INTERCONTINENTALEXCHANGE INC
Form 4
July 18, 2007

FORM 4

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Sprecher Jeffrey C

(Last) (First) (Middle)

2100 RIVEREDGE PARKWAY, SUITE 500

(Street)

ATLANTA, GA 30328

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
INTERCONTINENTALEXCHANGE INC [ICE]

3. Date of Earliest Transaction (Month/Day/Year)
07/17/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Executive Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	07/17/2007		M		4,000	A	$ 4.2	84,300 (1)	D	
Common Stock	07/17/2007		A		13,802 (2)	A	$ 0	98,102 (1)	D	
Common Stock	07/17/2007		F		5,859 (3)	D	$ 166.85	92,243 (1)	D	
Common Stock	07/17/2007		S (4)		700	D	$ 167.66	91,543 (1)	D	
Common Stock	07/17/2007		S (4)		1,500	D	$ 167.75	90,043 (1)	D	

Common Stock	07/17/2007	S (4)	1,100	D	$ 167.84	88,943 (1)	D
Common Stock	07/17/2007	S (4)	2,044	D	$ 167.96	86,899 (1)	D
Common Stock	07/17/2007	S (4)	700	D	$ 168.09	86,199 (1)	D
Common Stock	07/17/2007	S (4)	800	D	$ 168.13	85,399 (1)	D
Common Stock	07/17/2007	S (4)	500	D	$ 168.18	84,899 (1)	D
Common Stock	07/17/2007	S (4)	800	D	$ 168.28	84,099 (1)	D
Common Stock	07/17/2007	S (4)	900	D	$ 168.35	83,199 (1)	D
Common Stock	07/17/2007	S (4)	800	D	$ 168.41	82,399 (1)	D
Common Stock	07/17/2007	S (4)	800	D	$ 168.47	81,599 (1)	D
Common Stock	07/17/2007	S (4)	800	D	$ 168.49	80,799 (1)	D
Common Stock	07/17/2007	S (4)	900	D	$ 168.64	79,899 (1)	D
Common Stock	07/17/2007	S (4)	1,100	D	$ 168.81	78,799 (1)	D
Common Stock	07/17/2007	S (4)	800	D	$ 168.86	77,999 (1)	D
Common Stock	07/17/2007	S (4)	1,100	D	$ 168.92	76,899 (1)	D
Common Stock	07/17/2007	S (4)	700	D	$ 168.98	76,199 (1)	D
Common Stock	07/17/2007	S (4)	800	D	$ 169.05	75,399 (1)	D
Common Stock	07/17/2007	S (4)	900	D	$ 169.11	74,499 (1)	D
Common Stock	07/17/2007	S (4)	700	D	$ 169.19	73,799 (1)	D
Common Stock	07/17/2007	S (4)	661	D	$ 169.3	73,138 (1)	D
Common Stock	07/17/2007	S (4)	900	D	$ 169.47	72,238 (1)	D
	07/17/2007	S (4)	700	D		71,538 (1)	D

Common Stock						$ 169.86		
Common Stock	07/17/2007		S(4)	500	D	$ 170.14	71,038 (1)	D
Common Stock	07/17/2007		S(4)	800	D	$ 170.16	70,238 (1)	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (right to buy)	$ 4.2	07/17/2007		M			4,000	(5)	06/28/2010	Common Stock	4,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Sprecher Jeffrey C 2100 RIVEREDGE PARKWAY SUITE 500 ATLANTA, GA 30328	X		Chief Executive Officer	

Signatures

/s/ Andrew J. Surdykowski, Attorney-in-fact	07/18/2007

**Signature of Reporting Person Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) As previously reported, the reporting person also indirectly owns shares that are beneficially owned directly by Continental Power Exchange, Inc. ("CPEX"). The reporting person beneficially owns 100% of the equity interest in CPEX, which holds 2,032,978 shares of IntercontinentalExchange, Inc. common stock. Additionally, as previously reported, the reporting person also indirectly owns shares that are beneficially owned directly by the reporting person's spouse for which the reporting person disclaims beneficial ownership.

(2) Represents shares of restricted stock issued to the filing person under the IntercontinentalExchange, Inc. 2004 Restricted Stock Plan.

(3) Represents shares of Common Stock underlying vested restricted stock units that are being withheld to satisfy payment of the Issuer's tax withholding obligation.

(4) The sales reported in this Form 4 were effected pursuant to a pre-arranged trading plan established in accordance with Rule 10b5-1 of the Securities Act of 1934, as amended.

(5) These options are fully vested.

Remarks:

This is the first of two Forms 4 being filed by the reporting person as of the date on this form.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.

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70.2%

71.7%

69.9%

Gross profit

28.4%

29.8%

28.3%

30.1%

Operating expenses

16.7%

20.4%

17.9%

20.7%

Operating income

11.7%

9.4%

10.4%

9.4%

Interest income

0.3%

0.3%

0.3%

0.3%

Income expense

0.00%

-0.2%

0.00%

-0.3%

Other income (expense), net

-0.80%

-0.2%

-0.50%

-0.2%

Income before income taxes

11.2%

9.3%

10.2%

9.2%

Income tax expense

4.0%

3.2%

3.6%

3.2%

Net income

7.2%

6.1%

6.6%

6.0%

NET SALES

Net sales increased 31.1% to $330.9 million for the six months ended November 1, 2008 as compared to $252.4 million for the same period of fiscal 2008. Net sales increased 29.1% to $169.7 million for the three months ended November 1, 2008 as compared to $131.4 million for the same period of fiscal 2008. The first three and six months of fiscal 2009 had one more week than the first three and six months of fiscal 2008.

Commercial Business Unit. Net sales in the Commercial business unit grew during the second quarter and first six months of fiscal year 2009 as compared to the same periods of fiscal year 2008. For the first six months of fiscal year 2009, net sales increased 15.5%, and for the quarter, increased 16.8% as compared to the same periods of last fiscal year. The largest growth in terms of dollars and as a percentage is in our outdoor advertising niche, which increased by more than 34%, followed by an increase in sales to national accounts, primarily in our Galaxy® product line. These increases were offset by a decline of approximately 7% in sales in our reseller niche, which involved a decline in large custom projects. The increase in the outdoor advertising niche was the result of the expanding market for digital billboards, primarily to a limited number of large customers. The decline in sales within our reseller niche was due to the inherent volatility in the timing of large contracts. In addition, the rate of growth of sales of Galaxy products within the reseller niche was lower than expected, which we believe was primarily the result of economic conditions, resulting in customers postponing purchasing electronic displays for retail establishments.

-18-

In the early part of the third quarter of fiscal 2009, we were notified that our largest customer in the outdoor advertising niche was decreasing their spending on digital billboards from approximately $100 million annually to approximately $15 million annually, effective for calendar year 2009. We are one of two vendors for this company. This followed a decline in orders overall in the outdoor advertising niche, which started to become evident late in the second quarter of fiscal 2009. It is our belief that the current economic conditions and limited credit availability has resulted in a significant decline in this portion of our business. As a result, we expect to see revenues decline significantly in the and fourth quarter in our outdoor advertising business as compared to the first half of fiscal 2009 and the last half of fiscal year 2008. We believe that once economic conditions improve and credit becomes more available, our sales will start to recover. These conditions seem to be impacting most if not all outdoor advertising companies, and the actual outlook is very difficult to estimate at this time.

Subject to the foregoing, our Commercial business unit generally benefits from increasing product acceptance, lower cost of displays, our expanding distribution network and a better understanding by our customers of the product as a revenue generation tool. The most significant factor for increasing sales in the past has been the order volume of digital displays for outdoor advertising companies. This occurred primarily due to an increase in our customer base and the increasing number of displays being purchased by existing customers. We believe that the outdoor advertising business has a number of constraints, primarily economic and regulatory. We expect that the Commercial business unit will experience declining sales and orders over the rest of fiscal 2009 and into the first half of fiscal 2010. The outlook thereafter is generally uncertain and depends on the economy and credit.

In the past, the seasonality of the outdoor advertising niche has been a factor in the fluctuation of our net sales because the deployment of displays slows in the winter months in the colder climate regions of the U.S. Generally speaking, seasonality is not a material factor in the rest of the Commercial business. Our estimates for sales and orders in the Commercial business unit could vary significantly depending on our success in retaining the business of the major billboard companies as well as on their rate of deployment and our ability to capture business in our national account niche if it were to develop materially. Our growth in the Commercial business unit also depends on the state of the economy, which has negatively impacted net sales and is expected to continue to impact it until the economy improves.

Order bookings in the Commercial business unit were up approximately 4% in the first six months of fiscal 2009 as compared to the same period of fiscal 2008. For the second quarter of fiscal 2009, orders declined in this unit by approximately 17% as compared to the second quarter of fiscal 2008. The major factor in the decline was the decline in orders in the outdoor advertising niche.

Live Events Business Unit. Net sales in the Live Events business unit increased by approximately 63% in the second quarter of fiscal 2009 as compared to the same quarter of fiscal 2008. This increase is primarily the result of the impact of large contracts booked in fiscal 2008 and increased orders booked during the first half of fiscal 2009. Orders increased approximately 104% in the second quarter of fiscal 2009 as compared to the same period one year ago. The increase in orders in the Live Events business unit reflects only $13 million of the total expected contract value of over $45 million related to the award of the New Meadowlands Stadium in New Jersey. An additional $27 million related to this contract was booked early in the third quarter of fiscal 2009. We have also been awarded two other large contracts for major league baseball facilities that are pending final contract execution, which should exceed $16 million in total and are expected to be booked in the third quarter of fiscal 2009. Finally, we were awarded and executed a contract for more than $9.5 million for a National Football League facility during the second quarter.

As we began fiscal year 2009, we had expected to see significant order growth in the Live Events business unit as a result of the number of large projects in our pipeline and taking into account our market share. Through the year, we seem to have executed well to achieve our share of these projects which, along with a growth in the smaller projects have allowed us to achieve higher than expected sales growth and has partially offset the decline in Commercial business unit sales. At this point, it is too early to forecast growth estimates for fiscal year 2010; however, we realize that given the unusually large new construction projects awarded over the past twelve months, achieving a significant growth rate in our Live Events unit may be difficult. However, over the long-term we expect to see growth.

Our expectations regarding growth over the long-term in the large sports venues is due to a number of factors, including the expanding market, with facilities spending more on larger display systems; our product and services offering, which remains the most integrated and comprehensive offering in the industry; and our network of field sales and service offices, which are important to support our customers. In addition, we benefit from the competitive nature of sports teams who strive to out-perform their competitors with display systems. This impact has and is expected to continue to be a driving force in increasing transaction sizes in new construction and major renovations. Growth in the large sports venues is also driven by the desire for high definition video displays, which typically drive larger displays or higher resolution displays, both of which increase the average transaction size. We believe that the effects of the economy have a lesser impact on the sports market as compared to our other markets because our products are generally revenue-generation tools (through advertising) for facilities, and the sports business is generally considered to be a recession-resistant business. Net sales in our sports marketing and mobile and modular portion of this business unit were less than 5% of total sales and thus were not significant in the first half of fiscal year 2009 and the first half of fiscal 2008.

As described above, an important factor in orders and sales for the remainder of fiscal 2009 will be our success in winning a limited number of large contracts expected to be awarded in the large sports venue niche primarily in the third quarter. These transactions, exceeding $5 million each, could have a significant impact on both orders and sales.

Schools and Theatres Business Unit. Net sales in the Schools and Theatres business unit increased by approximately 18% in the second quarter of fiscal 2009 as compared to the same quarter in fiscal 2008. Year to date sales are up over 9%. The main driver for the increase in sales in the second quarter of fiscal 2009 was the result of the larger backlog going into the quarter resulting from the delays in manufacturing experienced in the first quarter of fiscal year 2009. Orders for the business unit are relatively flat year-to–date, which we attribute to the adverse impact of these delays, although part of the slower rate of growth could be due to economic conditions. We still expect to see modest growth in orders and sales for the business unit for fiscal year 2009.

Transportation Business Unit. Net sales in the Transportation business unit decreased approximately 15% in the second quarter of fiscal 2009 as compared to the same period in fiscal 2008, and year-to-date are up approximately 1%. Orders for the first half of fiscal 2009 are up approximately 18% over the same period in fiscal 2008. We believe that the increase in orders for this business unit is due to legislation passed during calendar year 2005 by the United States Congress that provided for increased spending on transportation projects, including large increases associated with intelligent transportation systems, and to our gaining market share. For fiscal 2009 as a whole, we expect that sales will grow in excess of 15% as compared to fiscal 2008. The lower level of sales growth as compared to orders is the result of timing as driven by our customers.

International Business Unit. Net sales in the International business unit in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008 were down approximately 6% and on a year-to-date basis are up approximately 86%. Orders were down approximately 1% for the first half of fiscal 2009 as compared to fiscal 2008. Orders have not lived up to expectations year-to-date, but we remain optimistic that we can achieve sales growth of more that 20% for fiscal 2009 as compared to fiscal 2008. The increase in net sales on a year-to-date basis was attributable to large orders booked in the fourth quarter of fiscal 2008 for a rail station in Beijing and a network of displays in the U.K. that converted to sales in the first quarter of fiscal 2009. Due to the focus on large contracts in this business unit and the small number of contracts actually booked, volatility is not unusual. Overall, we are making considerable investments in growing our business internationally, where we do not have the same market share as we do domestically. We continue to see success with our efforts in Asia and, as a result of our expanding line of products and the relationships we have developed with large repeat customers, we expect that European sales will also increase over the long-term.

Advertising Revenues. We occasionally sell products in exchange for the advertising revenues generated from use of the products. These sales represented 2% and 1% of net sales for the first six months of fiscal 2009 and 2008, respectively. The gross profit percent on these transactions have typically been higher than the gross profit percent on other transactions of similar size, although the selling expenses associated with these transactions are typically higher.

Backlog. The order backlog as of November 1, 2008 was approximately $134 million as compared to $119 million as of October 27, 2007 and $173 million at the beginning of the second quarter of fiscal 2009. Historically, our backlog varies due to the timing of large orders. The changes in the backlog were the result of the combination of the changes in orders and net sales discussed above. Backlog at the end of the second quarter of fiscal 2009 does not include three contracts, consisting of one for $27 million that was executed early in the third quarter and two others totaling more than $16 million that have been awarded and are expected to be executed prior to the end of the fiscal 2008 third quarter.

GROSS PROFIT

Gross profit increased 23.0% to $48.2 million for the second quarter of fiscal 2009 as compared to $39.2 million for the second quarter of fiscal 2008. For the six months ended November 1, 2008, gross profit increased 23.0% to $93.6 million compared to $76.1 for the six months ended October 27, 2007. As a percent of net sales, gross profit was 28.4% and 28.3% for the three and six months ended November 1, 2008 as compared to 29.8% and 30.1% for the three and six months ended October 27, 2007.

The decline in gross profit percentage is the result of higher costs of manufacturing infrastructure, warranty costs, inventory write-downs, the reorganization of our field services infrastructure and lower product margins in all business units other than Live Events. These increases have been partially offset by a gain of approximately $1 million on the sale of a building in Tampa, Florida in the first quarter of fiscal 2009. Increasing warranty costs have caused gross profit percentages to decline by more than 1 percentage point on a year-to-date basis. This decline is due to issues with new product designs and other factors. We are and have been over the past year investing significant resources into standardizing our display product line, which we believe contained too much custom design, increasing our risk of warranty costs. In addition, we have and will continue to invest in more sophisticated product reliability test equipment and personnel and to implement more sophisticated quality processes in manufacturing to reduce the level of warranty exposure. We believe that we have made progress in gaining control over our warranty costs but cannot be certain that new issues will

-20-

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not arise. Increased inventory write-downs are resulting from write-downs in Canada related to the plant closure, and write-off of excess inventory bought for projects that had been retained for other projects for which we no longer wanted to hold. We also incurred costs to close down our manufacturing operation in Canada, as described below. The reorganization of our field services department adversely impacted gross profit percentages by approximately 0.5 points as described in previous filings. Finally, the higher costs of manufacturing infrastructure, which approximated a 0.5 point decline in gross profit percent, resulted from a greater proportion of indirect labor. This includes additional personnel in quality, manufacturing engineering and inventory management. These factors, excluding warranty costs, impacted all business units.

Gross profit in our Commercial business unit declined from approximately 32% in the second quarter of fiscal 2008 to approximately 28% in the same period of fiscal 2009 as a result of a decline in margin in all major niches. The decline resulted from lower margins in our small order business, primarily Galaxy® displays, which is being impacted by the economic conditions, increased competition in the outdoor advertising niche and the factors described above.

Gross profit in our Schools and Theatres business unit declined from approximately 34% in the second quarter of fiscal 2008 to approximately 29% in the second quarter of fiscal 2009. This decline resulted from greater variances in manufacturing, the reclassification of our field services infrastructure to cost of goods sold and lower overall margins on standard products.

Gross profit in our Live Events business unit increased to approximately 33% in the second quarter of fiscal 2009 as compared to approximately 27% in the second quarter of fiscal 2008. The increase was primarily the result of higher margins on product sales and better than expected utilization of the plant due to the high volume of sales.

Gross profit in the International business unit decreased to approximately 6.5% in the second quarter of fiscal 2009 as compared to approximately 24% in the same period one year ago. The decrease was the result of higher warranty costs during the quarter.

We strive toward higher gross margins as a percent of net sales, although depending on the actual mix, the performance of larger projects, and our ability to execute on the business and level of future sales, margin percentages may not increase. We currently believe that we can increase gross profit margins in the second half of fiscal year 2009 as compared to the first half of fiscal year 2009 as a result of lower warranty costs as a percent of sales, better margins on orders in our backlog or to be booked and manufacturing efficiencies. These benefits will, however, be offset by an underutilization of our capacity due to a lower level of sales.

OPERATING EXPENSES

Operating expenses. Operating expenses, which are comprised of selling, general and administrative expenses and product design and development costs, increased by approximately 5.6% from $26.9 million in the second quarter of fiscal 2008 to $28.4 million in the second quarter of fiscal 2009. As a percent of net sales, operating expenses decreased from 20.4% of net sales in the second quarter of fiscal 2008 to 16.7% of net sales for the second quarter of fiscal 2009. Operating expenses increased 12.4% from $52.5 million for the six months October 27, 2007 to $59.0 for the six months ended November 1, 2008. All areas of operating expenses were impacted on a year-to-date basis in fiscal 2009 as a result of the first quarter of fiscal 2009 including 14 weeks as opposed to the more common 13 weeks. The first quarter of fiscal 2008 and the second quarter of fiscal 2008 and fiscal 2009 contained 13 weeks.

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 2.4% to $15.5 million for the three months ended November 1, 2008 as compared to $15.2 million for the second quarter of fiscal 2008. Selling expenses increased 6.3% to $31.9 million for the six months ended November 1, 2008 from $30.0 million for the same period in fiscal year 2008. Selling expenses decreased to 9.1% of net sales for the second quarter of fiscal 2009 from 11.5% of net sales for the second quarter of fiscal 2008.

As described in previous filings, we reorganized our field services organization and, as a result, approximately $0.8 million of expenses incurred in the second quarter of fiscal 2009 that would have previously been in selling expense were classified in cost of goods sold. Had this change not been made, selling expense as a percentage of sales would have still declined. Selling expenses for the second quarter of fiscal 2009 were higher than selling expenses in the second quarter of fiscal 2008 as a result of an increase in personnel costs, which increased over $0.5 million, including payroll taxes and benefits and marketing and sales literature, which increased by approximately $0.2 million and credit card fees. These increases were offset by decreases in various costs, including communications, travel and entertainment. The increase in personnel, payroll taxes and benefits was across all business units. The increase in the number of employees was planned to cover growth expectations across all markets and included the impact of hiring additional personnel to support various other investments made in growing areas, such as our services business and commercial sales.

We expect to continue to invest in organic growth, and therefore the dollar amount of selling expenses will increase in fiscal 2009 as compared to fiscal 2008. However, as a percentage of net sales, we believe that selling expenses should decrease. We typically evaluate selling expenses as a percentage of orders rather than sales. Throughout the rest of fiscal 2009, we anticipate selling costs to be flat to declining from the current level. This estimate is subject to containing costs, such as bad debt expense, and achieving desired levels in employee attrition during the third quarter.

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 17.4% to $7.6 million for the second quarter of fiscal 2009 as compared to $6.4 million for the second quarter of fiscal 2008. General and administrative expenses increased 22.5% to $15.2 million for the six months ended November 1, 2008 as compared to $12.4 million for the six months ended October 27, 2007.

General and administrative expenses decreased to 4.5% as a percent of net sales for the second quarter of fiscal 2009 from 4.9% of net sales for the second quarter of fiscal 2008. For the six months ended November 1, 2008, general and administrative expenses decreased to 4.6% of net sales as compared to 4.9% of net sales for the six months ended October 27, 2007.

General and administrative expenses increased in the second quarter of fiscal year 2009 over the same period in fiscal year 2008 due to increases in personnel and related payroll and benefits, which comprised approximately $0.7 million of the increase; software and hardware costs, which comprised approximately $0.4 of the increase; higher professional and consulting fees, which comprised approximately $0.3 million of the increase; and various other items such as amortization, depreciation, and facilities costs. These increases were offset by reductions in bank fees, training and tuition, recruiting costs, corporate insurance and other items. We expect that for the rest of fiscal 2009, general and administrative expenses should remain flat sequentially although this is subject to the level of employee attrition and other costs such as professional fees remain stable.

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 0.4% to $5.3 million for the second quarter of fiscal 2009 as compared to $5.3 million for the second quarter of fiscal 2008. Product design and development expenses increased 18.1% to $11.8 million for the six months ended November 1, 2008 as compared to $10.0 million for the six months ended October 27, 2007.

Product design and development expenses decreased to 3.1% as a percent of net sales for the second quarter of fiscal 2009 from 4.0% of net sales for the second quarter of fiscal 2008. For the six months ended November 1, 2008, product design and development expenses decreased to 3.6% of net sales as compared to 4.0% of net sales for the six months ended October 27, 2007.

Our focus on product development for fiscal 2009 will be on developing common module platforms and various other initiatives to standardize display components; enhancing our display technology and control systems for both single-site and networked displays spread over a geographical area; and driving decreases in product costs and improving the manufacturing of products. We expect that product design and development expenses will approximate 4% of net sales for fiscal 2009.

Operating Income (Loss) by Segment

The following table sets forth operating income (loss) by segment:

	Three Months Ended November 1, 2008	October 27, 2008
Operating Income (Loss)		
Commercial	$ 4,741	$ 5,050
Live Events	17,136	3,699
Schools & Theatres	1,537	1,636
Transportation	(664)	1,153
International	(2,905)	800
Segment Operating Income	$ 19,845	$ 12,338

-22-

Operating income (loss) by segment is based on the direct costs associated with each segment plus allocations of various expenses on a discretionary basis that are not necessarily indicative of the segment’s operating income on a stand-alone basis. Certain items are allocated based on management’s judgment as to the best methods to achieve company-wide goals. Therefore, we caution making conclusions as to performance based on these disclosures, which are required under generally accepted accounting principles.

All business units were adversely impacted by increases in general and administrative expenses and product development, which are allocated to the various business units. The following describes the changes in those areas that are directly related to the business unit.

Within the Commercial business unit, operating income decreased as a result of the decline in gross profit as described above and the increase in selling expense, general and administrative allocations and product development allocations.

Operating income increased in the Live Events business unit as a result of an increase in sales and improvement in gross margin percents, which were partially offset by an increase in selling expense, product development allocations and general and administrative allocations.

The operating income in the Schools and Theatres business unit decreased in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008 as a result of lower sales and gross profit percents as described above.

Within the Transportation business unit, operating income decreased as a result of a growth in sales being offset by a decline in gross profit percentage.

Operating income decreased in the International business unit as a result of increase warranty costs.

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 result 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 increased 10.4% to $0.51 million for the second quarter of fiscal 2009 compared to $0.46 million for the second quarter of fiscal 2008. For the six months ended November 1, 2008, interest income increased 23.6% to $1.0 million from $0.8 million for the six months ended October 27, 2007. The increase was the result of higher levels of temporary cash investments and higher levels of interest-bearing long-term receivables. We expect that the amount of interest income will increase in fiscal 2009 over fiscal 2008 due to higher levels of these items.

Interest expense decreased to $0.1 million for the second quarter of fiscal 2009 as compared to $0.3 million for the second quarter of fiscal 2008. For the six months ended November 1, 2008, interest expense decreased 78.1% to $0.2 million from $0.8 million for the six months ended October 27, 2007. The decrease is due to lower average borrowings outstanding during the first quarter of fiscal 2009. Due to the reduction in debt during the third quarter of fiscal 2008, we expect that interest expense will decline in fiscal 2009 as compared to fiscal 2008.

OTHER INCOME (EXPENSE), NET

Other income (expense) decreased for the first six months of fiscal 2009 to a loss of $1.7 million as compared to a loss of $0.5 million for the same period one year ago. For the second quarter of fiscal year 2009, it decreased to a loss of $1.3 million as compared to a loss of $0.2 million for the second quarter of fiscal year 2008. The amount of other income (expense) results from the effects of earnings attributable to unconsolidated affiliates and currency gains and losses. As a result of the loss in value of the U.S. Dollar, we experienced higher levels of currency losses on U.S. Dollar advances to foreign subsidiaries. We also continue to have losses resulting from our equity investment in OutCast Media International, Inc., formerly known as FuelCast Media Networks. We expect that other income (expense) will decline for fiscal 2009 as compared to fiscal 2008 primarily due to the inclusion of a large gain in the third quarter of fiscal 2008 related to the sale of an investment in an affiliate and that will be partially offset by a decreased ownership position in OutCast that occurred during the second quarter of fiscal 2009.

INCOME TAX EXPENSE

Income taxes were approximately $6.8 million in the second quarter of fiscal 2009 and $4.3 million for the second quarter of fiscal 2008. For the first six months of fiscal year 2009, income taxes increased to $11.9 million as compared to $8.1 million for the first six months of fiscal year 2008. The effective tax rate for the six months ended November 1, 2008 was 35.1% as compared to 34.8% for

-23-

the first six months of fiscal year 2008. We expect that the effective tax rate for fiscal 2009 will approximate 36% but could vary depending on the mix of income in foreign jurisdictions. During the second quarter of fiscal 2009, Congress passed and the President signed into law a bill that reinstated the research and development tax credit, which had expired as of December 31, 2007. The reinstatement caused a decline in our domestic effective tax rate of more than 2%. On a quarterly basis, our effective rate is impacted by the mix of business in each foreign jurisdiction.

CLOSING OF MANUFACTURING OPERATIONS IN CANADA

During the second quarter of fiscal 2009, we decided to cease sales and manufacturing of our portable display trailer for the Transportation business unit. The closing of the manufacturing operation in Montreal, Quebec, where these displays were made, adversely impacted cost of goods sold in the second quarter of fiscal year 2009. Costs incurred, included severance costs, were approximately $0.2 million, and lease termination, inventory disposition and equipment disposition costs and other costs were approximately $0.9 million. There will be an insignificant amount of additional losses that will occur in the third quarter of fiscal 2009.

LIQUIDITY AND CAPITAL RESOURCES

Working capital was $81.7 million at November 1, 2008 and $62.5 million at April 26, 2008. 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 first six months of fiscal 2009 was $15.7 million. Net income of $21.9 million plus depreciation and amortization of $12.0 million, the add-back of equity in net losses of equity investments, and stock-based compensation, less $20.0 million in changes in net operating assets, and gain on sale of property and equipment, generated the cash provided by operations.

The most significant drivers of the change in net operating assets for the first six months of fiscal 2009 were the increases in accounts receivable and inventories as of November 1, 2008 as compared to their levels at April 26, 2008. These increases were partially offset by increases in customer deposits, accounts payable and various other items. The increase in accounts receivables was the result of higher billings during the second quarter of fiscal 2009 resulting from the higher level of net sales and an increase in days sales outstanding of approximately four days. When determining days sales outstanding, costs and estimated earnings in excess of profits, which is our key indicator, it increased by five days as of November 1, 2008 as compared to April 26, 2008. Days inventory outstanding was relatively flat as compared to the end of fiscal year 2008. The increase in accounts payable corresponds to the increase in inventory. Other changes in net operating assets were not significant and generally related to the change in overall business during the quarter. Overall, changes in operating assets and liabilities can be impacted by the timing of cash flows on large orders as described above that can cause significant fluctuations in the short term. As a result of various initiatives underway, including changes in manufacturing, purchasing, collections and payment processes, we expect to continue improving our cash flow relative to sales and costs of goods.

Cash used by investing activities of $14.1 million for the first six months of fiscal 2009 included $16.6 million for purchases of property and equipment, which was offset by $2.9 million of proceeds from the sale of property and equipment. During the first six months of fiscal 2009, we invested approximately $4.6 million in manufacturing equipment, $1.3 million in product demonstration equipment, $6.3 million in information systems infrastructure, including software, $2.2 million in facilities, $1.7 million in rental equipment and $0.3 million in office equipment and various other items. These investments were made to support our continued growth and to replace obsolete equipment. As of the end of the second quarter of fiscal 2009, capital expenditures were 5.0% of net sales.

Cash used by financing activities of $3.4 million for the first six months of fiscal 2009 consisted of the dividend paid to shareholders of $3.6 million on June 24, 2008, which was offset by option exercises and excess tax benefits from equity-based compensation.

Included in receivables as of November 1, 2008 was approximately $3.0 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 24 months depending on the amount of custom work and the customer’s delivery needs. We often receive down payments and 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.

-24-

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 $5.3 million for each of the second quarter of fiscal 2009 and for the second quarter of fiscal 2008. We intend to continue to incur expenditures to develop new display products using various display technologies to offer higher resolution and more cost effective and energy efficient displays at a rate of 4.0% of net sales. We also intend to continue developing software applications for our display systems to enable these products to continue to meet the needs and expectations of the marketplace.

We have a credit agreement with a bank which provides for a $45.0 million line of credit and includes up to $15.0 million for standby letters of credit. The line of credit is due on November 15, 2009. The interest rate ranges from LIBOR plus 75 basis points to LIBOR plus 125 basis points depending on certain ratios. The effective interest rate was 3.2% at November 1, 2008. We are assessed a loan fee equal to 0.1% per annum of any non-used portion of the loan. As of November 1, 2008, there were no advances under the line of credit. The credit agreement is unsecured and requires us to comply with 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. has a credit agreement with a bank which provides for a $0.3 million line of credit. The line of credit is due on February 1, 2009. The interest rate on the line of credit is equal to 1.5% above the prime rate of interest and was 4.8% on November 1, 2008. As of November 1, 2008, no advances under the line of credit were outstanding. The line of credit is secured primarily by accounts receivable, inventory and other assets of the subsidiary. Daktronics Shanghai, Ltd., has established a line of credit for $7.2 million to facilitate the issuance of bank guarantees in connection with orders it receives. The fees on the line are equal to 3% of the outstanding bank guarantees, and the line of credit is secured by a letter of credit issue by us. The line expires on February 28, 2010.

On May 29, 2008, our Board declared an annual dividend payment of $0.09 per share on our common stock for the fiscal year ended April 26, 2008. 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 November 1, 2008, we had approximately $25.5 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, our existing or increased credit facility and 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 November 1, 2008, most of our net sales were denominated in United States dollars, and our exposure to foreign currency exchange rate changes has not been significant. Net sales originating outside the United States for the second quarter of fiscal 2009 were approximately 11.0% of total net sales, of which a portion was denominated in Canadian dollars, euros, Chinese renminbi or British pounds. 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. Over the long-term, net sales to international markets are expected to increase as a percentage of net sales and, consequently, a greater portion of this business could be denominated in foreign currencies. In addition, we fund operating cash to foreign subsidiaries in the form of loans denominated in U.S dollars. 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, 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 November 1, 2008, our

-25-

outstanding debt approximated $1.1 million, substantially all of which was in variable 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 November 1, 2008. 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 imputed interest element. The majority of these financings carry fixed rates of interest. As of November 1, 2008, our outstanding long-term receivables were approximately $26.7 million. Each 25 basis point increase in interest rates would have an associated annual opportunity cost to us of approximately $0.1 million.

The following table provides information about our financial instruments that are sensitive to changes in interest rates, including debt obligations, for the two quarters ended May 2, 2009 and subsequent fiscal years.

	Fiscal Years (dollars in thousands)					
	2009	**2010**	**2011**	**2012**	**2013**	**Thereafter**
Assets:						
Long-term receivables, including current maturities:						
Fixed-rate	$ 5,568	$ 5,020	$ 3,455	$ 3,248	$ 2,894	$ 6,549
Average interest rate	6.4%	7.2%	8.2%	8.0%	8.0%	8.4%
Liabilities:						
Long- and short-term debt						
Fixed-rate	$ 12	$ 23	$ 22	$ -	$ -	$ -
Average interest rate	0.0%	0.0%	0.0%			
Long-term marketing obligations, including current portion						
Fixed-rate	$ 117	$ 242	$ 228	$ 189	$ 135	$ 114
Average interest rate	8.9%	9.0%	8.9%	8.8%	8.9%	8.0%

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

Approximately $5.9 million of our cash balances are denominated in United States dollars. Cash balances in foreign currencies are operating balances maintained in accounts of our foreign subsidiaries. A portion of the cash held in foreign accounts is used to collateralize outstanding bank guarantees issued by the foreign subsidiary.

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 our "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 November 1, 2008, 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 November 1, 2008, our disclosure controls and procedures were effective.

Based on the evaluation described in the foregoing paragraph, our Chief Executive Officer and Chief Financial Officer concluded that during the quarter ended November 1, 2008, 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

Our company and two of our executive officers are named as defendants in two complaints filed by two investors in the U.S. District Court for the District of South Dakota in November 2008. The complaints purport to be brought on behalf of a class of all persons (except defendants and other officers and directors of the company) who purchased our stock in the open market between November 15, 2006 and April 5, 2007 (the "class period"). The complaints allege that the defendants materially misled the investing public in our press releases, SEC filings and conference calls, thereby inflating the price of our common stock, by issuing false and misleading statements and omitting to disclose material facts necessary to make our statements not false and misleading. The complaints allege claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934,

as amended. The complaints seek compensatory damages on behalf of the alleged class in an unspecified amount, reasonable fees and costs of litigation, and such other and further relief as the Court may deem just and proper.

We believe that we, and the other defendants, have meritorious defenses to the claims made in the complaints, and we intend to contest these lawsuits vigorously. We are not able to predict the ultimate outcome of this litigation, but it may be costly and disruptive. The total costs may not be reasonably estimated at this time. Securities class action litigation can result in substantial costs and divert our management's attention and resources, which may have a material adverse effect on our business, financial condition and results of operations, including our cash flow.

Item 1A. RISK FACTORS

The discussion of our business and operations included in this Quarterly Report on Form 10-Q should be read together with the risk factors described in Item 1A of our Annual Report on Form 10-K for the year ended April 26, 2008. It describes various risks and uncertainties to which we are or may become subject. These risks and uncertainties, together with other factors described elsewhere in this report, have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect financial performance.

The following updates the section entitled “Item 1A.Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended April 28, 2008.

Unfavorable results of legal proceedings could have a material adverse effect on us. As described above, our company has been named as a defendant in two complaints filed by investors in November 2008 in the U.S. District Court for the District of South Dakota. The complaints purport to be brought on behalf of the classes described in the complaints; allege that the defendants, including the company, materially misled the investing public as described in the complaints; and allege claims under the Exchange Act. Related additional claims may arise in the future. Results of legal proceedings cannot be predicted with certainty. Regardless of the merit of any litigation, it may be both time-consuming and disruptive to our operations and cause significant expense and diversion of management attention and resources, which may have a material adverse effect on our business, financial conditions and results of operations, including our cash flow. Should we fail to prevail in these matters, or should any of these matters be resolved against us, we may be faced with significant monetary damages, which also could materially adversely affect our business, financial condition and results of operations, including our cash flow.

Difficult and volatile conditions in the capital, credit and commodities markets and in the overall economy could materially adversely affect our financial position, results of operations and cash flow, and we do not know if these conditions will improve in the near future. Our financial position, results of operations and cash flow could be materially adversely affected by difficult conditions and significant volatility in the capital, credit and commodities markets and in the overall worldwide economy. These factors, combined with declining business and consumer confidence and increased unemployment, have precipitated a worldwide economic slowdown and fears of a possible recession. The impact, if any, that these factors might have on us and our business is uncertain and cannot be estimated at this time. Item 1A of our Annual Report on Form 10-K for the fiscal year ended April 26, 2008 discusses some of the principal risks inherent in our business. Current economic conditions have accentuated each of these risks and magnified their potential effect on us and our business. The difficult conditions in these markets and the overall economy affect our business in a number of ways. For example:

- Although we believe we have sufficient liquidity under our credit agreement with a bank to run our business, under extreme market conditions, there can be no assurance that such funds would be available or sufficient and, in such a case, we may not be able to successfully obtain additional financing on favorable terms, or at all.

- Recent market volatility has exerted downward pressure on our stock price, which may make it more difficult for us to raise additional capital in the future.

- Economic conditions could result in our customers experiencing financial difficulties or electing to limit spending because of the declining economy, which may result in decreased sales and earnings for us.

We do not know if market conditions or the state of the overall economy will improve in the near future or when improvement will occur.

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

(a) Our annual meeting of shareholders was held on August 16, 2008 (the "Annual Meeting").

(b) At the Annual Meeting, Dr. Aelred J. Kurtenbach, Robert G. Dutcher and Nancy D. Frame were re-elected to our Board of Directors. The terms of the following Directors continued after the Annual Meeting: James B. Morgan, John L. Mulligan, Duane E. Sander, Ph.D., Byron J. Anderson, Frank J. Kurtenbach and James A. Vellenga.

(c) At the Annual Meeting, the following proposals were adopted by the votes indicated:

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

	Number of Shares Voted	
	For	Withheld
Dr. Aelred J. Kurtenbach	33,045,431	1,117,857
Robert G. Dutcher	32,815,447	1,347,842
Nancy D. Frame	33,530,200	633,088

Ratification of the appointment of Ernst & Young LLP, as our independent registered public accounting firm for fiscal year 2009:

Number of Shares Voted		
For	Against	Abstain

32,508,865	37,157	103,939

Item 5. Other Information

Not Applicable

Item 6. Exhibits

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

31.1 Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

-28-

SIGNATURE

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: November 26, 2008

-29-
