
Perkins Mid-Cap Value Fund	125,365	2,688,904	2,981,177
MFS Total Return Fund	293,591	4,141,916	4,835,443
T Rowe Price Mid-Cap Growth Fund	74,301	3,914,110	4,709,919
T Rowe Price Small-Cap Stock	152,483	4,776,639	5,815,709
JP Morgan Large Cap Growth	256,122	6,052,281	6,679,672
John Hancock III	23,504	353,929	372,310
Vanguard Mid Cap Index	4,461	150,863	164,797
Vanguard Small Cap Index	5,177	190,036	204,265
Wells Fargo Index Fund*	34,404	1,516,661	1,827,173
Wells Fargo Target Date Funds*	194,448	2,230,421	2,432,156
		$40,939,282	$47,148,400
Money market mutual fund:			
Wells Fargo Short-term Money Market Fund*	1,498,154	1,498,154	1,498,154
Notes receivable from participants (with interest rates ranging from 3.25% to 8.25%, maturing through November 2021)		1,267,213	1,267,213
		$67,888,120	$76,921,811

*Indicates a party-in-interest to the Plan.

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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

DAKTRONICS, INC. 401(k) PLAN

By: /s/ Sheila M. Anderson
Sheila M. Anderson
Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer of Daktronics, Inc.)

Date: October 11, 2013

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