CAPITAL ONE FINANCIAL CORP
Form DEF 14A
March 18, 2002

SCHEDULE 14A INFORMATION
(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [_]

Check the appropriate box:
[ ] Preliminary Proxy Statement
[x] Definitive Proxy Statement
[_] Definitive Additional Materials
[_] Soliciting Material under Rule 14a-12
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Capital One Financial Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(4) Proposed maximum aggregate value of transaction:

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(4) Date Filed:

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Capital One Financial Corporation
2980 Fairview Park Drive, Suite 1300
Falls Church, Virginia 22042-4500

NOTICE OF ANNUAL STOCKHOLDER MEETING

To be held April 25, 2002

Dear Stockholder:

It is our pleasure to invite you to the annual stockholder meeting of Capital One Financial Corporation ("Capital One"). The meeting will be held at 10:00 a.m. on Thursday, April 25, 2002 at the Fairview Park Marriott Hotel, 3111 Fairview Park Drive, Falls Church, Virginia 22042-4500.

At our annual meeting you will be asked to:

- Elect three directors;
- Approve the appointment of Ernst & Young LLP as independent auditors for 2002; and
- Conduct any other business properly brought before the meeting.

We will discuss Capital One's business and financial results for 2001 and answer any questions you may have. We have also enclosed the 2001 Annual Report, including our financial statements, with this Notice and Proxy Statement. You may also access the 2001 Annual Report and the Proxy Statement at Capital One's website at www.capitalone.com.

If you were a stockholder of record at the close of business on February 28, 2002, you are entitled to vote at our annual meeting.

Your vote is important. Record holders of Capital One common stock can vote their shares by sending in a signed and dated proxy card by mail, by using a toll-free telephone number, or via the Internet. Instructions for using these services can be found on the enclosed proxy card. By following the instructions on the proxy card, your shares will be voted even if you are unable to attend the meeting. If you attend the meeting and prefer to vote in person or change your proxy vote, you may of course do so.

We look forward to seeing you at the meeting.

By Order of the Board of Directors,

/s/ John G. Finneran, Jr.

John G. Finneran, Jr.
Corporate Secretary

March 18, 2002

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PROXY STATEMENT

VOTING MATTERS AND PROCEDURES

What is the purpose of the annual meeting?

At Capital One's annual meeting, stockholders will act upon the matters outlined in the accompanying Notice of Annual Stockholder Meeting. In addition, Capital One's management will report on our performance during 2001 and respond to questions from stockholders.

Who can attend the annual meeting?

There are no restrictions on who may attend the meeting or any formal requirements to attend the meeting. The members of the Board of Directors and senior management of Capital One, as well as representatives of Ernst & Young LLP, Capital One's independent auditors during 2001, will attend the meeting.

Who is requesting my vote?

This proxy statement and the proxy card are being mailed and made available on the Internet at Capital One's website (www.capitalone.com) on or about March 19, 2002. The Board of Directors of Capital One is requesting your vote on the matters presented in this proxy. The cost of preparing, assembling and mailing the proxy card, this proxy statement, and other enclosed materials, and all clerical and other expenses of solicitations will be at the expense of Capital One. We have retained Innisfree M&A Incorporated to assist us in the solicitation of proxies for an aggregate fee of $9,000, plus reasonable out-of-pocket expenses.

Who is entitled to vote?

All holders of record of Capital One's common stock at the close of business on February 28, 2002 are entitled to vote. All stockholders are entitled to one vote for each share of common stock held by them for all matters submitted for a vote at the meeting. Cumulative voting for the election of directors is not permitted. On February 28, 2002, there were 219,516,887 shares of Capital One's common stock issued and outstanding.

Will a list of stockholders be made available?

We will make a list of stockholders available at the annual meeting and, for ten days prior to the meeting, at our Northern Virginia offices located at 2980 Fairview Park Drive, Suite 1300, Falls Church, Virginia 22042-4500. Please contact Capital One's Corporate Secretary at (703) 205-1000 if you wish to inspect the stockholders list prior to the annual meeting.

What constitutes a quorum?

A quorum of stockholders is necessary to transact business at the annual meeting. A quorum exists if the holders of a majority of the shares entitled to vote are present in person or represented by proxy, including proxies on which abstentions (withholding authority to vote) are indicated.

How do I vote?

You can vote by either:

- Signing and returning the enclosed proxy card or following the directions on the card for telephone or Internet voting (see below);

or

. Casting your vote in person at the annual meeting.

The individuals identified on the proxy card will vote your shares as you designate when you cast your vote by signing and mailing the proxy card, by telephone or via the Internet. If you submit a duly executed proxy card but do not specify how you wish to vote your shares, the proxy holders will vote your shares in favor of Items 1 and 2 on the proxy card and at their discretion for any other matters properly submitted to a vote at the meeting.

If you vote by proxy, you may revoke your proxy or change your vote at any time prior to the final tallying of votes by (1) delivering a written notice to Capital One's Corporate Secretary at the address on the Notice of Annual Stockholder Meeting, (2) executing and delivering a later-dated proxy or (3) attending the meeting and voting in person.

If you hold Capital One stock in "street name" through a broker, bank or other nominee, you will need to obtain a proxy form from the institution that holds your shares if you wish to vote in person at the annual meeting.

Can I vote by telephone or via the Internet?

Instead of submitting your vote on the enclosed paper proxy card, you can vote by telephone or electronically via the Internet. See "Internet and Telephone Voting" on page 29 of this proxy statement for additional information. The telephone and Internet voting procedures are designed to authenticate your identity, to allow you to vote your shares or give voting instructions, and to confirm that your instructions have been properly recorded. Please note that there are separate telephone and Internet voting arrangements depending upon whether your shares are registered in your own name through Capital One's stock transfer agent, EquiServe Trust Company, N.A. ("EquiServe"), or held in "street name" through a broker, bank or other nominee.

How do I vote my 401(k) shares?

If you participate in the Capital One Associate Savings Plan (the "Savings Plan"), you may vote the number of shares of common stock equivalent to your interest in the Capital One Pooled Stock Fund as credited to your account on the record date. You may vote by giving instructions to American Express Trust Company, the trustee, via the voting instruction card being mailed with this proxy statement to plan participants, by telephone or via the Internet. The trustee will vote your shares in accordance with your duly executed instructions received by April 23, 2002. If you do not send instructions, the trustee will not vote the share equivalents credited to your account.

Can I get Capital One's annual meeting materials delivered to me electronically next year?

If you vote electronically via the Internet, you can consent to electronic delivery of future Capital One proxy statements, proxy cards and annual reports by responding affirmatively to the request for your consent when prompted. See "Electronic Delivery of Future Annual Meeting Materials" on page 30 of this proxy statement for additional information. If you consent and Capital One delivers some or all of its future annual meeting materials to you by electronic mail or by posting materials to the Internet, you will not receive paper copies of these materials through the mail. Because electronic delivery could save Capital One a significant portion of the costs associated with

printing and mailing materials, we encourage you to consent to electronic delivery.

What vote is necessary to approve each item?

Votes will be tabulated by the Inspector of Elections. The Board of Directors has appointed a representative of EquiServe to serve as the Inspector of Elections.

Item 1 on the proxy card requests your vote for the three directors who are up for re-election this year. You may cast or withhold your vote for each of the nominees. The affirmative vote of a plurality of the votes cast at the meeting is required to elect directors. An abstention, therefore, will not be voted with respect to the director indicated, although it will be counted for purposes of determining whether there is a quorum.

Item 2, the ratification of the selection of Ernst & Young LLP as independent auditors for 2002, will be approved if the holders of a majority of the shares present at the annual meeting in person or represented by proxy vote in favor of Item 2. Abstentions, therefore, have the same effect as a vote "against" the proposal.

Under New York Stock Exchange rules, if you hold your shares through a broker and you do not submit a proxy, your broker will have discretionary authority to vote your shares according to the recommendations of Capital One's Board of Directors for each Item presented at the annual meeting.

What are the Board's recommendations?

Unless you give other instructions on your proxy card, the people named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors as follows:

- for election of the nominated slate of directors (see page 27); and
- for ratification of the selection of Ernst & Young LLP as Capital One's independent auditors for 2002 (see page 28).

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, at their own discretion.

INFORMATION ABOUT CAPITAL ONE'S COMMON STOCK OWNERSHIP

Certain Beneficial Owners

The following lists stockholders that are known to the company to own beneficially more than 5% of Capital One's common stock.

Name and Address	Amount and Nature of Beneficial Ownership(1)	Percent of Class(2)

J.P. Morgan Chase & Co.(3)... 270 Park Avenue New York, New York 10017...	12,839,630	5.9%
Putnam Investments LLC(4).... One Post Office Square Boston, Massachusetts 02109	12,769,417	5.8%

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(1) Beneficial ownership is a term broadly defined under Securities and Exchange Commission ("SEC") rules and regulations. The information contained in this table is based on Schedule 13G reports filed with the SEC and the ownership interests indicated are current only as of the dates of filing with the SEC, as indicated below.

(2) All percentage calculations are based on the number of shares of common stock issued and outstanding on February 28, 2002, which was 219,516,887.

(3) On a Schedule 13G filed on February 14, 2002, J.P. Morgan Chase & Co. reported beneficial ownership of 12,839,630 shares of Capital One's common stock. J.P. Morgan Chase & Co. filed the report on behalf of itself and the following wholly owned subsidiaries: JP Morgan Chase Bank; J.P. Morgan Investment Management, Inc.; JP Morgan Trust Co., N.A.; Chase Manhattan, N.A.; and Robert Fleming Holdings, Ltd. J.P. Morgan Chase & Co. certified in its Schedule 13G that the shares of common stock were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

(4) On a Schedule 13G filed on February 13, 2002, Putnam Investments LLC reported beneficial ownership of 12,769,417 shares of Capital One's common stock. Putnam Investments LLC, a registered investment adviser, filed the report on behalf of itself, its parent holding company, Marsh & McLennan Companies, Inc., and two affiliated registered investment advisers named Putnam Investment Management, LLC and The Putnam Advisory Company, LLC. Putnam Investments LLC reported that it shared voting and dispositive power for the shares with the other two named affiliated investment advisers. Putnam Investments LLC certified in its Schedule 13G that the shares of common stock were acquired in the ordinary course of business, were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired in connection with or as a participant in any transaction having such purposes or effect.

Directors and Named Executive Officers

The following table lists the beneficial ownership of Capital One's common stock, as of February 28, 2002, by our directors and the Named Executive Officers (as defined herein).

Name and Address*	Amount and Nature of Beneficial Ownership(1)	Percent of Class(2)
Richard D. Fairbank..	7,479,530(3)(4)	3.30%
Nigel W. Morris..	4,033,582(3)(5)	1.80%
John G. Finneran, Jr.......................................	146,704(6)	**
Dennis H. Liberson...	264,001(7)	**

David M. Willey	202,075(8)	**
W. Ronald Dietz	93,676(9)(10)	**
James A. Flick, Jr.	76,500(11)	**
Patrick W. Gross	91,539(9)	**
James V. Kimsey	154,584(9)	**
Stanley I. Westreich	1,223,269(9)(12)	0.56%
All directors and executive officers as a group (16 persons)	14,390,607(13)	6.21%

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* All addresses are c/o Capital One Financial Corporation, 2980 Fairview Park Drive, Suite 1300, Falls Church, Virginia 22042-4500.

** Less than .5% of the outstanding shares of common stock.

(1) To Capital One's knowledge, all executive officers and directors beneficially own the shares shown next to their names either in their sole names or jointly with their spouses, unless we have indicated otherwise. The totals include shares of common stock (i) subject to options held by each person granted under Capital One's 1994 Stock Incentive Plan (the "1994 Stock Incentive Plan"), Capital One's 1999 Stock Incentive Plan (the "1999 Stock Incentive Plan") or Capital One's 1995 Non-Employee Directors Stock Incentive Plan (the "1995 Directors Plan"), that are or will become exercisable within 60 days of February 28, 2002, and (ii) held by the executive officer under Capital One's 1994 Associate Stock Purchase Plan (the "Stock Purchase Plan").

(2) All percentage calculations are based on the number of shares of common stock issued and outstanding on February 28, 2002, which was 219,516,887.

(3) Includes 107,502 shares owned by Fairbank Morris, Inc. Messrs. Fairbank and Morris share voting and investment power for these shares.

(4) Includes 6,800,287 shares issuable upon the exercise of options.

(5) Includes 3,924,211 shares issuable upon the exercise of options.

(6) Includes 119,652 shares issuable upon the exercise of options.

(7) Includes 208,240 shares issuable upon the exercise of options.

(8) Includes 151,198 shares issuable upon the exercise of options. Does not include 8,145 shares and 67,336 shares issuable upon the exercise of options held by Mr. Willey's spouse and of which Mr. Willey disclaims beneficial ownership.

(9) Includes 84,000 shares issuable upon the exercise of options.

(10) Does not include 3,555 shares held by Mr. Dietz's spouse and of which Mr. Dietz disclaims beneficial ownership.

(11) Includes 63,000 shares issuable upon the exercise of options.

(12) Includes 156,000 shares held in a trust, for which Mr. Westreich is the trustee and ultimate beneficiary. Does not include 7,590 shares held by Mr. Westreich's spouse and of which Mr. Westreich disclaims beneficial ownership.

(13) Includes 12,171,777 shares issuable upon the exercise of options for all directors and executive officers as a group. Does not include the shares held or issuable upon the exercise of options by others set forth in footnotes (8), (10) and (12) above.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires that Capital One's executive officers and directors, and persons that beneficially own more than 10% of Capital One's common stock, file certain reports of beneficial ownership of the common stock and changes in such ownership with the SEC and provide copies of these reports to Capital One. Based solely on our review of these reports and written representations furnished to us, we believe that in 2001 each of the reporting persons complied with these filing requirements, except for Dennis H. Liberson and Marjorie M. Connelly, who each filed one late

report concerning an exercise of Capital One stock options. Mr. Liberson also filed a late report regarding the sale of Capital One's common stock.

INFORMATION ABOUT OUR DIRECTORS AND EXECUTIVE OFFICERS

Introductions

Capital One's directors and current executive officers are listed with a brief description of their business experience for the past five years.

Richard D. Fairbank   Chairman and Chief Executive Officer   Age 51

Mr. Fairbank has been Chairman of the Board of Directors of Capital One since February 28, 1995. He has been Chief Executive Officer and a director since July 26, 1994. Mr. Fairbank is also Chairman of the Board of Directors of MasterCard International, Inc., and is Chairman of the Board of Directors of Capital One's two principal subsidiaries, Capital One Bank (the "Bank") and Capital One, F.S.B. (the "Savings Bank"). Mr. Fairbank is also Chief Executive Officer of the Bank.

Nigel W. Morris   President, Chief Operating Officer and Director   Age 43

Mr. Morris has been a director of Capital One since February 28, 1995. He has been President and Chief Operating Officer since July 26, 1994. Mr. Morris is a director of Covance Inc. He is also a director of the Bank and the Savings Bank, and is President and Chief Operating Officer of the Bank.

Gregor Bailar   Executive Vice President and Chief Information Officer   Age 38

Mr. Bailar joined Capital One in November 2001 as Executive Vice President and Chief Information Officer and is responsible for all technology activities for Capital One's businesses globally. Prior to joining Capital One, Mr. Bailar served as Chief Information Officer and Executive Vice President for Operations and Technology for the National Association of Securities Dealers, Inc./The Nasdaq Stock Market, from January 1998 until October 2001. From May 1997 through January 1998, Mr. Bailar was Managing Director of the Advanced Development Group, Global Corporate Banking, for Citicorp, N.A. Mr. Bailar served as Chief Technology Architect and Director of Enterprise Technology, and Division Executive of Global Relationship Banking for Citicorp, N.A. from May 1994 through April 1997. Since 2001, Mr. Bailar has also served as a director of Digitas, Inc.

Marjorie M. Connelly   Executive Vice President, Enterprise Services Group   Age 40

Ms. Connelly joined Capital One in March 1994. She is Executive Vice President of the Enterprise Services Group, and is responsible for the

management of the shared operational services supporting multiple lines of business. These services include direct marketing support, credit processing, back-office operations (statements, payments, embossing), fraud management, internet servicing, procurement and outsource management. Ms. Connelly is also responsible for operations supporting international activities. Ms. Connelly is currently a member of the VISA USA Card Operations Advisors Committee, VISA International Risk Advisors Committee, and Banking Industry Technology Secretariat. Ms. Connelly is also a director of the CJW Medical Center.

John G. Finneran, Jr. Executive Vice President, General Counsel and Corporate Secretary A

Mr. Finneran joined Capital One in September 1994. He is Executive Vice President, General Counsel and Corporate Secretary and is responsible for overseeing Capital One's legal and governmental affairs, compliance programs and internal audit functions.

Larry Klane Executive Vice President, Corporate Development Age 41

Mr. Klane joined Capital One in June 2000. He is Executive Vice President, Corporate Development, responsible for corporate acquisitions and managing Amerifee Corporation and PeopleFirst, Inc., two of Capital One's subsidiaries. From October 1997 to May 2000, Mr. Klane served as Managing Director, Corporate Trust and Agency Services at DeutscheBank/Bankers Trust, where he was responsible for managing the global business. From September 1994 to October 1997, Mr. Klane served as Managing Director, Strategy and Business

Development at DeutscheBank/Bankers Trust, where he was responsible for developing and implementing strategy, including mergers and acquisitions and divestitures, for Global Institutional Services.

Dennis H. Liberson Executive Vice President, Human Resources Age 46

Mr. Liberson joined Capital One in February 1995. He is Executive Vice President in charge of Human Resources and Corporate Real Estate and is responsible for the development and implementation of human resources programs, including programs related to compensation, benefits, recruitment, employee development, corporate real estate and capacity planning.

William J. McDonald Executive Vice President, Brand Management Age 45

Mr. McDonald joined Capital One in September 1998. He is Executive Vice President for Brand Management, responsible for the marketing, advertising and global brand positioning of Capital One's businesses. Prior to joining Capital One, Mr. McDonald took a 15-month sabbatical. From March 1993 to June 1997, Mr. McDonald served as Executive Vice President and Chief Marketing Officer at Boston Chicken, Inc., where he was responsible for marketing and research and

new product development functions, including brand growth strategies for Boston Market.

Peter A. Schnall Executive Vice President Age 38

Mr. Schnall joined Capital One in August 1996. He is an Executive Vice President and is responsible for the marketing, credit policy and portfolio management of Capital One's Prime Plus card businesses in the United States. In addition, Mr. Schnall oversees credit risk management across the company.

David M. Willey Executive Vice President and Chief Financial Officer Age 41

Mr. Willey is Capital One's Executive Vice President and Chief Financial Officer. He has been employed in various capacities by Capital One and its predecessor since September 1989. Mr. Willey is responsible for all financial business line finance groups, including treasury and financial risk management, corporate accounting and reporting, planning, and corporate communications. Mr. Willey is also a director of the Bank and a director and President of the Savings Bank.

Catherine West Executive Vice President, U.S. Consumer Operations Age 42

Ms. West joined Capital One in March 2000. She is Executive Vice President, U.S. Consumer Operations, and is responsible for customer relations, collections and recoveries and customer contract operations in the United States. Prior to joining Capital One, Ms. West was Executive Vice President of Marketing Services and Operations for First USA Bank, where she was responsible for managing and growing inbound operations, retention, loyalty, sales and proactive servicing operations. From 1995 to 1998, Ms. West was Executive Vice President, Cardmember Operations at First USA Bank, where she directed the operations of six sites.

W. Ronald Dietz Director Age 59

Mr. Dietz has been Managing Partner of Customer Contact Solutions, LLC, an advisory firm offering services in a broad range of customer handling and call center performance areas, since January 1999. As of January 1, 2002, Mr. Dietz has also become President of W.M. Putnam Company, a nationwide provider of both outsourced facilities management services to companies with networks of smaller offices as well as the outsourced supply and internal distribution of office consumables to large companies. He has been a director of Capital One since February 28, 1995. From September 1996 to September 1997 and from May 1998 to December 1998, he was President of Charter Associates, Ltd., a firm engaged in a variety of consulting and venture management activities. From September 1997 to May 1998, Mr. Dietz was the Chief Executive Officer of Technical Assistance Research Program in Rosslyn, Virginia, a call center and customer service advisory firm. Mr. Dietz is also a director of the Savings Bank.

James A. Flick, Jr. Director Age 67

Mr. Flick has been President and Chief Executive Officer of Winnow, Inc., a management consulting firm, since May 1994. From May 1994 until April 2001, he was also President and CEO of Dome Corporation, Baltimore, Maryland, a real estate development and management services company. He has been a director of Capital One since February 28, 1995. Mr. Flick is also a director of FTI Consulting, Inc. In addition, Mr. Flick is a director of the Bank and the Savings Bank.

Patrick W. Gross Director Age 57

Mr. Gross is a founder of American Management Systems, Inc., Fairfax, Virginia, an information technology consulting, software development, and systems integration firm, and is currently Chairman of its Executive Committee. He has served as a Principal Executive Officer and Managing Director of AMS since its incorporation in 1970. Mr. Gross is also Chairman of the board of directors of Baker and Taylor Holdings, Inc., Charlotte, North Carolina, a private company, and a director of Computer Network Technology Corporation, Minneapolis, Minnesota, Landmark Systems Corporation, Reston, Virginia, and Mobius Management Systems, Inc., all public companies. He has been a director of Capital One since February 28, 1995. Mr. Gross is also a director of the Savings Bank.

James V. Kimsey Director Age 62

Mr. Kimsey is the founding Chief Executive Officer and is currently Chairman Emeritus of America Online, Inc., Dulles, Virginia, and Chairman of the Kimsey Foundation. He is a director of Batterson Venture Partners and is on the Board of Advisors of Carousel Capital Partners. He has been a director of Capital One since February 28, 1995. Mr. Kimsey is also a director of the Bank.

Stanley I. Westreich Director Age 65

Mr. Westreich has been President of Westfield Realty, Inc., Arlington, Virginia, a real estate development and construction company, since 1965. He has been a director of Capital One since July 26, 1994. Mr. Westreich is also a director of the Bank.

Board Meetings

The Board of Directors oversees Capital One's business and directs its management. The Board does not involve itself with the day-to-day operations and implementation of the business. Instead, the Board meets periodically with management to review Capital One's performance and its future business strategy. Members of the Board also regularly consult with management to keep informed about Capital One's progress. The full Board of Directors met seven

times during 2001. Each director attended at least 75% of the aggregate of the meetings of the Board and the committees on which he served during the year.

Committee Meetings

The Board also conducts business through two committees: the Audit Committee and the Compensation Committee. The Compensation Committee met seven times and the Audit Committee met six times during 2001.

The Audit Committee

Members: Messrs. Dietz (Chairman), Flick and Gross. The Audit Committee recommends the selection of independent auditors, approves the scope of the audits by the independent auditors and our internal auditors, and reviews audit findings, accounting policies and compliance matters. The Audit Committee investigates any audit or compliance matter brought to its attention. The Audit Committee also reviews all reports of examination and management's responses and any transactions between Capital One and any of its directors, executive officers or their affiliates. All of the members of the Audit Committee are independent, financially literate and have accounting or related financial management experience, as such qualifications are defined in the listing standards of the New York Stock Exchange and interpreted by the Board of Directors in its business judgment. The Board of Directors and the Audit Committee have adopted a Charter for the Audit Committee.

The Compensation Committee

Members: Messrs. Westreich (Chairman), Kimsey and Dietz. The Compensation Committee recommends officers for election or re-election and approves all salary levels and incentive awards for executive officers, subject to the Board's approval of compensation for Messrs. Fairbank and Morris. The Compensation Committee also administers Capital One's 1994 Stock Incentive Plan, 1999 Stock Incentive Plan, 2002 Non-Executive Officers Stock Incentive Plan and Associate Stock Purchase Plan. The Compensation Committee is composed entirely of directors who are not employees of Capital One and who are free from any relationships that in the opinion of the Board of Directors would interfere with their exercise of independent judgment.

Compensation of the Board

Annual Fees and Option Grants

Directors who are not employees of Capital One receive a retainer of $35,000 each year, options to purchase 21,900 shares every three years, and reimbursement of their expenses to attend meetings. They do not receive any additional fees for attending meetings or for being members of the Audit Committee or the Compensation Committee, other than reimbursement of taxes arising from certain income attributable to them in connection with the Board's annual offsite meeting.

Each non-employee director has elected to give up their retainer and options for the years 1999, 2000 and 2001 in exchange for a one-time grant of performance-based

options to purchase 99,498 shares of Capital One's common stock under Capital One's 1999 Non-Employee Directors Stock Incentive Plan (the "1999 Directors Plan"). These options were granted on April 29, 1999 and have an exercise price of $56.4583, which was the common stock's fair market value on that date (determined on the basis of the average of the high and low sales prices as reported by the New York Stock Exchange Composite Transaction Tape). These options will vest if Capital One's stock price reaches and remains at or above $100 for at least 10 trading days in any 30 calendar-day period on or before June 15, 2002. If the options do not reach this vesting target, they will terminate. The options will also vest immediately upon a change of control of Capital One on or before June 15, 2002. If a director ceases to serve as a director before the annual stockholder meeting in 2002, he will relinquish a pro rata portion of any unvested options based on the number of full years he has served as a director since April 1999. If these options vest, they will be generally exercisable until the earlier of April 29, 2009 or three years after the director ceases to serve as a director, but may terminate sooner if the director dies or ceases to serve as a director before the options become exercisable.

In addition, each non-employee director agreed to give up his retainer and stock options for the years 2002, 2003 and 2004 in exchange for a one-time grant of performance-based options to purchase 61,000 shares of Capital One's common stock under the 1999 Directors Plan. These options were granted on October 18, 2001 and have an exercise price of $48.535, which was the common stock's fair market value on that date (determined on the basis of the average of the high and low sales prices as reported by the New York Stock Exchange Composite Transaction Tape). These options will vest on October 18, 2010, or earlier under the following circumstances: (i) immediately upon a change of control of Capital

One; (ii) 20 days after Capital One achieves cumulative earnings per share of $5.03 or more in four consecutive fiscal quarters on or before December 31, 2004, or (iii) if Capital One's common stock achieves the following fair market value for any five (5) trading days on or before the following dates:

October 18, 2004	$ 83.87
October 18, 2005	$100.64
October 18, 2006	$120.77
October 18, 2007	$144.92
October 18, 2008	$173.91
October 18, 2009	$208.70
October 18, 2010	$250.43

If a director ceases to serve as a director before the

annual stockholder meeting in 2005, he will relinquish a pro rata portion of any unvested options based on the number of full years he has served as a director since April 2002. The options are generally exercisable until the earlier of October 18, 2011 or three years after the director ceases to serve as a director, but may terminate sooner if the director dies or ceases to serve as a director before the options become exercisable.

Directors who are employees of Capital One receive no additional compensation for their service as directors.

Other Benefits

Under our 1994 Deferred Compensation Plan, directors who are not employees of Capital One may voluntarily defer all of their annual fees and receive deferred income benefits. Director's accounts are credited monthly with an interest equivalent in an amount determined from time to time by Capital One. Directors electing this deferral will begin to receive their deferred income benefits in cash when they cease to be directors, or earlier if authorized by the Compensation Committee. Benefits are generally payable in monthly installments beginning within 90 days after retirement and extending no later than the date the individual reaches age 80. If a director dies before he receives these benefits, they will be paid to his beneficiaries or estates. Upon a change of control of Capital One and unless otherwise directed by a director, Capital One shall pay to each director within thirty days of the change of control, a lump sum cash payment equal to such director's account balance as of the date of the change of control.

Related Party Transactions

From time to time, Capital One has retained American Management Systems, Inc. ("AMS"), a consulting company specializing in information technology, applications and systems integration, to provide certain services. Mr. Gross, a director of Capital One, is also a director and principal executive officer of AMS. Capital One and its subsidiaries entered into an agreement with AMS on April 5, 1995. Under this agreement, AMS agreed to perform general consulting and other tasks agreed to through work orders. During 2001, Capital One paid AMS a total of $1.4 million for services under this agreement. Capital One intends to continue its relationship with AMS in the future and believes that the terms of existing AMS agreements are, and that any future arrangements will be, fair and reasonable and no less favorable to Capital One than those we could obtain from unrelated third parties.

The Board of Directors has reviewed the arrangement between Capital One and AMS and has determined in its business judgment that it does not interfere with Mr. Gross' exercise of independent judgment as a member of the Audit Committee. In discharging its responsibility for making this determination under the New York Stock Exchange listing standards, the Board of Directors considered, among other factors, the materiality of the

relationship to Capital One, to Mr. Gross, and to AMS.

COMPENSATION OF EXECUTIVE OFFICERS

Summary Compensation Table

The following table summarizes compensation awarded to, earned by or paid to our Chief Executive Officer and the other four most highly compensated executive officers for the year ended December 31, 2001 (collectively, the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long-Term Compensation	
Name and Principal Position	Year	Salary	Bonus(1)	Securities Underlying Options	All Othe Compensat
RICHARD D. FAIRBANK.................... Chairman of the Board and Chief Executive Officer	2001	$ 0(2)	$ 0(2)	3,560,206(3)	$ 0
	2000	$ 0(4)	$ 0(2)	71,342	$ 0
	1999	$ 0(4)	$ 0(5)	1,130,661(2)	$ 0
NIGEL W. MORRIS........................ President, Chief Operating Officer and Director	2001	$ 0(2)	$ 0(2)	2,304,000(3)	$ 0
	2000	$ 0(4)	$ 0(2)	0	$ 0
	1999	$ 0(4)	$ 0(5)	753,774(2)	$ 0
JOHN G. FINNERAN, JR.................... Executive Vice President, General Counsel and Corporate Secretary	2001	$363,333	$940,000	378,585(3)	$70,995
	2000	$348,000	$254,580(6)	41,309(7)	$20,722
	1999	$284,667	$252,360(6)	133,906(7)	$11,702
DENNIS H. LIBERSON..................... Executive Vice President, Human Resources	2001	$312,917	$810,750	389,326(3)	$65,417
	2000	$290,000	$227,864(6)	48,670(7)	$17,243
	1999	$226,875	$203,274(6)	135,345(7)	$11,307
DAVID M. WILLEY........................ Executive Vice President and Chief Financial Officer	2001(9)	$335,083	$893,000	379,870(3)	$69,353
	2000	$315,500	$239,650(6)	61,229(7)	$16,277
	1999	$254,167	$227,066(6)	143,055(7)	$16,743

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(1) Bonuses earned and reported for each calendar year are paid during the following calendar year.

(2) Under a compensation package approved by the Board of Directors on April 29, 1999 (EntrepreneurGrant IV), Messrs. Fairbank and Morris agreed to forego all salary and any benefits under Capital One's Associate Stock Purchase Plan ("Stock Purchase Plan"), Associate Savings Plan ("Savings Plan"), and Unfunded Excess Savings Plan ("Excess Savings Plan") for the year 2001 and all potential annual cash incentives, annual stock option grants and Senior Executive Retirement Plan contributions for the years 2000 and 2001 in exchange for an award of performance-based options. The base salaries that Messrs. Fairbank and Morris would otherwise have received in 2001 were $1,000,000 and $700,000, respectively. At the time of the EntrepreneurGrant IV, estimated 2001 cash incentive bonuses for Messrs.

Fairbank and Morris were $1,488,375 and $1,157,625, respectively. Capital One's EntrepreneurGrant programs are more fully described on pages 23-24 of the "Report of the Compensation Committee on Executive Compensation".

(3) Includes new stock options and reload options under the 1994 Stock Incentive Plan. Under a compensation package approved by the Board of Directors on October 18, 2001 (EntrepreneurGrant V), Messrs. Fairbank and Morris agreed to give up their entire salary and all benefits under the Stock Purchase Plan, the Savings Plan and the Excess Savings Plan, plus all potential annual cash incentives, annual stock option grants and Senior Executive Retirement Plan contributions for the years 2002 and 2003 in exchange for an award of stock options. Under this agreement, Messrs. Fairbank and Morris were granted 2,121,000 and 1,414,000 performance-based stock options, respectively, and 1,335,000 and 890,000 time-based stock options, respectively. Also under EntrepreneurGrant V, Messrs. Finneran, Liberson and Willey elected to forgo up

to 50% of their expected annual cash incentives for compensation years 2002, 2003 and 2004 in exchange for performance-based stock options. The number of stock options indicated next to their names for 2001 includes the following: Mr. Finneran 98,585; Mr. Liberson 84,892; and Mr. Willey 90,643. Capital One's EntrepreneurGrant programs are more fully described on pages 23-24 of the "Report of the Compensation Committee on Executive Compensation."

(4) Under a compensation package approved by the Board of Directors on December 18, 1997 (EntrepreneurGrant II), Messrs. Fairbank and Morris agreed to give up their entire salary and all benefits under the Stock Purchase Plan, the Savings Plan and the Excess Savings Plan for 1998, 1999 and 2000 in exchange for an award of performance-based options. Under this agreement, Messrs. Fairbank and Morris were granted 1,234,359 and 822,906 options, respectively. Capital One achieved the performance targets in 1998 and all of these options became exercisable.

(5) Under a compensation package approved by the Board of Directors on September 15, 1995 (EntrepeneurGrant I), Messrs. Fairbank and Morris agreed to give up all incentive compensation (other than salary and contributions under the Stock Purchase Plan, the Savings Plan and the Excess Savings Plan) for a period of five years beginning with the 1995 calendar year in exchange for performance-based options. Capital One achieved the performance targets and all of these options are exercisable.

(6) Under Capital One's EntrepreneurGrant II program, Messrs. Finneran, Liberson and Willey elected to forego a portion of their cash bonuses for three years beginning in 1998, in amounts equal to up to 50% of their annual target bonuses, in exchange for performance-based stock options granted in 1997. Under Capital One's EntrepreneurGrant III program, Messrs. Finneran, Liberson and Willey elected to forego an additional part of their cash bonuses for three years beginning in 1998, in amounts equal to up to 50% of their annual target bonuses (in addition to amounts previously foregone under EntrepreneurGrant II) in exchange for performance-based options granted in 1998. Capital One has achieved both the EntrepreneurGrant II and the EntrepreneurGrant III performance targets and all of these options are exercisable. Capital One's EntrepreneurGrant programs are more fully described on pages 23-24 of the "Report of the Compensation Committee on Executive Compensation." The amounts shown in this table are cash bonuses awarded, net of amounts foregone. Cash bonuses otherwise payable to Messrs. Finneran, Liberson and Willey were reduced for 1999 and 2000, as follows:

Bonuses Foregone for Stock Option Grants

Executive	1999	2000
Mr. Finneran....	$135,720	$141,420
Mr. Liberson....	$108,576	$113,136
Mr. Willey......	$119,434	$124,450

(7) Includes new stock options and reload options under the 1994 Stock Incentive Plan and the 1999 Stock Incentive Plan. Under Capital One's EntrepreneurGrant IV program, in 1999 Messrs. Finneran, Liberson and Willey elected to forego annual stock option grants from Capital One for compensation years 1999 and 2000 in exchange for an award of stock options. The number of stock options indicated next to their names for 1999 includes 132,708 options awarded pursuant to EntrepreneurGrant IV. Capital One's EntrepreneurGrant programs are more fully described on pages 23-24 of the "Report of the Compensation Committee on Executive Compensation."

(8) All other compensation consists of the amount of contributions Capital One made under the Stock Purchase Plan and the Savings Plan and credits to the account of the associate under the Excess Savings Plan. For 2001, matching company contributions equal to 17.65% of the associate contributions under the Stock Purchase Plan were: Mr. Finneran $0; Mr. Liberson $2,762; and Mr. Willey $0. For 2001, Capital One's contributions to the Savings Plan were: Mr. Finneran $15,300; Mr. Liberson $15,300; and Mr. Willey $15,300. The amounts of matching credits under the Excess Savings Plan during 2001 were: Mr. Finneran $40,312; Mr. Liberson $33,370; and Mr. Willey $36,426.

(9) Does not include compensation paid to Mr. Willey's spouse, who has been employed by Capital One or its predecessor since 1990 and is a Vice President. During 2001, Mr. Willey's spouse earned a total salary and

bonus of approximately $413,067. She also received 76,427 options to purchase stock, including reload options, 2,580 shares of restricted stock, a special retention grant received by all Vice Presidents of Capital One, and options from participation in Entrepreneur Grant V. From time to time, Mr. Willey's spouse also exercises stock options that have been granted to her during the course of her career with Capital One. Capital One believes that she has been compensated fairly and reasonably for her services as compared to similarly situated executives at Capital One.

Option Grant Table

The following table sets forth information concerning grants of stock options made to the Named Executive Officers in 2001.

2001 OPTION GRANTS

Name	Individual Grants				Potential Real Assumed Annual Price Apprecia Ter
	Number of Securities Underlying Options Granted	% of Total Options Granted to Associates for the 2001 Fiscal Year	Exercise Price per Share(2)	Expiration Date	5%

Richard D. Fairbank..........	104,206(3)	0.49%	$ 66.790	11/15/04	$ 1,431,392
	2,121,000(4)	10.05%	$ 48.535	10/18/11	$64,740,131
	1,335,000(5)	6.32%	$ 48.535	10/18/11	$40,748,739
Nigel W. Morris..............	1,414,000(4)	6.70%	$ 48.535	10/18/11	$43,160,088
	890,000(5)	4.22%	$ 48.535	10/18/11	$27,165,826
John G. Finneran, Jr.........	98,585(4)	0.47%	$ 48.535	10/18/11	$ 3,009,149
	175,000(5)	0.83%	$ 48.535	10/18/06	$ 2,346,645
	105,000(5)	0.50%	$ 49.065	12/13/11	$ 3,239,955
Dennis H. Liberson...........	14,802(3)	0.07%	$64.6875	01/23/07	$ 325,642
	9,411(3)	0.04%	$64.6875	12/11/07	$ 244,357
	221(3)	*	$62.8375	12/11/07	$ 5,260
	84,892(4)	0.40%	$ 48.535	10/18/11	$ 2,591,193
	175,000(5)	0.83%	$ 48.535	10/18/06	$ 2,346,645
	105,000(5)	0.50%	$ 49.065	12/13/11	$ 3,239,955
David M. Willey..............	9,227(3)	0.04%	$ 67.485	12/11/07	$ 232,379
	90,643(4)	0.43%	$ 48.535	10/18/11	$ 2,766,733
	175,000(5)	0.83%	$ 48.535	10/18/06	$ 2,346,645
	105,000(5)	0.50%	$ 49.065	12/13/11	$ 3,239,955

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* Less than .01% of total options granted to associates in 2001.

(1) The dollar amounts under these columns are calculated based on assumed rates of stock appreciation prescribed by the SEC and are not intended to be a forecast of possible future stock price appreciation.

(2) Equal to the fair market value of the common stock on the date of grant determined on the basis of the average of the high and low sales prices as reported by the New York Stock Exchange Composite Transaction Tape.

(3) These options are reload options that were granted under the 1994 Stock Incentive Plan. Reload options are granted at the time an executive officer surrenders shares of common stock that have been owned for at least six months as payment for the exercise price of a previously granted option. One reload option with an exercise price equal to the fair market value on the date of grant is issued for each such share surrendered. Rather than enhance his or her holdings, reload options are intended to enable an associate who exercises an option by tendering previously owned shares to remain in the same economic position, or "equity position,"

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with respect to potential appreciation in the common stock as if he or she had continued to hold the original option unexercised. As such, reload options meet Capital One's objective of fostering continued stock ownership by our associates, but the receipt of reload options by an associate does not result in a net increase in his or her equity position. Reload options are exercisable, in full, six months after their grant date and immediately upon a change of control. Reload options do not have a reload feature.

(4) On October 18, 2001, the Board of Directors approved awards of options to Messrs. Fairbank, Morris, Finneran, Liberson and Willey under EntrepreneurGrant V. Messrs. Fairbank and Morris were granted performance-based and time-based awards in exchange for their agreement to forgo all salary and any benefits under the Stock Purchase Plan, the Savings Plan and the Excess Savings Plan, plus all potential annual cash incentives, annual stock option grants and Senior Executive Retirement Plan contributions, for the years 2002 and 2003. Messrs. Finneran, Liberson and Willey were granted awards of performance-based options in exchange for their election to forgo up to 50% of their expected annual cash incentives for compensation years 2002, 2003 and 2004. All of these options vest on October 18, 2007. Vesting of the performance-based options will be accelerated if (i) the fair market value of Capital One's common stock reaches and remains at or above $83.87, $100.64, $120.77 or $144.92 for at

least five trading days on or before October 18, 2004, 2005, 2006 or 2007, respectively; (ii) 20 days after Capital One achieves cumulative earnings per share of $5.03 or more in four consecutive fiscal quarters on or before December 31, 2004; or (iii) upon a change of control of Capital One. These options are transferable only to or for the benefit of immediate family members. EntrepreneurGrant V is more fully described on pages 23-24 of the "Report of the Compensation Committee on Executive Compensation."

(5) These options are time-based options that vest in equal annual increments over three years, are transferable only to or for the benefit of immediate family members and have a reload feature.

Option Exercise and Option Value Table

The following table sets forth information concerning exercises of stock options made by the Named Executive Officers in 2001 and the values of unexercised options held by the Named Executive Officers at 2001 year end.

2001 OPTION EXERCISES AND OPTION VALUES

Name	Shares Acquired on Exercise	Value Realized(1)	Number of Securities Underlying Unexercised Options at 2001 Year End Exercisable/Unexercisable	Value of Unexer In-the-Money Op at 2001 Year Exercisable/Unexerc
Richard D. Fairbank..	2,342,647	$142,231,274	6,800,287/4,586,661	$262,394,872/$20,
Nigel W. Morris......	1,548,146	$ 89,546,398	3,924,211/3,057,774	$149,775,043/$13,
John G. Finneran, Jr.	305,400	$ 15,530,142	119,652/535,293	$2,069,466/$2,
Dennis H. Liberson...	131,954	$ 6,618,117	208,240/521,600	$4,397,297/$2,
David M. Willey......	137,637	$ 6,871,381	151,195/527,351	$1,957,060/$2,

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(1) The value realized is the net value of the shares (market price less the exercise price) received.

(2) In-the-Money Options are those for which the 2001 year-end market price of the underlying shares of common stock exceeded the exercise price of the option. The value of the In-the-Money Options is the difference between the market price (determined on the basis of the average of the high and low sales prices as reported by the New York Stock Exchange Composite Transaction Tape on the last business day of 2001) of the common stock ($54.54 per share) and the exercise price of the option multiplied by the number of shares underlying the option.

Company Arrangements with Executive Officers

Employment Agreements Capital One does not have employment agreements with any of its executive officers. The compensation arrangements with these officers, however, encourage their continued employment with Capital One.

Change of Control All of the executive officers identified on pages 7-9 of

Employment Agreements "Information About Our Directors and Executive Officers" have change of control employment agreements. The agreements are designed to ensure that if a change of control of Capital One occurs, our business will continue with minimal disruption because these agreements provide greater employment security to key operational and management executives. A change of control will occur if one or more of the following events take place: (i) an acquisition of 20% (or, if shares are purchased from Capital One, 40%) or more of Capital One's common stock or the combined voting power of the voting securities by a person or group, (ii) certain changes in the majority of the Board of Directors, (iii) certain mergers involving Capital One, or (iv) the liquidation, dissolution or sale of all or substantially all of Capital One's assets.

The agreements with Messrs. Fairbank, Morris and Finneran entitle them to receive (i) their base salary and a pro rata bonus through the date of termination, (ii) a lump sum payment of three times their current annual salary and highest recent bonus, (iii) any deferred compensation and accrued vacation not yet paid and (iv) certain retirement and welfare benefits, if within three years of the change of control they are terminated without cause, or if they voluntarily leave for good reason (which includes leaving for any reason during the 30-day period beginning one year after a change in control). Any cash payments attributable to salary or bonus will be net of amounts previously foregone (if any) in exchange for Capital One stock options. The agreements also provide a tax gross-up feature to cover excise or similar taxes (including excise taxes and income taxes imposed upon the gross-up payment) that the officer may have to pay resulting from payments received or options that vest due to a change of control.

All other executive officers identified on pages 7-9 of "Information About Our Directors and Executive Officers" have change of control agreements that entitle them to receive (i) their base salary and a pro rata bonus through the date of termination, (ii) a lump sum payment of two times their current annual salary and highest recent bonus, (iii) any deferred compensation and accrued vacation not yet paid and (iv) certain retirement and welfare benefits, if within two years of the change of control they are terminated without cause, or if they voluntarily leave for good reason. Any cash payments attributable to salary or bonus will be net of amounts previously foregone (if any) in exchange for Capital One stock options. The agreements also provide a tax gross-up feature to cover excise or similar taxes (including excise taxes and income taxes imposed upon the gross-up payment) that the officer may have to pay resulting from payments received or options that vest due to a change of control.

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Pension Plans

General

In 1995, Capital One made a number of changes to its pension and deferred compensation plans. Among the changes were that we stopped making further pay-based contributions to Capital One's cash balance pension plan (the "Cash Balance Pension Plan") and the related excess cash balance pension plan (the "Excess Cash Balance Plan"). Capital One also eliminated the Executive Employees Supplemental Retirement Plan and the ability of executive officers to defer compensation under the 1994 Deferred Compensation Plan.

Cash Balance Pension Plan and Excess Cash Balance Plan

Before each was amended in November 1995, Capital One offered a Cash Balance Pension Plan and an Excess Cash Balance Pension Plan to all full-time salaried associates and certain executive officers, respectively, of Capital One and its subsidiaries. The Cash Balance Pension Plan is a type of defined benefit plan intended to qualify under Section 401(a) of the Internal Revenue Code, under which participants were credited with certain pay-based credits for all annual paid compensation up to $150,000, as indexed for cost of living increases. The Excess Cash Balance Plan provided additional benefits to participants to the extent benefits under the Cash Balance Pension Plan were restricted because of limitations imposed by provisions of the Internal Revenue Code.

In November 1995, Capital One amended the Cash Balance Pension Plan and the Excess Cash Balance Plan to eliminate further pay-based credits to participants as of December 31, 1995, and to provide that there would be no new participants in such plans on or after January 1, 1996. Interest credits continue to be credited on plan balances on a quarterly basis. Based on account balances as of January 1, 2002, the projected annual retirement benefits under the Cash Balance Pension Plan and the Excess Cash Balance Plan, respectively, are $278 and $685 for Mr. Fairbank; $401 and $526 for Mr. Morris; $193 and $108 for Mr. Finneran; $173.34 and $7.20 for Mr. Liberson; and $889 and $164 for Mr. Willey. Messrs. Fairbank and Morris are currently credited with thirteen years of service under the plans; Messrs. Finneran, Liberson and Willey are currently credited with seven, six and twelve years of service under the plans, respectively. These projected benefits assume interest credits under the Cash Balance Plan to be 4.77% per annum and under the Excess Cash Balance Plan to be 4.75% per annum.

In lieu of the pay-based credits under the Cash Balance Pension Plan and the Excess Cash Balance Plan, beginning January 1, 1996, Capital One began making automatic contributions equal to 3% of an associate's eligible compensation to the associate's account in the Savings Plan and, if applicable, the Excess Savings Plan.

Performance Graph

The following graph compares cumulative total stockholder return on our common stock with the S&P Composite 500 Stock Index and an industry index, the S&P Financial Composite Index, for the period from December 31, 1996 to December 31, 2001. The graph assumes that the value of the investment in the common stock and each index was $100 at December 31, 1996 and that all dividends were reinvested. The stock price performance on the graph below is not necessarily indicative of future performance.

[CHART]

5 Year Indexed Total Return to Shareholders

	S&P 500	Capital One	S&P Financials
1996	100.00	100.00	100.00
1997	133.35	151.77	148.1
1998	171.46	323.27	165.03
1999	207.54	407.38	171.58
2000	188.65	557.63	216.33
2001	166.24	457.98	196.99

	1996	1997	1998	1999	2000	2001
S & P 500	$100.00	$133.35	$171.46	$207.54	$188.65	$166.24
Capital One	$100.00	$151.77	$323.27	$407.38	$557.63	$457.98
S&P Financials Index	$100.00	$148.10	$165.03	$171.58	$216.33	$196.99

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

As the Compensation Committee of the Board of Directors, we offer this report to describe the compensation philosophy and policies underlying our recommendations to the Board of Directors for the 2001 compensation package of Capital One's senior management generally and the Chief Executive Officer and the President and Chief Operating Officer more specifically.

Compensation Philosophy

We have designed and adopted a compensation strategy for Capital One's senior management based on three underlying principles: recruitment and retention of top executive talent, value creation and flexibility. Although we believe that executive compensation should be market based, we also believe that compensation packages have to provide our senior management with the opportunity for compensation to exceed market standards to enable us to recruit and retain top performers with the necessary skills and talent. Our senior management compensation program is therefore heavily focused on equity-based compensation and the resulting link to stockholder value. In 2001 we used stock options and, primarily for non-executive officers, restricted stock as the principal vehicles for our senior managers to achieve an above-market compensation opportunity. As a result, our compensation packages reward the

accomplishments of senior management primarily to the extent such accomplishments create stockholder wealth and earnings performance, which we believe in the long run drives stockholder wealth. We believe that such a stock-based program best aligns the interests of senior management with the interests of stockholders and is in the best interests of Capital One and its stockholders. We expect to continue to rely heavily on stock-based compensation in 2002 and onward to the extent it is prudent in light of market and business opportunities. We also believe that Capital One's compensation program must maintain the flexibility to respond rapidly to market conditions. Accordingly, from time to time we have adjusted both the cash and long-term incentive components of our compensation program to maintain management's alignment with stockholder interests, to enhance recruitment and retention and to promote Capital One's business strategies.

Methodology for Determining Compensation

Compensation Comparators. In determining the overall amount of compensation to be paid in 2001, we considered the compensation paid to similar executives within (i) those organizations against whom Capital One competes to recruit senior managers, (ii) companies in the financial services sector generally and (iii) other credit card companies.

Surveys. We reviewed surveys, published by leading compensation consulting firms, showing compensation levels for senior managers in the group of comparable companies. In addition, with respect to the compensation of the Chief Executive Officer, the President and Chief Operating Officer, and our other named executive officers, we reviewed information presented by our independent compensation consultants.

Entrepreneurial Approach. To support an entrepreneurial approach, we developed a compensation package that emphasizes the use of stock-based incentives. In making the decision on how to structure the compensation package for all of our executives during 2001, we considered the balance between vesting based on stock price performance and vesting based on time. We included both components in our executive compensation in recognition of our sustained and strong company performance since our initial public offering in 1994 as well as to provide long-term performance incentives and believe that both components enhance retention.

In 2001, we provided incentives in the form of stock options for our executive officers and a combination of stock options and restricted stock for other members of senior management. Stock options have been the only form of compensation for our Chief Executive Officer and our President and Chief Operating Officer since 1997, and they have agreed to forego all salary, bonus, and annual option grants through 2003 in exchange for further

stock options. We believe that stock-based incentives serve to align the interests of management with those of our stockholders and we periodically re-evaluate our opportunities to enhance and refine that alignment through stock-based compensation vehicles.

Tier Structure. Capital One uses management "Tiers" in determining the overall compensation of its associates, including the executive officers, and assigns each member of senior management to a designated Tier based on job responsibility and such associate's contribution to the management of Capital One. Our senior management comprises Tiers 1 through 4, with our executive officers as Tier 1.

Components of the Executive Compensation Program

In 2001, senior management was eligible to receive compensation in three forms:

- base salary;
- annual cash incentive awards that vary with performance; and
- stock-based incentives in the form of annual and special grants of stock options and, for non-executive officers, restricted stock.

Each compensation component is offered to senior management in various combinations, depending on the associate's Tier. Capital One targets the total compensation (base salary, annual cash incentive and stock-based incentives) for its senior management group at the 75th percentile of similar groups of senior management at competing companies.

Base Salary. Each management Tier has a salary band. The salary band defines the minimum and maximum salary levels for the Tier. Aggregate salaries for the senior management group are based on the 50th percentile for the pool of similar executives at competing companies. Individual salaries within the band reflect the associate's scope of responsibility, prior experience and accomplishments, and other individual factors, as well as market data on salary levels for comparable positions. Base salaries are adjusted annually within the salary bands depending on individual performance, and are determined based on subjective evaluations of various factors, including recent performance and time in the job. Capital One expects to adhere rigorously to the 50th percentile level for aggregate senior management salaries and therefore adjustments in targeted base salaries will be limited only to amounts necessary to maintain such level.

Annual Cash Incentives. The compensation program also provides senior management with annual cash incentive awards based on individual and corporate performance criteria. Annual cash incentive targets in 2001 were a specified percentage (between 33% and 87%) of the base salary amount for each Tier such that expected total cash compensation (base salary and annual cash incentives) for the senior management group is at approximately the 65th percentile of similar groups of senior management at competing companies. Actual cash incentive awards are determined based on a combination of corporate and individual performance and may be greater or less than the targeted annual incentive. Annual incentives can exceed 300% of the target levels when performance exceeds the targeted criteria. Performance below the threshold level results in no award.

Individual performance is based on subjective evaluations of factors similar to the criteria specified above for adjustments in base salaries. Our measurement of corporate performance has two components: one based on our annual growth in earnings per share and another comparing this annual growth in earnings per share to the median for the companies comprising the Standard & Poor's 500 Index.

Stock-Based Awards. Senior management earns stock-based awards as part of their long-term incentive compensation. Stock-based awards may from time to time consist of stock options, restricted stock or stock appreciation rights. In 2001, stock-based awards were made primarily in the form of stock options to purchase Capital One common shares. For our Tier 2, 3 and 4 associates, stock-based awards also included restricted

stock. We believe that stock options and restricted stock also provide senior management with a strong economic interest to maximize stockholder value, and align the interests of senior management with those of stockholders. Stock options are granted with an exercise price equal to or greater than the market price on the grant date and therefore have no economic value unless Capital One's stock price increases. Typically, stock options become exercisable in one-third increments on the first, second and third anniversaries of the grant date. Restricted stock generally becomes freely transferable in full on the third anniversary of the grant date. Given Capital One's emphasis on stock options and restricted stock in the overall compensation package, a senior manager's total compensation will be highly dependent on the performance of the common stock. This compensation component is intended to encourage individual commitment to corporate business strategies and to focus senior management on improving stock performance.

Individual grants are determined by reference to competitively defined stock-based award targets that are established for each Tier. Actual grant levels are further influenced by individual performance. In evaluating individual performance, we consider a senior manager's responsibilities, recent performance and accomplishments and the expected future contribution of the officer to Capital One's performance. We determine individual performance based on a subjective evaluation of these factors.

In 2001, we recommended and the Board of Directors approved amendments to the 1994 Stock Incentive Plan to increase the number of shares of common stock that may be issued pursuant to the exercise of stock options and other incentive awards by a total of 22,000,000 shares. We used these shares primarily for annual stock option awards to Tiers 1 through 6, EntrepreneurGrant V, and a special grant of stock options to all of our senior managers other than the Chief Executive Officer and the President and Chief Operating Officer designed to enhance retention and to ensure that the compensation we pay to our senior management remained competitive. In January 2002, we also recommended and the Board of Directors approved Capital One's 2002 Non-Executive Officer Stock Incentive Plan with 8,500,000 shares of common stock available for issuance through grants of stock options, restricted stock, incentive stock and stock appreciation rights. All Capital One associates are eligible to participate in the 2002 Non-Executive Officer Stock Incentive Plan except for our Chief Executive Officer, President and Chief Operating Officer, and the other executive officers.

EntrepreneurGrants. To link management's interest more closely with that of Capital One's stockholders and to retain our senior management team, we have developed a series of stock option grants to senior management under which managers can elect to give up some form of compensation in exchange for an additional stock option grant. These additional grants are generally referred to as "EntrepreneurGrants." EntrepreneurGrants have been designed with the aid of our independent consultants to resemble the compensation structures of highly entrepreneurial companies and are highly dependent on the performance of Capital One's common stock.

Capital One has sponsored five separate EntrepreneurGrant programs for its senior management, beginning in 1995. Generally, senior managers have been given the chance to forego a portion of their future salaries, cash bonuses or annual stock option grants in exchange for stock options with an exercise price not less than the fair market value of Capital One's stock on the date of grant. In return, the executive received stock options with either an annual vesting schedule, a cliff vest on a future date, performance-based vesting if Capital One's stock price or earnings per share growth reached and remained at a pre-determined level within a specified timeframe, or a combination of those features. All of Capital One's stock options will vest immediately if a change of control, as defined in the 1994 Stock Incentive Plan, occurs.

EntrepreneurGrants with performance-based vesting criteria have generally set the target stock price or earnings per share growth to represent an average increase of 20% annually from the date of grant through the vesting deadline. Three of the five EntrepreneurGrant programs have achieved either their target price or their final vesting date and have therefore vested. In 2001, we amended an existing EntrepreneurGrant and created a new EntrepreneurGrant. In May 2001, we modified the terms of the options granted under the EntrepreneurGrant IV program to extend the performance-based vesting criteria through 2004 and, for Tier 3 and

4 executives only, to add a fixed vesting date in 2005 for 50% of the options for retention purposes. Under the new provisions, options granted under EntrepreneurGrant IV will vest on April 29, 2008, or earlier under the following circumstances: (i) immediately upon a change of control of Capital One; (ii) on April 29, 2005 for 50% of the options for Tier 3 and 4 managers; and (iii) if Capital One's common stock achieves the following fair market value for at least ten (10) trading days in any thirty (30) consecutive calendar day period on or before the following dates: $120.00 by June 15, 2002, or $144.00 by June 15, 2004. In October 2001, executives in Tiers 1, 2 and 3 were given the opportunity to forego up to 50% of their anticipated cash bonuses for 2002, 2003 and 2004 in exchange for performance-based stock options in the program that we call EntrepreneurGrant V. As part of that program, our Chief Executive Officer and our President and Chief Operating Officer also agreed to forego all cash and annual stock option compensation for 2002 and 2003, in exchange for standard and performance-based options.

Participation rates in our EntrepreneurGrants have historically exceeded 85%, with an 89% participation rate in our most recent EntrepreneurGrant in October 2001. Occasionally, we will offer new members of senior management the opportunity to participate in a prior grant, with an exercise price reflecting the higher of the original grant's exercise price or the fair market value of Capital One's stock on the date of the catch-up grant. Participation rates are generally slightly lower for catch-up grants.

Compensation of the Chief Executive Officer and the President and Chief Operating Officer. Mr. Fairbank, our Chief Executive Officer, and Mr. Morris, our President and Chief Operating Officer, received no cash salary, cash incentive or annual stock-based incentive for their services during 2001. Instead, Messrs. Fairbank and Morris have elected under our EntrepeneurGrant programs to give up their entire salary and cash incentive for 1997 through 2003, and their annual stock option grants for 2000 through 2003, in exchange for standard and performance-based stock options under the EntrepreneurGrants described above. In this way, we believe that the interests of our top executives have been aligned directly with the interests of our stockholders, so that Messrs. Fairbank and Morris have the opportunity to receive compensation for their services only if Capital One's stock price reaches and exceeds pre-determined thresholds.

As with the philosophy discussed above for structuring the compensation package for all of our executives, our decision regarding the 2001 compensation for Messrs. Fairbank and Morris was made by valuing their overall incentives in relation to the 75th percentile of our comparator group and balancing between vesting based on stock price performance and vesting based on time. We believe that this process not only ensures alignment with the interests of our stockholders in the short-term, but also ensures that Messrs. Fairbank and Morris have incentives that will motivate them to pursue future business growth opportunities and operational goals that align them with shareholder interests

in the long-term.

Deductibility of Compensation Expenses

Section 162(m) of the Internal Revenue Code provides that compensation that is paid to the chief executive officer or to any of the four most highly compensated executive officers (other than the chief executive officer) in excess of $1 million is generally not deductible by Capital One for federal income tax purposes unless it qualifies as "performance-based" compensation. To qualify as "performance-based" under Section 162(m), compensation payments must be made from a plan that is administered by a committee of outside directors and must be based on the achievement of objective performance goals. In addition, the material terms of the plan must be disclosed to and approved by stockholders, and the Committee must certify that the performance goals have been achieved. Committee certification is not required, however, if the compensation is attributable solely to the increase in the value of Capital One's stock.

The Committee has considered the impact of this tax code provision in designing Capital One's compensation plans. While certain amounts were nondeductible in 2001 with respect to compensation paid to our Named Executive Officers, we believe it is more important to have executive officers focused on the business opportunities afforded by Capital One's information-based strategies than to use inappropriate measures to

capture the benefits of the tax deduction. Accordingly, the Committee has and intends in the future to take such steps as it deems reasonably practicable to minimize the impact of Section 162(m).

The Compensation Committee

Stanley I. Westreich (Chairman)
James V. Kimsey
W. Ronald Dietz

The foregoing Report of the Compensation Committee on Executive Compensation shall not be deemed to be incorporated by reference into any of Capital One's previous or future filings with the Securities and Exchange Commission, except as otherwise explicitly specified by Capital One in any such filing.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee's charter was approved by the full Board of Directors on April 27, 2000 and re-approved on April 26, 2001. A copy of the Audit Committee's charter was attached as an appendix to Capital One's 2001 Proxy Statement.

In accordance with its charter, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of Capital One's accounting, auditing and financial reporting practices. As the Audit Committee, its primary responsibilities can be classified into three broad categories:

- first, the Audit Committee monitors the integrity of Capital One's

financial statements;

- second, the Audit Committee monitors Capital One's compliance with legal and regulatory requirements; and

- third, the Audit Committee monitors the independence and performance of Capital One's independent and internal auditors.

The Audit Committee has implemented procedures to ensure that it devotes the attention it deems necessary or appropriate to each of the matters assigned to it under its charter. In carrying out its responsibilities, the Audit Committee met six times during 2001.

In discharging its oversight responsibility, the Audit Committee has reviewed and discussed Capital One's audited financial statements for the fiscal year ended December 31, 2001 with management and Ernst &Young LLP, our independent auditors. The Audit Committee has also discussed with Ernst & Young the matters required to be discussed by Statement on Auditing Standards No. 61 (Codification for Statements on Auditing Standards). In addition, the Audit Committee has received the written disclosures and the letter from Ernst & Young required by Independence Standards Board Statement No. 1 (Independence Discussions with Audit Committees) and has discussed Ernst & Young's independence with Ernst & Young. Based on its review and discussions with management and Ernst & Young, and pursuant to a delegation of authority from the Board of Directors, the Audit Committee has approved including the audited financial statements in our annual report on Form 10-K for the fiscal year ending December 31, 2001 for filing with the Securities and Exchange Commission.

The Audit Committee

W. Ronald Dietz (Chairman)
James A. Flick, Jr.
Patrick W. Gross

The foregoing Report of the Audit Committee shall not be deemed to be incorporated by reference into any of Capital One's previous or future filings with the Securities and Exchange Commission, except as otherwise explicitly specified by Capital One in any such filing.

ELECTION OF DIRECTORS

(Item 1 on the Proxy Card)

The Board of Directors is divided into three classes. At each annual meeting the term of one class expires. Directors in each class are elected to serve for three-year terms. At the 2000 annual meeting, Richard D. Fairbank and Stanley I. Westreich were elected to serve on the Board of Directors for three-year terms expiring at the annual meeting to be held in 2003. At the 2001 annual meeting, Nigel W. Morris and W. Ronald Dietz were elected to serve on the Board of Directors for three-year terms expiring at the annual meeting to be held in 2004. All of the current directors began serving as directors as of the close of business on February 28, 1995, except Mr. Fairbank and Mr. Westreich, who have served as directors since July 26, 1994.

The nominees for re-election this year are James A. Flick, Jr., Patrick W. Gross and James V. Kimsey. Each has consented to serve a three-year term. Information about the three proposed nominees for election as directors, and about each other current director whose term will continue after the annual

meeting, is set forth under "Information About Our Directors and Executive Officers" starting on page 7 of this proxy statement.

In the event a nominee should not continue to be available for election, the Board may designate a substitute as a nominee. Proxies will be voted for the election of such substitute. As of the date of this proxy statement, the Board of Directors has no reason to believe that any of the nominees will be unable or unwilling to serve.

Directors will be elected by a plurality of the votes cast for the election of directors at the meeting. Cumulative voting is not permitted.

The Board recommends a vote "FOR" each of these director nominees.

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RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

(Item 2 on the Proxy Card)

The Audit Committee, pursuant to authority granted to it by the Board of Directors, has selected the firm of Ernst & Young LLP as independent auditors for 2002. The Board is submitting this proposal to the vote of the stockholders in order to ratify the Audit Committee's selection. If stockholders do not ratify the selection of Ernst & Young LLP, the Board of Directors will reconsider the selection of independent auditors.

Capital One has paid or expects to pay the following fees to Ernst & Young LLP for work performed in 2001 or attributable to Ernst & Young LLP's audit of Capital One's 2001 financial statements: annual audit $598,000; financial information system design and implementation $0; and all other fees $4,914,000, including audit-related services of $2,055,000 and non-audit services of $2,859,000. Audit-related services generally include fees for Securities and Exchange Commission registration statements, securitization and other funding transactions, internal control and compliance procedures related to securitization trusts, employee benefit and statutory audits, internal audit assistance and accounting consultations. Non-audit services relate principally to tax services.

The Audit Committee has reviewed the fees paid to Ernst & Young LLP and has considered whether the fees paid for non-audit services are compatible with maintaining Ernst & Young LLP's independence.

Representatives of Ernst & Young LLP are expected to be present at the annual meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

The affirmative vote of a majority of the shares of common stock present in person or represented by proxy and entitled to vote at the annual meeting is required to ratify the selection of Ernst & Young LLP as independent auditors for 2002. Therefore, abstentions effectively count as votes against this proposal.

The Board recommends a vote "FOR" the ratification of Ernst & Young LLP as the independent auditors for 2002.

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OTHER BUSINESS

We know of no other business that will be presented for consideration at the annual meeting. If other matters are properly brought before the meeting, the persons named in the accompanying proxy card will vote such proxy at their discretion.

ANNUAL REPORT TO STOCKHOLDERS

The Annual Report to Stockholders for the fiscal year ended December 31, 2001, including consolidated financial statements, is being furnished along with this proxy statement to stockholders of record on February 28, 2002. The Annual Report to Stockholders does not constitute a part of the proxy soliciting material. A copy of our Annual Report on Form 10-K, which is filed with the Securities and Exchange Commission, may be obtained at the annual meeting, at the SEC's website at www.sec.gov, at our website at www.capitalone.com, or by contacting our Investor Relations department at our address on the Notice of Annual Stockholder Meeting.

STOCKHOLDER PROPOSALS FOR 2003 ANNUAL MEETING

If you wish to present a stockholder proposal at the 2003 annual meeting and wish to have such proposal considered for inclusion in our 2003 proxy statement, you must send the proposal, along with any supporting statement, to our Corporate Secretary, so that it is received at the address on the Notice of Annual Stockholder Meeting on or before November 20, 2002. All proposals must comply with applicable SEC regulations.

Under our bylaws, if you wish to nominate directors for election, or present other business before the stockholders at the annual meeting, you must give proper written notice of any such nomination or business to the Corporate Secretary not before January 25, 2003 and not after February 14, 2003. If the annual meeting for 2002 is not within thirty days before or seventy days after April 25, 2003, the anniversary date of this year's annual meeting, you must send notice within ten days following any notice or publication of the meeting. Your notice must include certain information specified in our bylaws concerning the nomination or the business. A copy of our bylaws may be obtained from the Corporate Secretary at Capital One's address on the Notice of Annual Stockholder Meeting.

INTERNET AND TELEPHONE VOTING

Shares Directly Registered in the Name of the Stockholder

Stockholders with shares registered directly with Capital One's transfer agent, EquiServe Trust Company, N.A., may vote telephonically by calling EquiServe at 877-PRX-VOTE (877-779-8683) or electronically via the Internet at www.eproxyvote.com/cof. Votes submitted telephonically or via the Internet through EquiServe's program must be received by 11:59 PM (EST) on April 24, 2002. The giving of a proxy by telephone or via the Internet will not affect your right to vote in person if you decide to attend the annual meeting.

Shares Registered in the Name of a Brokerage Firm or Bank

A number of brokerage firms and banks participate in a program provided through ADP Investor Communication Services that offers telephone and Internet voting options. This program is different from the program provided by EquiServe for shares registered in the name of the stockholder. If your shares are held in an account at a brokerage firm or bank participating in the ADP program, you may vote those shares telephonically by calling the telephone number or via the Internet as set forth on your voting form. Votes submitted via the Internet through the ADP program must be received by 11:59 PM (EST) on

April 24, 2002. The giving of a proxy by telephone or via the Internet will not affect your right to vote in person if you decide to attend the annual meeting.

Proxies given pursuant to Internet and telephone voting are permitted under applicable law. These telephone and Internet voting procedures are designed to authenticate a stockholder's identity, to allow a stockholder to give his or her voting instructions and to confirm that a stockholder's instructions have been recorded properly. Stockholders voting via the Internet through either EquiServe or ADP should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that must be borne by the stockholder.

"HOUSEHOLDING" OF PROXY STATEMENTS AND ANNUAL REPORTS

Capital One may this year deliver only one copy of this proxy statement and our 2001 Annual Report to multiple shareholders sharing the same address. This delivery method, known as "householding," can save Capital One a significant portion of our printing and mailing costs.

If you did not receive an individual copy of this proxy statement or Capital One's 2001 Annual Report, and you would like separate copies, please contact Capital One's Investor Relations department at our address on the front cover of this proxy statement, or by telephone at (703) 205-1000.

If you would like to receive separate copies of future Capital One proxy statements and annual reports, or if you are currently receiving multiple copies and would like to request householding in the future, please contact your broker or Capital One's Investor Relations department.

ELECTRONIC DELIVERY OF FUTURE ANNUAL MEETING MATERIALS

Capital One is offering its stockholders the opportunity to consent to receiving Capital One's future proxy materials and annual reports electronically by providing the appropriate information when you vote via the Internet. Electronic delivery could save Capital One a significant portion of the costs associated with printing and mailing its annual meeting materials, and we hope that our stockholders find this service convenient and useful. If you consent and Capital One elects to deliver future proxy materials and/or annual reports to you electronically, then Capital One will send you a notice (either by electronic mail or regular mail) explaining how to access these materials but will not send you paper copies of these materials unless you request them. Capital One may also choose to send one or more items to you in paper form despite your consent to receive them electronically. Your consent will be effective until you revoke it by terminating your registration at the website www.InvestorDelivery.com if you hold shares at a brokerage firm or bank participating in the ADP program or by contacting EquiServe if you hold shares in your own name.

By consenting to electronic delivery, you are stating to Capital One that you currently have access to the Internet and expect to have access in the future. If you do not have access to the Internet, or do not expect to have access in the future, please do not consent to electronic delivery because Capital One may rely on your consent and not deliver paper copies of future annual meeting materials. In addition, if you consent to electronic delivery, you will be responsible for your usual Internet charges (e.g., online fees) in connection with the electronic delivery of the proxy materials and annual report.

By Order of the Board of Directors,

/s/ John G. Finneran, Jr.

John G. Finneran, Jr.
Corporate Secretary

March 18, 2002

[LOGO] Capital One

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CAPITAL ONE FINANCIAL CORPORATION

Annual Stockholder Meeting--April 25, 2002
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Richard D. Fairbank and John G. Finneran, Jr., and either of them, proxies of the undersigned, with full power of substitution, to vote all the shares of Common Stock of Capital One Financial Corporation, a Delaware corporation (the "Corporation"), held of record by the undersigned on February 28, 2002, at the Annual Stockholder Meeting to be held April 25, 2002, and at any adjournment thereof.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS SPECIFIED BY THE UNDERSIGNED STOCKHOLDER. IF NO CHOICE IS SPECIFIED BY THE STOCKHOLDER, THIS PROXY WILL BE VOTED "FOR" ALL PORTIONS OF ITEMS (1) AND (2), AND IN THE PROXIES' DISCRETION ON ANY OTHER MATTERS COMING BEFORE THE MEETING.

The undersigned hereby revokes any proxy or proxies heretofore given to vote upon or act with respect to such stock and hereby ratifies and confirms all that said proxies, their substitutes or any of them may lawfully do by virtue hereof.

Nominees for the Election of Directors are:
01. James A. Flick, Jr.   02. Patrick W. Gross   03. James V. Kimsey

(Continued and to be dated and signed on reverse side)

SEE REVERSE SIDE

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o Fold and Detach Here If You Are Returning Your Proxy Solicitation/ Voting Instruction Card By Mail o

X Please mark your votes as in this example.

Directors recommend a vote FOR items 1 and 2.

FOR	WITHHOLD AUTHORITY	FOR	AGAINST	ABSTAIN

1. Election of Directors (All nominees listed on reverse side.)

2. Ratification of Ernst & Young LLP as independent auditors of the Corporation for 2002.

In their discreti are authorized to other matters as the meeting or an thereof.

To withhold authority to vote for any individual nominee, write such nominee's name in the space

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All as more partic Capital One's Prox Annual Stockholder April 25, 2002, re hereby acknowledge

Please date this P your name exactly Where there is mor should sign. When attorney, administ guardian or truste title as such. If corporation, this signed by a duly a indicating such of executed by a part in partnership nam persons indicating

SIGNATURE(S)____ DATE_________________________

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o Fold and Detach Here If You Are Returning Your Proxy Solicitation/Voting Instruction Card By M

CAPITAL ONE FINANCIAL CORPORATION

Annual Stockholder Meeting
Thursday, April 25, 2002, 10:00 a.m.
Fairview Park Marriott Hotel
3111 Fairview Park Drive
Falls Church, VA 22042-4500

Capital One Financial Corporation offers three convenient ways to vote your shares: by mail, by telephone, or electronically via the Internet. Voting by telephone or via the Internet will eliminate the need to mail voted cards. To vote by telephone or via the Internet, please have this card and your social security number available.

1. To vote by telephone:

   o Using a touch-tone telephone, dial 1-877-PRX-VOTE (1-877-779-8683).

2. To vote by Internet:

   o Log on to the Internet and go to the web site http://www.eproxyvote.com/cof.

Both the telephone and the Internet voting systems preserve the confidentiality of your vote and will confirm your voting instructions with you before submission. If you vote online, you will have the opportunity to consent to electronic delivery of next year's annual meeting materials.

In order to receive future proxy materials and annual reports electronically, please visit www.econsent.com/cof to register. To complete the enrollment, you will need your U.S. taxpayer identification number and the account number which appears on your check stub/Dividend Reinvestment and Stock Purchase Plan statement.

YOUR VOTE IS IMPORTANT TO US. THANK YOU FOR VOTING.

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26,063

Warranty obligations

12,297

11,838

Billings in excess of costs and estimated earnings

17,186

23,797

Customer deposits (billed or collected)

18,734

16,828

Deferred revenue (billed or collected)

9,675

9,524

Current portion of other long-term obligations

508

587

Income taxes payable

389

636

Total current liabilities

135,414

142,020

Long-term warranty obligations

15,177

14,643

Long-term deferred revenue (billed or collected)

3,711

3,914

Other long-term obligations, less current maturities

2,807

3,190

Long-term income tax payable

2,912

2,734

Deferred income taxes

933

939

Total long-term liabilities

25,540

25,420

TOTAL LIABILITIES

160,954

167,440

SHAREHOLDERS' EQUITY:

Common Stock, no par value, authorized 120,000,000 shares; 43,787,037 and 43,643,801 shares issued and outstanding at August 1, 2015 and May 2, 2015, respectively

49,523

48,960

Additional paid-in capital

33,455

32,693

Retained earnings

132,171

132,771

Treasury Stock, at cost, 19,680 shares

(9
)

(9
)
Accumulated other comprehensive loss

(2,919
)

(2,376
)
TOTAL SHAREHOLDERS' EQUITY

212,221

212,039

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

$
373,175

$
379,479

See notes to consolidated financial statements.

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

	Three Months Ended	
	August 1, 2015	August 2, 2014
Net sales	$150,221	$166,618
Cost of goods sold	114,720	123,215
Gross profit	35,501	43,403
Operating expenses:		
Selling expense	14,264	15,046
General and administrative	8,170	7,937
Product design and development	6,968	6,803
	29,402	29,786
Operating income	6,099	13,617
Nonoperating (expense) income:		
Interest income	298	300
Interest expense	(62)	(68)
Other (expense) income, net	(443)	(172)
Income before income taxes	5,892	13,677
Income tax expense	2,116	4,932
Net income	$3,776	$8,745
Weighted average shares outstanding:		
Basic	43,797	43,261
Diluted	44,073	43,641
Earnings per share:		
Basic	$0.09	$0.20
Diluted	$0.09	$0.20
Cash dividend declared per share	$0.10	$0.10

See notes to consolidated financial statements.

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DAKTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended	
	August 1, 2015	August 2, 2014
Net income	$3,776	$8,745
Other comprehensive loss:		
Cumulative translation adjustments	(558)	(137)
Unrealized gain (loss) on available-for-sale securities, net of tax	15	(7)
Total other comprehensive loss, net of tax	(543)	(144)
Comprehensive income	$3,233	$8,601

See notes to consolidated financial statements.

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

	Three Months Ended	
	August 1, 2015	August 2, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$3,776	$8,745
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,020	3,625
Amortization	35	91
Amortization of premium/discount on marketable securities	33	49
Gain on sale of property, equipment and other assets	(62)	(1,132)
Share-based compensation	751	767
Excess tax benefits from share-based compensation	(11)	(11)
Provision for doubtful accounts	160	94
Deferred income taxes, net	(21)	207
Change in operating assets and liabilities	(18,763)	12,026
Net cash (used in) provided by operating activities	(10,082)	24,461
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,232)	(8,146)
Proceeds from sale of property, equipment and other assets	66	3,509
Purchases of marketable securities	(9,506)	(1,522)
Proceeds from sales or maturities of marketable securities	9,497	1,389
Acquisitions, net of cash acquired	(614)	(570)
Net cash used in investing activities	(7,789)	(5,340)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(9)	—
Proceeds from exercise of stock options	562	187
Excess tax benefits from share-based compensation	11	11
Principal payments on long-term obligations	(8)	(21)
Dividends paid	(4,375)	(4,323)
Net cash used in financing activities	(3,819)	(4,146)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(325)	29
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(22,015)	15,004
CASH AND CASH EQUIVALENTS:		
Beginning of period	57,284	45,054
End of period	$35,269	$60,058
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	$126	$151

Income taxes, net of refunds	3,215	4,420
Supplemental schedule of non-cash investing and financing activities:		
Demonstration equipment transferred to inventory	4	26
Purchase of property and equipment included in accounts payable	883	2,327
Contributions of common stock under the employee stock purchase plan	—	813

See notes to consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)
(unaudited)

Note 1. Basis of Presentation and Summary of Critical Accounting Policies

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to fairly present our financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions affecting the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The balance sheet at May 2, 2015 has been derived from the audited financial statements at that date, but it does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with our financial statements and notes thereto for the year ended May 2, 2015, which are contained in our Annual Report on Form 10-K previously filed with the Securities and Exchange Commission. The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

Daktronics, Inc. operates on a 52 to 53 week fiscal year, with our fiscal year ending on the Saturday closest to April 30 of each year. When April 30 falls on a Wednesday, the fiscal year ends on the preceding Saturday. Within each fiscal year, each quarter is comprised of 13 week periods following the beginning of each fiscal year. In each 53 week year, an additional week is added to the first quarter and each of the last three quarters is comprised of a 13 week period. Fiscal 2015 was a 53-week year; therefore, the three months ended August 1, 2015 contained operating results for 13 weeks while the three months ended August 2, 2014 contained operating results for 14 weeks.

Certain reclassifications in the Consolidated Balance Sheets' categories of prepaid expenses and other assets and investment in affiliates and other assets have been made to conform fiscal 2015 to the fiscal 2016 classifications for comparative purposes.

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11, Simplifying the Measurement of Inventory, which changes the measurement principle of inventory from the lower of cost or market to lower of cost and net realizable value. The guidance will require prospective application at the beginning of our first quarter of fiscal 2018, but permits adoption in an earlier period. We are currently evaluating the effect that adopting this new accounting guidance will have on our consolidated results of operations, cash flows, and financial position.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which was issued as a new topic, Accounting Standards Codification ("ASC") 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle of the guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, providing guidance for transactions that were not previously addressed comprehensively and improving guidance for multiple-element arrangements. The FASB

recently announced plans to defer the effective adoption date for one year. ASU 2014-09 is effective for us beginning in fiscal 2019 and can be adopted by the Company either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the effect that adopting ASU 2014-09 will have on our consolidated results of operations, cash flows, and financial position.

Note 2. Earnings Per Share ("EPS")

Basic EPS is computed by dividing income attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution which may occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock which share in our earnings.

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The following is a reconciliation of the income and common share amounts used in the calculation of basic and diluted EPS for the three months ended August 1, 2015 and August 2, 2014:

	Net income	Shares	Per share income
For the three months ended August 1, 2015			
Basic earnings per share	$3,776	43,797	$0.09
Dilution associated with stock compensation plans	—	276	—
Diluted earnings per share	$3,776	44,073	$0.09
For the three months ended August 2, 2014			
Basic earnings per share	$8,745	43,261	$0.20
Dilution associated with stock compensation plans	—	380	—
Diluted earnings per share	$8,745	43,641	$0.20

Options outstanding to purchase 1,437 shares of common stock with a weighted average exercise price of $18.33 for the three months ended August 1, 2015 and 1,455 shares of common stock with a weighted average exercise price of $18.51 for the three months ended August 2, 2014 were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

Note 3. Segment Disclosure

We have organized our business into five segments which meet the definition of reportable segments under ASC 280-10, Segment Reporting: Commercial, Live Events, High School Park and Recreation, Transportation, and International. These segments are based on the type of customer or geography and are the same as our business units.

Our Commercial business unit primarily consists of sales of our video display systems, digital billboards, and Galaxy® and Fuelight™ product lines to resellers (primarily sign companies), outdoor advertisers, national retailers, quick-serve restaurants, casinos and petroleum retailers. Our Live Events business unit primarily consists of sales of integrated scoring and video display systems to college and professional sports facilities and convention centers and sales of our mobile display technology to video rental organizations and other live events type venues. Our High School Park and Recreation business unit primarily consists of sales of scoring systems, Galaxy® displays and video display systems to primary and secondary education facilities. Our Transportation business unit primarily consists of sales of our Vanguard® and Galaxy® product lines to governmental transportation departments, airlines and other transportation related customers. Our International business unit consists of sales of all product lines outside the United States and Canada. We focus on product lines that relate to integrated scoring and video display systems for sports and commercial applications, out-of-home advertising products, and European transportation related products.

Segment reports present results through contribution margin, which is comprised of gross profit less selling costs. Segment profit excludes general and administration expense, product development expense, interest income and expense, non-operating income and income tax expense. Assets are not allocated to the segments. Depreciation and amortization are allocated to each segment based on various financial measures; however, some depreciation and amortization are corporate in nature and remain unallocated. In general, our segments follow the same accounting policies as those described in Note 1 of our Annual Report on Form 10-K for the fiscal year ended May 2, 2015. Unabsorbed costs of domestic field sales and services infrastructure, including most field administrative staff, are allocated to the Commercial, Live Events, Transportation, and High School Park and Recreation business units based on cost of sales. Shared manufacturing, buildings and utilities, and procurement costs are allocated based on payroll dollars, square footage and various other financial measures.

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

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The following table sets forth certain financial information for each of our five operating segments for the periods indicated:

	Three Months Ended August 1, 2015	August 2, 2014
Net sales:		
Commercial	$43,210	$39,782
Live Events	47,922	75,674
High School Park and Recreation	18,959	20,111
Transportation	13,767	13,313
International	26,363	17,738
	150,221	166,618
Contribution margin:		
Commercial	6,113	6,912
Live Events	6,183	12,047
High School Park and Recreation	3,775	5,158
Transportation	3,180	3,281
International	1,986	959
	21,237	28,357
Non-allocated operating expenses:		
General and administrative	8,170	7,937
Product design and development	6,968	6,803
Operating income	6,099	13,617
Nonoperating (expense) income:		
Interest income	298	300
Interest expense	(62)	(68)
Other (expense) income, net	(443)	(172)
Income before income taxes	5,892	13,677
Income tax expense	2,116	4,932
Net income	$3,776	$8,745
Depreciation and amortization:		
Commercial	$1,257	$1,207
Live Events	1,321	1,147
High School Park and Recreation	490	453
Transportation	329	265
International	256	250
Unallocated corporate depreciation	402	394
	$4,055	$3,716

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No single geographic area comprises a material amount of net sales or property and equipment, net of accumulated depreciation other than the United States. The following table presents information about net sales and property and equipment, net of accumulated depreciation in the United States and elsewhere:

	Three Months Ended	
	August 1, 2015	August 2, 2014
Net sales:		
United States	$119,867	$141,830
Outside U.S.	30,354	24,788
	$150,221	$166,618

	August 1, 2015	May 2, 2015
Property and equipment, net of accumulated depreciation:		
United States	$71,090	$67,882
Outside U.S.	4,854	4,962
	$75,944	$72,844

We have numerous customers worldwide for sales of our products and services; therefore, we are not economically dependent on a limited number of customers for the sale of our products and services except with respect to our dependence on a few large digital billboard customers in our Commercial business unit.

Note 4. Marketable Securities

We have a cash management program which provides for the investment of cash balances not used in current operations. We classify our investments in marketable securities as available-for-sale in accordance with the provisions of ASC 320, Investments – Debt and Equity Securities. Marketable securities classified as available-for-sale are reported at fair value with unrealized gains or losses, net of tax, reported in accumulated other comprehensive loss. As it relates to fixed income marketable securities, we do not intend to sell any of these investments, and it is not likely we will be required to sell any of these investments before recovery of the entire amortized cost basis. In addition, as of August 1, 2015, we anticipate we will recover the entire amortized cost basis of such fixed income securities, and we have determined no other-than-temporary impairments associated with credit losses were required to be recognized. The cost of securities sold is based on the specific identification method. Where quoted market prices are not available, we use the market price of similar types of securities traded in the market to estimate fair value.

As of August 1, 2015 and May 2, 2015, our available-for-sale securities consisted of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Balance as of August 1, 2015				
Certificates of deposit	$13,636	$—	$—	$13,636
U.S. Government securities	500	—	—	500
U.S. Government sponsored entities	7,224	—	(1)	7,223
Municipal obligations	3,967	3	—	3,970
	$25,327	$3	$(1)	$25,329
Balance as of May 2, 2015				
Certificates of deposit	$11,409	$—	$—	$11,409

U.S. Government securities	1,000	1	—	1,001
U.S. Government sponsored entities	7,951	—	(9)	7,942
Municipal obligations	4,989	5	—	4,994
	$25,349	$6	$(9)	$25,346

Realized gains or losses on investments are recorded in our consolidated statements of operations as other (expense) income, net. Upon the sale of a security classified as available-for-sale, the security's specific unrealized gain (loss) is reclassified out of "accumulated other comprehensive loss" into earnings based on the specific identification method. In the three months ended August 1, 2015 and August 2, 2014, the reclassifications from accumulated other comprehensive loss to earnings were immaterial.

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All available-for-sale securities are classified as current assets, as they are readily available to support our current operating needs. The contractual maturities of available-for-sale debt securities as of August 1, 2015 were as follows:

	Less than 12 months	1-5 Years	Total
Certificates of deposit	$3,948	$9,688	$13,636
U.S. Government securities	500	—	500
U.S. Government sponsored agencies	—	7,223	7,223
Municipal obligations	3,664	306	3,970
	$8,112	$17,217	$25,329

Note 5. Business Combination

We acquired 100 percent ownership in Data Display, a European transportation display company, on August 11, 2014 for an undisclosed amount. The results of its operations have been included in our consolidated financial statements since the date of acquisition. We have not made pro forma disclosures because the results of its operations are not material to our consolidated financial statements.

Data Display is a European based company focused on the design and manufacture of transportation displays. This acquisition allows our organization to better service transportation customers world-wide and broaden our leadership position on a global scale. This acquisition included a manufacturing plant in Ireland to manufacture transportation displays. This acquisition was funded with cash on hand.

During the second quarter of fiscal 2015, we prepared the preliminary fair value measurements of assets acquired and liabilities assumed, as of the acquisition date using independent appraisals and other analysis. A final measurement was completed during the first quarter of fiscal 2016 and the fair value of consideration paid and contingent consideration were finalized.

The following table summarizes the adjustments that were made to the original purchase price allocation:

	Purchase price allocation as originally reported	Adjustments	Reconciliation of assets and liabilities transferred
Goodwill	$1,099	$364	$1,463
Trademarks and Technology	480	—	480
Customer Relationships	84	—	84
Property and Equipment	1,433	—	1,433
Investment for Affiliates	437	—	437
Inventory	2,773	(149)	2,624
Accounts Receivable	3,380	(317)	3,063
Other Current Assets	1,869	23	1,892
Current Liabilities	3,616	79	3,695
Long-term Obligations	950	—	950

Note 6. Sale of Theatre Rigging Manufacturing

In July 2014, we sold our automated rigging systems business for theatre applications. Related to the sale, we recorded a $1,261 gain, which is included in cost of goods sold in the High School Park and Recreation business unit.

As part of the transaction, we sold assets of $2,817 that primarily consisted of accounts receivable, patents, inventory, and manufacturing equipment, net of $355 of accounts payable.

Note 7. Goodwill

The changes in the carrying amount of goodwill related to each reportable segment for the three months ended August 1, 2015 were as follows:

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	Live Events	Commercial	Transportation	International	Total
Balance as of May 2, 2015	$2,321	$721	$91	$2,136	$5,269
Acquisition, net of cash required	—	—	—	213	213
Foreign currency translation	(30)	(2)	(29)	(36)	(97)
Balance as of August 1, 2015	$2,291	$719	$62	$2,313	$5,385

We perform an analysis of goodwill on an annual basis. We performed our annual analysis based on the goodwill amount as of the first business day of our third quarter in fiscal 2015, which was November 2, 2014. The result of the analysis indicated no goodwill impairment existed as of that date.

Note 8. Inventories

Inventories consisted of the following:

	August 1, 2015	May 2, 2015
Raw materials	$31,669	$28,325
Work-in-process	7,450	7,512
Finished goods	32,892	28,552
	$72,011	$64,389

Note 9. Receivables

Accounts receivable are reported net of an allowance for doubtful accounts of $2,477 and $2,316 at August 1, 2015 and May 2, 2015, respectively.

In connection with certain sales transactions, we have entered into sales contracts with installment payments exceeding six months and sales-type leases. The present value of these contracts and leases is recorded as a receivable as the revenue is recognized in accordance with United States GAAP, and profit is recognized to the extent the present value is in excess of cost. We generally retain a security interest in the equipment or in the cash flow generated by the equipment until the contract is paid. The present value of long-term contracts and lease receivables, including accrued interest and current maturities, was $9,643 and $9,874 as of August 1, 2015 and May 2, 2015, respectively. Contract and lease receivables bearing annual interest rates of 4.8 to 10.0 percent are due in varying annual installments through August 2025. The face amount of long-term receivables was $11,012 as of August 1, 2015 and $10,976 as of May 2, 2015. Included in accounts receivable as of August 1, 2015 and May 2, 2015 was $531 and $385, respectively, of retainage on construction-type contracts, all of which is expected to be collected within one year.

Note 10. Commitments and Contingencies

Litigation: We are a party to legal proceedings and claims which arise during the ordinary course of business. We review our legal proceedings and claims; regulatory reviews and inspections; and other legal matters on an ongoing basis and follow appropriate accounting guidance when making accrual and disclosure decisions. We establish accruals for those contingencies when the incurrence of a loss is probable and can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. We do not record an accrual when the likelihood of loss being incurred is probable, but the amount cannot be reasonably estimated, or when the loss is believed to be only reasonably possible or remote, although disclosures will be made for material matters as required by ASC 450-20, Loss Contingencies. Our assessment of whether a loss is reasonably possible or probable is based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter following all appeals.

As of August 1, 2015 and May 2, 2015 we had $500 and $0, respectively, accrued for contingent liabilities that management had determined to be probable and estimable. In the opinion of management, the ultimate liability of all unresolved legal proceedings is not expected to have a material effect on our financial position, liquidity or capital resources.

Guarantees: In connection with the sale of equipment to various customers, we have entered into contractual arrangements whereby we agreed to repurchase equipment at the end of the lease term at a fixed price. Our total obligations under these fixed price arrangements were $1,100 as of August 1, 2015 and May 2, 2015. In accordance with the provisions of ASC 460, Guarantees, there is no guarantee liability in accrued expenses that needed to be recognized in connection with these arrangements.

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Warranties: We offer a standard parts coverage warranty for periods varying from one to five years for most of our products. We also offer additional types of warranties to include on-site labor, routine maintenance and event support. In addition, the terms of warranties on some installations can vary from one to 10 years. The specific terms and conditions of these warranties vary primarily depending on the type of the product sold. We estimate the costs which may be incurred under the warranty obligations and record a liability in the amount of such estimated costs at the time the revenue is recognized. Factors affecting our estimate of the cost of our warranty obligations include historical experience and expectations of future conditions. We continually assess the adequacy of our recorded warranty reserves and, to the extent we experience any changes in warranty claim activity or costs associated with servicing those claims, our warranty obligation is adjusted accordingly.

Changes in our warranty liability for the three months ended August 1, 2015 consisted of the following:

	Amount
Beginning accrued warranty costs	$26,481
Warranties issued during the period	3,344
Settlements made during the period	(4,274)
Changes in accrued warranty costs for pre-existing warranties during the period, including expirations	1,923
Ending accrued warranty costs	$27,474

Performance guarantees: We have entered into standby letters of credit and surety bonds with financial institutions relating to the guarantee of our future performance on contracts, primarily construction type contracts. As of August 1, 2015, we had outstanding letters of credit and surety bonds in the amount of $13,336 and $50,931, respectively. Performance guarantees are issued to certain customers to guarantee the operation and installation of the equipment and our ability to complete a contract. These performance guarantees have various terms, which are generally one year.

Leases: We lease vehicles, office space and various equipment for various sales and service locations throughout the world, including manufacturing space in the United States and China. Some of these leases, including the lease for manufacturing facilities in Sioux Falls, South Dakota, include provisions for extensions or purchase. The lease for the facilities in Sioux Falls, South Dakota can be extended for an additional three years past its current term, which ends December 31, 2016, and it contains an option to purchase the property subject to the lease from January 1, 2015 to December 31, 2016 for $8,400, which approximates fair value. If the lease is extended, the purchase option increases to $8,600 for the year ending December 31, 2017 and $8,800 for the year ending December 31, 2018. Rental expense for operating leases was $640 and $696 for the three months ended August 1, 2015 and August 2, 2014, respectively.

Future minimum payments under noncancelable operating leases, excluding executory costs such as management and maintenance fees, with initial or remaining terms of one year or more consisted of the following at August 1, 2015:

Fiscal years ending	Amount
2016	$2,000
2017	1,493
2018	443
2019	85
2020	38
	$4,059

Purchase commitments: From time to time, we commit to purchase inventory, advertising, information technology maintenance and support services, and various other products and services over periods that extend beyond one year. As of August 1, 2015, we were obligated under the following conditional and unconditional purchase

commitments, which included $700 in conditional purchase commitments:

Fiscal years ending	Amount
2016	$1,791
2017	1,090
2018	295
2019	100
2020	—
	$3,276

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Note 11. Income Taxes

We are subject to U.S. Federal income tax as well as the income taxes of multiple state jurisdictions. As a result of the completion of examinations by the Internal Revenue Service on prior years and the expiration of statutes of limitations, our fiscal years 2012, 2013, and 2014 are the remaining years open under statutes of limitations. Certain subsidiaries are also subject to income tax in several foreign jurisdictions which have open tax years varying by jurisdiction beginning in fiscal 2005.

As of August 1, 2015, we had $2,900 of unrecognized tax benefits which would affect our effective tax rate if recognized.

Note 12. Fair Value Measurement

ASC 820, Fair Value Measurement, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy within ASC 820 distinguishes between the following three levels of inputs which may be utilized when measuring fair value.

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 values for fixed-rate contracts receivable are estimated using a discounted cash flow analysis based on interest rates currently being offered for contracts with similar terms to customers with similar credit quality. The carrying amounts reported on our consolidated balance sheets for contracts receivable approximate fair value and have been categorized as a Level 2 fair value measurement. Fair values for fixed-rate long-term marketing obligations are estimated using a discounted cash flow calculation applying interest rates currently being offered for debt with similar terms and underlying collateral. The total carrying value of long-term marketing obligations as reported on our consolidated balance sheets within other long-term obligations approximates fair value and has been categorized as a Level 2 fair value measurement.

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The following table sets forth by Level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at August 1, 2015 and May 2, 2015 according to the valuation techniques we used to determine their fair values. There have been no transfers of assets or liabilities among the fair value hierarchies presented.

	Fair Value Measurements		
	Level 1	Level 2	Total
Balance as of August 1, 2015			
Cash and cash equivalents	$35,269	$—	$35,269
Restricted cash	199	—	199
Available-for-sale securities:			
Certificates of deposit	—	13,636	13,636
U.S. Government securities	500	—	500
U.S. Government sponsored entities	—	7,223	7,223
Municipal obligations	—	3,970	3,970
Derivatives - currency forward contracts	—	35	35
	$35,968	$24,864	$60,832
Balance as of May 2, 2015			
Cash and cash equivalents	$57,284	$—	$57,284
Restricted cash	496	—	496
Available-for-sale securities:			
Certificates of deposit	—	11,409	11,409
U.S. Government securities	1,001	—	1,001
U.S. Government sponsored entities	—	7,942	7,942
Municipal obligations	—	4,994	4,994
Derivatives - currency forward contracts	—	(283)	(283)
	$58,781	$24,062	$82,843

The following methods and assumptions were used to estimate the fair value of each class of financial instrument. There have been no changes in the valuation techniques used by us to value our financial instruments.

Cash and cash equivalents: Consists of cash on hand in bank deposits and highly liquid investments, primarily money market accounts. The fair value was measured using quoted market prices in active markets. The carrying amount approximates fair value.

Restricted cash: Consists of cash and cash equivalents held in bank deposit accounts to secure issuances of foreign bank guarantees. The fair value of restricted cash was measured using quoted market prices in active markets. The carrying amount approximates fair value.

Certificates of deposit: Consists of time deposit accounts with original maturities of less than three years and various yields. The fair value of these securities was measured based on valuations observed in less active markets than Level 1 investments from a third-party financial institution. The carrying amount approximates fair value.

U.S. Government securities: Consists of U.S. Government treasury bills, notes, and bonds with original maturities of less than three years and various yields. The fair value of these securities was measured using quoted market prices in active markets.

U.S. Government sponsored entities: Consists of Fannie Mae and Federal Home Loan Bank investment grade debt securities trading with sufficient frequency and volume to enable us to obtain pricing information on an ongoing

basis. The fair value of these securities was measured based on valuations observed in less active markets than Level 1 investments. The contractual maturities of these investments vary from one month to three years.

Municipal obligations: Consist of investment grade municipal bonds trading with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The contractual maturities of these investments vary from two to three years.   The fair value of these bonds was measured based on valuations observed in less active markets than Level 1 investments.

Derivatives – currency forward contracts: Consists of currency forward contracts trading with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The fair value of these securities was measured based on a valuation from a third-party bank. See Note 13. Derivative Financial Instruments for more information regarding our derivatives.

The fair value measurement standard also applies to certain non-financial assets and liabilities measured at fair value on a nonrecurring basis. For example, certain long-lived assets such as goodwill, intangible assets and property, plant and equipment are measured at fair

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value in connection with business combinations or when an impairment is recognized and the related assets are written down to fair value. We utilized the fair value measurement standard, using primarily Level 3 inputs, to value the assets and liabilities for the business combination involving Data Display and the determination of goodwill associated with the sale of our automated rigging systems business for theatre applications. See Note 5. Business Combinations for more information. We did not make any material business combinations or recognize significant impairment losses during fiscal 2015.

Note 13. Derivative Financial Instruments

We utilize derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates on those transactions denominated in currencies other than our functional currency, which is the U.S. dollar. We enter into currency forward contracts to manage these economic risks. We account for all derivatives on the balance sheet within accounts receivable or accounts payable measured at fair value, and changes in fair values are recognized in earnings unless specific hedge accounting criteria are met for cash flow or net investment hedges. As of August 1, 2015 and May 2, 2015, we had not designated any of our derivative instruments as accounting hedges, and thus we recorded the changes in fair value in other (expense) income, net.

The foreign currency exchange contracts in aggregated notional amounts in place to exchange United States Dollars at August 1, 2015 and May 2, 2015 were as follows:

	August 1, 2015		May 2, 2015	
	U.S. Dollars	Foreign Currency	U.S. Dollars	Foreign Currency
Foreign Currency Exchange Forward Contracts:				
U.S. Dollars/Australian Dollars	3,628	4,800	1,487	1,918
U.S. Dollars/Japanese Yen	136	16,707	764	91,282
U.S. Dollars/Canadian Dollars	1,907	2,479	4,129	4,923
U.S. Dollars/British Pounds	1,961	1,285	1,679	1,123
U.S. Dollars/Singapore Dollars	1,002	1,369	1,176	1,601
U.S. Dollars/Euros	(91)	(54)	(229)	(174)
U.S Dollars/Swiss Franc	4,636	4,500	5,662	5,500

As of August 1, 2015 and May 2, 2015, there was a net asset and liability of $35 and $283, respectively, representing the fair value of foreign currency exchange forward contracts, which were determined using Level 2 inputs from a third-party bank.

Note 14. Subsequent Events

On September 3, 2015, our Board of Directors declared a dividend of $0.10 per share payable on September 25, 2015 to shareholders of record of our common stock on September 14, 2015.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (including exhibits and any information incorporated by reference herein) contains both historical and forward-looking statements that involve risks, uncertainties and assumptions. The statements contained in this Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21B of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, beliefs, intentions and strategies for the future. These statements appear in a number of places in this Report and include all statements that are not historical statements of fact regarding the intent, belief or current expectations with respect to, among other things: (i.) our competition; (ii.) our financing plans; (iii.) trends affecting our financial condition or results of operations; (iv.) our growth strategy and operating strategy; (v.) the declaration and payment of dividends; (vi.) the timing and magnitude of future contracts; (vii.) parts shortages and lead times; (viii.) fluctuations in margins; (ix.) the seasonality of our business; (x.) the introduction of new products and technology; and (xi.) the timing and magnitude of any acquisitions or dispositions. The words "may," "would," "could," "should," "will," "expect," "estimate," "anticipate," "believe," "intend," "p similar expressions and variations thereof are intended to identify forward-looking statements. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, many of which are beyond our ability to control, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein, including those discussed in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended May 2, 2015 in the section entitled "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and those factors discussed in detail in our other filings with the Securities and Exchange Commission.

The following discussion highlights the principal factors impacting our financial condition and further describes our results of operations. This discussion should be read in conjunction with the accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in this Report.

The following discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments affecting the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate our estimates, including those related to total costs on long-term construction-type contracts, costs to be incurred for product warranties and extended maintenance contracts, bad debts, excess and obsolete inventory, income taxes, share-based compensation and contingencies. Our estimates are based on historical experience and on various other assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

OVERVIEW

We design, manufacture and sell a wide range of display systems to customers throughout the world. We focus our sales and marketing efforts on markets, geographical regions and products. Our five business segments consist of four domestic business units and the International business unit. The four domestic business units consist of Commercial, Live Events, High School Park and Recreation (formerly known as Schools and Theatres), and Transportation, all of which include the geographic territories of the United States and Canada. Disclosures related to our business segments

are provided in Note 3. Segment Disclosure.

Our net sales and profitability historically have fluctuated due to the impact of large project orders, such as display systems for professional sports facilities, colleges and universities, and spectacular projects in the commercial area, as well as the seasonality of the sports market. Large project orders can include a number of displays, controllers, and subcontracted structure builds, each of which can occur on varied schedules according to the customer's needs. Net sales and gross profit percentages also have fluctuated due to other seasonal factors, including the impact of holidays, which primarily affects our third quarter. Our gross margins on large custom and large standard orders tend to fluctuate more than on small standard orders. Large product orders involving competitive bidding and substantial subcontract work for product installation generally have lower gross margins. Although we follow the percentage of completion method of recognizing revenues for large custom orders, we nevertheless have experienced fluctuations in operating results and expect our future results of operations will be subject to similar fluctuations.

Orders are booked and included in backlog only upon receipt of an executed contract and any required deposits. As a result, certain orders for which we have received binding letters of intent or contracts will not be booked until all required contractual documents and deposits are received. In addition, order bookings can vary significantly on a quarterly basis as a result of the timing of large orders.

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For a summary of recently issued accounting pronouncements and the effects of those pronouncements on our financial results, refer to Note 1. Basis of Presentation and Summary of Critical Accounting Policies of the Notes to the Consolidated Financial Statements included elsewhere in this Report.

GENERAL

Our business, especially the large video display business in all of our business units, is very competitive, and generally our margins on these large video display contracts are similar across the business units over the long-term. There are, however, differences in the short term among the business units, which are discussed in the following analysis.

Our business growth is driven by the market demand for large format electronic displays with the depth and quality of our products, including related control systems, the depth of our service offerings and our technology serving these market demands. This growth, however, is partially offset by declines in product prices caused by increasing competition. Each business unit also has unique key growth drivers and challenges.

Commercial Business Unit: Over the long-term, we believe growth in the Commercial business unit will result from a number of factors, including:

- Standard display product market growth due to market adoption and lower product costs, which drive marketplace expansion. Standard display products are used to attract or communicate with customers and potential customers of retail, commercial, and other establishments. Pricing and economic conditions impact our success in this business unit. We utilize a reseller network to distribute our standard products.
- National accounts standard display market opportunities due to their desire to communicate their message, advertising and content consistently across the country. Increased demand is possible from retailers, quick serve restaurants, petroleum businesses, and other nationwide organizations.
- Increasing interest in spectaculars, which include very large and sometimes highly customized displays as part of entertainment venues such as casinos, amusement parks and Times Square type locations.
- The introduction of architectural lighting products for commercial buildings, which real estate owners use to add accents or effects to an entire side or circumference of a building to communicate messages or to decorate the building.
- The continued deployment of digital billboards as out-of-home ("OOH") companies continue developing new sites and start to replace digital billboards which are reaching end of life. This is dependent on there being no adverse changes in the digital billboard regulatory environment, which could restrict future deployments of billboards, as well as maintaining our current market share of the business concentrated in a few large OOH companies.
- Replacement cycles within each of these areas.

Live Events Business Unit: Over the long-term, we believe growth in the Live Events business unit will result from a number of factors, including:

- Facilities spending more on larger display systems to enhance the game-day and event experience for attendees.
- Lower product costs, driving an expansion of the marketplace.
- Our product and service offerings, which remain the most integrated and comprehensive offerings in the industry.
- The competitive nature of sports teams, which strive to out-perform their competitors with display systems.
- The desire for high-definition video displays, which typically drives larger displays or higher resolution displays, both of which increase the average transaction size.
- Replacement cycles within each of these areas.

High School Park and Recreation Business Unit: Over the long-term, we believe growth in the High School Park and Recreation business unit will result from a number of factors, including:

- Increased demand for video systems in high schools as school districts realize the revenue generating potential of these displays versus traditional scoreboards.
- Increased demand for different types of displays, such as message centers at schools to communicate to students, parents and the broader community.
- The use of more sophisticated displays in athletic facilities, such as aquatic venues in schools.

Transportation Business Unit: Over the long-term, we believe growth in the Transportation business unit will result from increasing applications and acceptance of electronic displays to manage transportation systems, including roadway, airport, parking, transit and other applications. Effective use of the United States transportation infrastructure requires intelligent transportation systems. This growth is highly dependent on government spending, primarily by the federal government, along with the continuing acceptance of private/public partnerships as an alternative funding source.

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International Business Unit: Over the long-term, we believe growth in the International business unit will result from achieving greater penetration in various geographies and building products more suited to individual markets. We are broadening our product offerings into the transportation segment in Europe and the Middle East. We currently focus on third-party advertising market opportunities and the factors listed in each of the other business units to the extent they apply outside the United States and Canada.

Each of our business units is impacted by adverse economic conditions in different ways and to different degrees. The effects of an adverse economy are generally less severe on our sports related business as compared to our other businesses, although in severe economic downturns, the sports business also can be severely impacted. Our Commercial and International business units are highly dependent on economic conditions in general.

The cost and selling prices of our products have decreased over time and are expected to continue to decrease in the future. As a result, each year we must sell more product to generate the same or greater level of net sales as in previous fiscal years. This price decline has been significant as a result of increased competition across all business units.

RESULTS OF OPERATIONS

Daktronics, Inc. operates on a 52 to 53 week fiscal year, with our fiscal year ending on the Saturday closest to April 30 of each year. When April 30 falls on a Wednesday, the fiscal year ends on the preceding Saturday. Within each fiscal year, each quarter is comprised of 13 week periods following the beginning of each fiscal year. In each 53 week year, an additional week is added to the first quarter and each of the last three quarters is comprised of a 13 week period. Fiscal 2015 was a 53-week year; therefore, the three months ended August 1, 2015 contain operating results for 13 weeks while the three months ended August 2, 2014 contained operating results for 14 weeks.

COMPARISON OF THE THREE MONTHS ENDED AUGUST 1, 2015 AND AUGUST 2, 2014

Net Sales

	Three Months Ended			
(in thousands)	August 1, 2015	August 2, 2014	Dollar Change	Percent Change
Net sales:				
Commercial	$43,210	$39,782	$3,428	8.6 %
Live Events	47,922	75,674	(27,752)	(36.7)
High School Park and Recreation	18,959	20,111	(1,152)	(5.7)
Transportation	13,767	13,313	454	3.4
International	26,363	17,738	8,625	48.6
	$150,221	$166,618	$(16,397)	(9.8)%
Orders:				
Commercial	$34,957	$41,773	$(6,816)	(16.3)%
Live Events	60,740	57,205	3,535	6.2
High School Park and Recreation	27,874	29,694	(1,820)	(6.1)
Transportation	13,637	11,302	2,335	20.7
International	27,864	20,705	7,159	34.6
	$165,072	$160,679	$4,393	2.7 %

Sales and orders in all business units were impacted as a result of the three months ended August 1, 2015 including 13 weeks compared to the three months ended August 2, 2014, which contained results for 14 weeks.

Commercial: The increase in net sales for the three months ended August 1, 2015 compared to the same period one year ago was the result of an increase in sales in our on-premise niche and spectacular niche correlating to a strong order backlog coming into fiscal 2016. Sales decreased in our digital billboard niche due to a higher than usual fiscal 2015 first quarter sales caused by construction site delays in late fiscal 2014 that moved more work into fiscal 2015.

The decrease in orders for the three months ended August 1, 2015 compared to the same period one year ago was the result of the volatility of large custom video orders in our spectacular niche. In addition, we had a large custom video order in the first quarter of fiscal 2015 and no order of a similar size occurred during the first quarter of fiscal 2016. Orders decreased in our on-premise niche and remained flat in our billboard niche primarily due to volatility on order timing and a general market delay in placing orders as compared with prior history.

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Live Events: The decrease in net sales for the three months ended August 1, 2015 compared to the same period one year ago was primarily due to project timing differences due to change in the demand profile in the marketplace. During the fourth quarter of fiscal 2015, we worked on a number of spring baseball projects, completed the work, and recognized the sales prior to the first quarter of fiscal 2016. In the first quarter of fiscal 2016, the mix of business has turned to more demand for indoor arena applications which we expect to deliver over the coming quarters.

Orders increased for the three months ended August 1, 2015 compared to the same period one year ago due to orders received in the first quarter of fiscal 2016 in connection with a large multi-million dollar new stadium project and a number of projects for professional and minor league sports, college and university sports stadiums.

High School Park and Recreation: The decrease in net sales for the three months ended August 1, 2015 compared to the same period one year ago was primarily due to the extra week in the first quarter of fiscal 2015.

Orders were relatively flat for the three months ended August 1, 2015 compared to the same period one year ago after adjusting out fiscal 2015 orders relating to the theatre rigging manufacturing division, which was sold during fiscal 2015.

Transportation: Net sales for the three months ended August 1, 2015 compared to the same period one year ago remained relatively flat.

Orders for the three months ended August 1, 2015 compared to the same period one year ago increased primarily due to market demand for intelligent transportation systems from a number of transportation departments and success in winning mass transit rail projects.

International: Net sales in our International business unit increased for the three months ended August 1, 2015 compared to the same period one year ago mainly due to recognizing revenue on a large transportation project in Switzerland and Out-of-Home and sports stadium projects.

Orders increased for the three months ended August 1, 2015 compared to the same period one year ago primarily due to orders booked on a number of large projects relating to the sports niche for stadiums and arenas, a multi-million dollar architectural lighting project, and Out-of-Home segment orders.

Backlog

The product order backlog as of August 1, 2015 was $205.5 million as compared to $165.1 million as of August 2, 2014 and $190.5 million at the end of fiscal 2015. Historically, our backlog varies due to the seasonality of our business, the timing of large projects, and customer delivery schedules for these orders. The backlog increased from August 2, 2014 in our Live Events, High School Park and Recreation, Transportation, and International business units and decreased in our Commercial business unit. As of August 1, 2015, Live Events backlog included approximately $28 million that we expect to realize after fiscal 2016 because of the timing of new stadium builds.

Gross Profit

	Three Months Ended					
	August 1, 2015			August 2, 2014		
(in thousands)	Amount	As a Percent of Net Sales		Amount	As a Percent of Net Sales	
Commercial	$9,998	23.1	%	$11,266	28.3	%

Live Events	9,420	19.7		15,371	20.3	
High School Park and Recreation	6,384	33.7		8,159	40.6	
Transportation	4,256	30.9		4,220	31.7	
International	5,443	20.6		4,387	24.7	
	$35,501	23.6	%	$43,403	26.0	%

The decrease in our gross profit percentage for the three months ended August 1, 2015 compared to the same period one year ago was due to the differences in gross profit percentages from our mix of business, higher warranty charges for particular projects, increased production labor costs, and the non-recurring fiscal 2015 first quarter gain on the theatre rigging business sale. The following describes the overall impact by business unit:

Commercial: The gross profit percent decrease for the three months ended August 1, 2015 compared to the same period one year ago was primarily the result of the competitive nature of the market place. In the three months ended August 1, 2015, we produced a higher

percentage of sales in the spectacular niche, which historically has lower margins. Gross profit also declined due to an increase in our warranty cost as a percent of sales for particular projects and as a result of a non-recurring licensing charge.

Live Events: The gross profit percent decrease for the three months ended August 1, 2015 compared to the same period one year ago was the result of lower revenue and an increase in the fixed costs of the manufacturing and service infrastructure, offset by lower warranty costs as a percent of sales.

High School Park and Recreation: The gross profit percent decreased for the three months ended August 1, 2015 as compared to the same period one year ago primarily due to recognizing a $1.3 million gain on the sale of our theatre rigging manufacturing division during the first quarter of fiscal 2015.

Transportation: The gross profit percent decrease for the three months ended August 1, 2015 compared to the same period one year ago was primarily due to increased warranty costs as a percentage of sales, which was offset by improved manufacturing utilization.

International: The gross profit percent decrease for the three months ended August 1, 2015 compared to the same period one year ago was primarily the result of an overall gross margin decline on our large custom contracts which generally have lower margins due to their competitive nature, the low utilization of our international manufacturing facilities, and an increase in warranty costs as a percent of sales.

Selling Expense

	Three Months Ended							
	August 1, 2015					August 2, 2014		
(in thousands)	Amount	As a Percent of Net Sales		Percent Change		Amount	As a Percent of Net Sales	
Commercial	$3,885	9.0	%	(10.8	)%	$4,356	10.9	%
Live Events	3,238	6.8		(2.6	)	3,323	4.4	
High School Park and Recreation	2,608	13.8		(13.1	)	3,000	14.9	
Transportation	1,076	7.8		14.6		939	7.1	
International	3,457	13.1		0.8		3,428	19.3	
	$14,264	9.5	%	(5.2	)%	$15,046	9.0	%

All areas of selling expenses were impacted as a result of the three months ended August 1, 2015 including 13 weeks compared to the three months ended August 2, 2014, which contained results for 14 weeks.

Selling expenses consist primarily of salaries, other employee-related costs, travel and entertainment expenses, facilities-related costs for sales and service offices, bad debt expenses, third-party commissions and expenditures for marketing efforts, including the costs of collateral materials, conventions and trade shows, product demos, and supplies.

Selling expense in our Commercial, Live Events, and High School Park and Recreation business units decreased in the first quarter of fiscal 2016 compared to the same quarter a year ago, which was mainly related to the additional week of selling expenses in the first quarter of fiscal year 2015.

Selling expenses in our Transportation and International business units increased in the three months ended August 1, 2015 compared to the same period one year ago primarily due to the addition of Data Display during the second quarter of fiscal 2015.

Other Operating Expenses

	Three Months Ended				
	August 1, 2015			August 2, 2014	
(in thousands)	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
General and administrative	$8,170	5.4 %	2.9 %	$7,937	4.8 %
Product design and development	$6,968	4.6 %	2.4 %	$6,803	4.1 %

All areas of operating expenses were impacted as a result of the three months ended August 1, 2015 including 13 weeks compared to the three months ended August 2, 2014, which contained results for 14 weeks.

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General and administrative expenses consist primarily of salaries, other employee-related costs, professional fees, shareholder relations costs, facilities and equipment-related costs for administrative departments, training costs, amortization of intangibles and the costs of supplies.

General and administrative expenses in the first quarter of fiscal 2016 increased as compared to the same period one year ago primarily due to increases in information technology and personnel expenses.

Product design and development expenses consist primarily of salaries, other employee-related costs, facilities cost and equipment-related costs and supplies. Product development investments in the near term are focused on developing video technology with a range of pixel pitches for outdoor applications using LED surface mount technology, which offers improved performance at a lower cost point as compared to our current offerings. In addition, we continue to focus on various other products to standardize display components and control systems for both single site and network displays.

Our costs for product development represent an allocated amount of costs based on time charges, materials costs and the overhead of our engineering departments. Generally, a significant portion of our engineering time is spent on product development while the rest is allocated to large contract work and included in cost of goods sold. Product development expenses in the first quarter of fiscal 2016 as compared to the same period one year ago increased primarily due to an increase in materials used in the development of product transitions and labor costs assigned to product development projects.

Other Income and Expenses

	Three Months Ended				
	August 1, 2015			August 2, 2014	
(in thousands)	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
Interest income (expense), net	$236	0.2 %	1.7 %	$232	0.1 %
Other (expense) income, net	$(443)	(0.3)%	(157.6)%	$(172)	(0.1)%

Interest income (expense), net: We generate interest income through short-term cash investments, marketable securities, product sales on an installment basis, or in exchange for the rights to sell and retain advertising revenues from displays, which result in long-term receivables. Interest expense is comprised primarily of interest costs on long-term marketing obligations.

Interest income, net in the first quarter of fiscal 2016 compared to the same period one year ago remained relatively flat.

Other (expense) income, net: The change in other income and expense, net for the first quarter of fiscal 2016 as compared to the same period one year ago was primarily due to unrealized foreign currency losses from the volatility of the Euro, Australian dollar, and Canadian dollar.

Income Taxes

Our effective tax rate benefit was 35.9 percent for the first quarter of fiscal 2016 as compared to an effective tax rate of 36.1 percent for the first quarter of fiscal 2015. The substantial factors which decreased our effective tax rate were increases in our domestic manufacturing deductions and decreases in our projected book income and the related impact of permanent items such as meals and entertainment and stock compensation offset by changes to the geographic mix of income before taxes.

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LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	Three Months Ended August 1, 2015	Three Months Ended August 2, 2014	Percent Change
Net cash (used in) provided by:			
Operating activities	$(10,082)	$24,461	(141.2)%
Investing activities	(7,789)	(5,340)	45.9
Financing activities	(3,819)	(4,146)	(7.9)
Effect of exchange rate changes on cash	(325)	29	(1,220.7)
Net (decrease) increase in cash and cash equivalents	$(22,015)	$15,004	(246.7)%

Cash flows from operating activities: Operating cash flows result primarily from cash received from customers, which is offset by cash payments for inventories, income taxes, market and warranty obligations, and employee compensation.

Cash used in operating activities was $10.1 million for the first three months of fiscal 2016 compared to cash provided of $24.5 million in the first three months of fiscal 2015. The $34.6 million decrease in cash from operating activities from August 2, 2014 to August 1, 2015 was the net result of a decrease in changes in net operating assets and liabilities of $30.8 million, a decrease of $0.2 million in our deferred income taxes, net, a decrease of $5.0 million in net income, adjusted by a $1.1 million gain on sale of property, equipment and other assets and a $0.3 million increase in depreciation and amortization.

The most significant drivers of cash used in operating activities were the changes in accounts payable, customer deposits, construction-type contracts, and inventory, offset by cash generated from accounts receivable and prepaid expenses. Changes in accounts receivables consumed $2.4 million of cash in the first three months of fiscal 2016 compared to consuming $4.1 million in the same period one year ago. Changes in prepaid expenses generated $1.2 million of cash in the first three months of fiscal 2016 compared to consuming $1.6 million in the same period one year ago. Changes in construction-type contracts, customer deposits, and accounts payable consumed $11.6 million of cash in the first three months of fiscal 2016 compared to generating $11.5 million in the same period one year ago. Changes in inventory consumed $7.6 million of cash in the first three months of fiscal 2016 compared to consuming $2.0 million in the same period one year ago.

Overall, changes in operating assets and liabilities can be impacted by the timing of cash flow on large orders, which can cause significant fluctuations in the short term in inventory, accounts receivables, accounts payable, customer deposits, costs and earnings in excess of billings and various other operating assets and liabilities. Variability in costs and earnings in excess of billings and billings in excess of costs relates to the timing of billings on construction-type contracts and revenue recognition, which can vary significantly depending on contractual payment terms and build and installation schedules. Balances are also impacted by the seasonality of the sports markets.

Cash flows from investing activities: Cash used in investing activities totaled $7.8 million in the first three months of fiscal 2016 compared to $5.3 million in the first three months of fiscal 2015. Purchases of property and equipment totaled $7.2 million in the first three months of fiscal 2016 compared to $8.1 million in the first three months of fiscal 2015. The change from the prior year is due to the purchase of new manufacturing equipment for various new product lines as well as machine upgrades and additions to our information technology infrastructure.

A net cash inflow of $3.5 million was recognized during the first three months of fiscal 2015 from the disposition of our automated rigging systems division for theatre applications. No comparable transaction occurred in the first three months of fiscal 2016.

A net cash outlay of $0.6 million was recognized during each of the first three months of fiscal 2016 and fiscal 2015 for acquisitions, investment in affiliates and equity investments.

Cash flows from financing activities: Cash used in financing activities was $3.8 million for the three months ended August 1, 2015 compared to $4.1 million in the same period one year ago. Dividends of $4.4 million, or 10.0 cents per share, were paid to Daktronics shareholders during the first quarter of fiscal 2016 compared to $4.3 million, or 10.0 cents per share, paid to Daktronics shareholders during the first quarter of fiscal 2015.

Other Liquidity and Capital Resources Discussion: Although we have $4.8 million of retainage on long-term contracts included in receivables and costs in excess of billings as of August 1, 2015, we expect all of it to be collected within one year.

Working capital was $145.2 million at August 1, 2015 and $148.1 million at May 2, 2015. The decrease in working capital was primarily the result of a decrease in cash due to tax payments, dividend payments, and property and equipment purchases offset by decreases in

accounts payable, and construction-type contracts, and an increase in inventory. We have historically financed working capital needs through a combination of cash flow from operations and borrowings under bank credit agreements.

We have used and expect to continue to use cash reserves and, to a lesser extent, 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 a customer's delivery needs. We often receive down payments or progress payments on these product orders. To the extent 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.

We have a credit agreement with a U.S. bank for a $35.0 million line of credit, which includes up to $15.0 million for standby letters of credit. The line of credit, which was amended on November 15, 2013, is due on November 15, 2016. The interest rate ranges from LIBOR plus 145 basis points to LIBOR plus 195 basis points depending on the ratio of our interest-bearing debt to EBITDA. EBITDA is defined as net income before deductions for interest expense, income taxes, depreciation and amortization, all as determined in accordance with GAAP. The effective interest rate was 1.6 percent at August 1, 2015. We are assessed a loan fee equal to 0.125 percent per annum of any non-used portion of the loan. As of August 1, 2015, there were no advances to us under the line of credit and the balance of letters of credit outstanding was approximately $10.9 million.

The credit agreement is unsecured and requires us to be in compliance with the following financial ratios:

- A minimum fixed charge coverage ratio of at least 2-to-1 at the end of any fiscal year. The ratio is equal to (a) EBITDA less dividends or other distributions, a capital expenditure reserve of $6 million, and income tax expenses, over (b) all principal and interest payments with respect to debt, excluding principal payments on the line of credit; and
- A ratio of interest-bearing debt, excluding any marketing obligations, to EBITDA of less than 1-to-1 at the end of any fiscal quarter.

We have an additional credit agreement with another U.S. bank which supports our credit needs outside of the United States. It was also amended on November 15, 2013 and becomes due on November 15, 2016. The facility provides for a $40.0 million line of credit and includes facilities for letters of credit and bank guarantees and to secure foreign loans for our international subsidiaries. This credit agreement is unsecured. It contains the same covenants as the credit agreement on the line of credit and contains an inter creditor agreement whereby the debt has a cross default provision with the primary credit agreement. Total credit allowed between the two credit agreements is limited to $40 million. As of August 1, 2015, there were no advances outstanding and approximately $2.4 million in bank guarantees under this line of credit.

We were in compliance with all applicable covenants as of August 1, 2015 and May 2, 2015. The minimum fixed charge coverage ratio as of May 2, 2015 was 33-to-1, and the ratio of interest-bearing debt to EBITDA as of August 1, 2015 was .03-to-1.

We utilize cash to pay dividends to our investors. The following table summarizes the quarterly dividend declared and paid since the prior fiscal year end of May 2, 2015:

Date Declared	Record Date	Payment Date	Amount per Share
May 29, 2015	June 12, 2015	June 23, 2015	$0.10
September 3, 2015	September 14, 2015	September 25, 2015	$0.10

Although we expect to continue to pay dividends for the foreseeable future, any and all subsequent dividends will be reviewed regularly and declared by the Board 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 for an aggregate of $150.0 million in bonded work outstanding. If we were unable to complete the work and our customer would call upon the bond for payment, the surety company would subrogate its loss to Daktronics. At August 1, 2015, we had $50.9 million of bonded work outstanding against this line.

Our business growth and profitability improvement strategies depend on investments in capital expenditures. We are projecting capital expenditures to be approximately $25 million for fiscal 2016 for manufacturing equipment for new or enhanced product production, expanded capacity, investments in quality and reliability equipment, and continued information infrastructure investments.

We believe our working capital available from all sources will be adequate to meet the cash requirements of our operations in the foreseeable future. If our growth extends beyond current expectations, or if we make any strategic investments, we may need to increase our credit facilities or seek other means of financing. We anticipate we will be able to obtain any needed funds under commercially reasonable terms from our current lenders or other sources.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rates

Through August 1, 2015, most of our net sales were denominated in United States dollars, and our exposure to foreign currency exchange rate changes on net sales has not been significant. For the first quarter of fiscal 2016, net sales originating outside the United States were 20.2 percent of total net sales, of which a portion was denominated in Canadian dollars, Euros, Chinese renminbi, British pounds, Australian dollars, Brazilian reais or other currencies. We manufacture our products in the United States, China, Belgium, and Ireland. Our results of operations could be affected by factors such as changes in foreign currency rates or weak economic conditions in foreign markets. If we believed currency risk in any foreign location is 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 may fund our foreign subsidiaries' operating cash needs 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 U.S. dollar. To the extent we engage in international sales denominated in U.S. dollars, an increase in the value of the U.S. 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 estimate that a 10 percent change in all foreign exchange rates would impact our reported income before taxes by approximately $1.8 million annually. This sensitivity analysis disregards the possibilities that rates can move in opposite directions and that losses from one geographic area may be offset by gains from another geographic area. 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 ability to effectively hedge exchange rate fluctuations in the future.

We have foreign currency forward agreements in place to offset changes in the value of inter-company receivables from certain foreign subsidiaries due to changes in foreign exchange rates. The notional amount of these derivatives is $13.2 million, and all contracts mature within 17 months. These contracts are marked to market each balance sheet date and are not designated as hedges. See Note 13. Derivative Financial Instruments included in this Report for further details on our derivatives.

Interest Rate Risks

Our exposure to market rate risk for changes in interest rates relates primarily to our marketing obligations and long-term accounts receivable. As of August 1, 2015, our outstanding marketing obligations were $0.8 million, all of which were in fixed rate obligations.

In connection with the sale of certain display systems, we have entered into various types of financing 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 August 1, 2015, our outstanding long-term receivables were $9.6 million. Each 25 basis point increase in interest rates would have an associated immaterial annual opportunity cost.

The following table provides maturities and weighted average interest rates on our financial instruments sensitive to changes in interest rates.

	Fiscal Years (dollars in thousands)					
	2016	2017	2018	2019	2020	Thereafter
Assets:						
Long-term receivables, including current maturities:						
Fixed-rate	$2,847	$2,544	$1,824	$1,191	$517	$720
Average interest rate	8.5 %	8.5 %	8.5 %	8.5 %	9.0 %	9.0 %
Liabilities:						
Long- and short-term debt:						
Fixed-rate	$64	$473	$401	$419	$—	$—
Average interest rate	4.5 %	4.5 %	4.5 %	4.5 %	— %	— %
Long-term marketing obligations, including current portion:						
Fixed-rate	$191	$198	$144	$134	$65	$10
Average interest rate	8.4 %	8.8 %	8.9 %	9.0 %	9.0 %	9.0 %

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Of our $35.3 million in cash balances at August 1, 2015, $26.3 million was denominated in U.S. 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 subsidiaries.

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 August 1, 2015, 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 August 1, 2015, 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 August 1, 2015, there was no change in our internal control over financial reporting which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Not applicable.

Item 1A. RISK FACTORS

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 fiscal year ended May 2, 2015. They describe 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 our financial condition or financial results.

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

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

A list of exhibits required to be filed as part of this report is set forth in the Index of Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

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

Date: September 3, 2015

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Index to Exhibits

Certain of the following exhibits are incorporated by reference from prior filings. The form with which each exhibit was filed and the date of filing are as indicated below; the reports described below are filed as Commission File No. 0-23246 unless otherwise indicated.

3.1	Amended and Restated Articles of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 filed with our Quarterly Report on Form 10-Q on August 30, 2013).
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.4 filed with our Annual Report on Form 10-K on June 12, 2013).
10.1	Twelfth Amendment to Loan Agreement dated November 15, 2013 by and between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit 10.1 filed with our Current Report on Form 8-K filed on November 18, 2013)
10.2	Renewal Revolving Note dated November 15, 2013 issued by the Company to the U.S. Bank National Association. (Incorporated by reference to Exhibit 10.2 filed with our Current Report on Form 8-K filed on November 18, 2013).
10.3	Fifth Amendment to Loan Agreement dated November 15, 2013 by and between the Company and Bank of America, N.A. (Incorporated by reference to Exhibit 10.3 filed with our Current Report on Form 8-K filed on November 18, 2013)
10.4	Reaffirmation of and Third Amendment to Unlimited Guaranty Agreement dated November 15, 2013 by and between the Company and Bank of America, N.A. (Incorporated by reference to Exhibit 10.4 filed with our Current Report on Form 8-K filed on November 18, 2013)
10.5	Amended and Restated Revolving Note dated November 15, 2013 issued by the Company to Bank of America, N.A. (Incorporated by reference to Exhibit 10.5 filed with our Current Report on Form 8-K filed on November 18, 2013).
10.6	Daktronics, Inc. 2015 Stock Incentive Plan ("2015 Plan"). (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A filed on July 14, 2015).
10.7	Form of Restricted Stock Award Agreement under the 2015 Plan (Incorporated by reference to Exhibit 10.2 filed with our Current Report on Form 8-K on September 3, 2015).
10.8	Form of Non-Qualified Stock Option Agreement Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.3 filed with our Current Report on Form 8-K on September 3, 2015).
10.9	Form of Incentive Stock Option Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.4 filed with our Current Report on Form 8-K on September 3, 2015).
10.10	Form of Restricted Stock Unit Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.5 filed with our Current Report on Form 8-K on September 3, 2015).
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. (1)
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. (1)
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). (1)
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). (1)
101	The following financial information from our Quarterly Report on Form 10-Q for the period ended August 1, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, (v) Notes to Consolidated Financial Statements, and (vii) document and entity information. (1)
	(1) Filed herewith electronically.

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