VIDEO DISPLAY CORP
Form 10-Q
October 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended August 31, 2012.

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period From to

Commission File Number 0-13394

VIDEO DISPLAY CORPORATION

(Exact name of registrant as specified on its charter)

GEORGIA	**58-1217564**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1868 TUCKER INDUSTRIAL ROAD, TUCKER, GEORGIA 30084

(Address of principal executive offices)

770-938-2080

(Registrant s telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 31, 2012, the registrant had 7,562,490 shares of Common Stock outstanding.

Video Display Corporation and Subsidiaries

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ITEM 1 FINANCIAL STATEMENTS

Video Display Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands)

	August 31, 2012 (unaudited)	February 29, 2012
Assets		
Current assets		
Cash	$ 28	$ 148
Accounts receivable, less allowance for doubtful accounts of $82 and $176	5,656	7,193
Inventories, net	32,009	29,736
Cost and estimated earnings in excess of billings on uncompleted contracts	2,214	3,236
Deferred income taxes	2,321	1,936
Income taxes refundable		680
Prepaid expenses and other	614	842
Total current assets	42,842	43,771
Property, plant, and equipment		
Land	281	336
Buildings	5,618	6,659
Machinery and equipment	15,588	17,884
	21,487	24,879
Accumulated depreciation and amortization	(17,020)	(20,463)
Net property, plant, and equipment	4,467	4,416
Note receivable	643	250
Goodwill	1,291	1,291
Intangible assets, net	1,102	1,221
Deferred income taxes	696	648
Other assets	30	6
Total assets	$ 51,071	$ 51,603

The accompanying notes are an integral part of these consolidated statements.

Video Display Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (continued)

(in thousands)

	August 31, 2012 (unaudited)	February 29, 2012
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	$ 2,170	$ 3,237
Accrued liabilities	2,020	1,945
Billings in excess of cost and estimated earnings on uncompleted contracts	334	342
Income taxes payable	58	
Lines of credit	11,155	
Current maturities of long-term debt	5,045	945
Total current liabilities	20,782	6,469
Lines of credit		11,057
Long-term debt, less current maturities	305	4,878
Unrecognized gain	554	
Other long term liabilities	249	246
Total liabilities	21,890	22,650
Shareholders Equity		
Preferred stock, no par value 10,000 shares authorized; none issued and outstanding		
Common stock, no par value 50,000 shares authorized; 9,732 issued and 7,562 outstanding at August 31, 2012 and 9,732 issued and 7,581 outstanding at February 29, 2012	7,293	7,293
Additional paid-in capital	115	114
Retained earnings	32,367	32,065
Treasury stock, shares at cost; 2,170 at August 31, 2012 and 2,151 at February 29, 2012	(10,594)	(10,519)
Total shareholders equity	29,181	28,953
Total liabilities and shareholders equity	$ 51,071	$ 51,603

The accompanying notes are an integral part of these consolidated statements.

Video Display Corporation and Subsidiaries

Condensed Consolidated Income Statements (unaudited)

(in thousands, except per share data)

	Three Months Ended August 31, 2012	Three Months Ended August 31, 2011	Six Months Ended August 31, 2012	Six Months Ended August 31, 2011
Net sales	**$ 12,379**	$ 16,541	**$ 24,939**	$ 33,566
Cost of goods sold	**8,877**	11,327	**17,827**	23,022
Gross profit	**3,502**	5,214	**7,112**	10,544
Operating expenses				
Selling and delivery	**1,406**	1,358	**2,815**	2,581
General and administrative	**1,808**	2,273	**3,836**	4,330
	3,214	3,631	**6,651**	6,911
Operating profit	**288**	1,583	**461**	3,633
Other income (expense)				
Interest expense	**(180)**	(205)	**(362)**	(439)
Other, net	**62**	80	**260**	70
	(118)	(125)	**(102)**	(369)
Income from operations before income taxes	**170**	1,458	**359**	3,264
Income tax expense	**27**	457	**57**	1,025
Net income	**$ 143**	$ 1,001	**$ 302**	$ 2,239
Net income per share:				
Basic earnings per share of common stock	**$ .02**	$ .13	**$ .04**	$ .29
Diluted earnings per share of common stock	**$ .02**	$ .13	**$ .04**	$ .28
Basic weighted average shares outstanding	**7,565**	7,620	**7,573**	7,614
Diluted weighted average shares outstanding	**7,625**	7,936	**7,629**	7,940

The accompanying notes are an integral part of these consolidated statements.

Video Display Corporation and Subsidiaries

Condensed Consolidated Statement of Shareholders Equity (unaudited)

(in thousands)

	Common Shares	Share Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance, February 29, 2012	7,581	$ 7,293	$ 114	$ 32,065	$ (10,519)
Net income				302	
Purchase of treasury stock	(22)				(90)
Options exercised	3		(5)		15
Share based compensation			6		
Balance, August 31, 2012	7,562	$ 7,293	$ 115	$ 32,367	$ (10,594)

The accompanying notes are an integral part of these consolidated statements.

Video Display Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (unaudited)

(in thousands)

	Six Months Ended August 31, 2012	2011
Operating Activities		
Net income	**$ 302**	$ 2,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**531**	566
Provision for doubtful accounts	**(87)**	129
Provision for inventory reserve	**664**	787
Non-cash charge for share based compensation	**6**	183
Deferred income taxes	**(433)**	100
Gain on disposal of equipment	**(47)**	
Other	**(5)**	11
Changes in working capital:		
Accounts receivable	**1,623**	(18)
Inventories	**(2,937)**	(331)
Note receivable for StingRay56	**250**	
Prepaid expenses and other current assets	**257**	(34)
Accounts payable and accrued liabilities	**(990)**	(1,827)
Cost, estimated earnings and billings, net, on uncompleted contracts	**1,014**	(919)
Income taxes refundable/payable	**739**	336
Net cash provided by operating activities	**887**	1,222
Investing Activities		
Capital expenditures	**(604)**	(279)
Proceeds from sale of Chroma property	**52**	
Proceeds from sale of Fox International, Ltd.		51
Use of letter of credit/CD		1,388
Net cash provided by (used in) investing activities	**(552)**	1,160
Financing Activities		
Proceeds from long-term debt, lines of credit	**13,853**	3,328
Payments on long-term debt, lines of credit	**(14,228)**	(6,450)
Purchase of treasury stock	**(90)**	
Re-issue of treasury stock for options exercised	**10**	
Proceeds from notes payable to officers and directors		10
Repayments of notes payable to officers and directors		(486)
Net cash (used in) financing activities	**(455)**	(3,598)
Net change in cash	**(120)**	(1,216)
Cash, beginning of year	**148**	1,399
Cash, end of period	**$ 28**	$ 183

The accompanying notes are an integral part of these consolidated statements.

Video Display Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

August 31, 2012

Note 1. Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries after elimination of all significant intercompany accounts and transactions.

As contemplated by the Securities and Exchange Commission (the SEC or Commission) instructions to Form 10-Q, the following footnotes have been condensed and, therefore, do not contain all disclosures required in connection with annual consolidated financial statements. Reference should be made to the Company s year-end consolidated financial statements and notes thereto, including a description of the accounting policies followed by the Company, contained in its Annual Report on Form 10-K for the fiscal year ended February 29, 2012, as filed with the Commission. There are no material changes in accounting policy during the six months ended August 31, 2012.

The consolidated financial information included in this report has been prepared by the Company, without audit. In the opinion of management, the financial information included in this report contains all adjustments (all of which are normal and recurring) necessary for a fair presentation of the results for the interim periods. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year. The February 29, 2012 consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Note 2. Liquidity

On December 23, 2010, the Company and its subsidiaries executed a new Credit Agreement with RBC Bank and Community & Southern Bank (collectively, the Banks) to provide new financing to the Company to replace the existing credit agreement with RBC Bank that terminated in conjunction with this Agreement. The new Agreement provided for a line of credit of up to $17.5 million and two term loans of $3.5 million and $3.0 million.

1st Amendment: On May 26, 2011, the Banks amended the Credit Agreement to reduce the revolver commitment to $15.0 million, restate the covenants to pertain to only continuing operations of the Company and to adjust the targets for the senior funded debt to EBITDA covenant for the Company s quarters ending May 31, 2011 and August 31, 2011.

2nd Amendment: On July 26, 2011, the Banks again amended the Credit Agreement to include a swing-line promissory note of $1.0 million that is included in the revised $15.0 million revolver commitment.

3rd Amendment: On September 1, 2011, the Banks amended the Credit Agreement to allow the Company to repurchase a limited amount of the Company s common stock, equal to ten percent of the Company s net earnings after taxes, subject to meeting certain share repurchase conditions and revised the definition of the fixed charge coverage ratio and total liabilities to tangible net worth to exclude such repurchases.

4th Amendment: On January 17, 2012, the Banks amended the Credit Agreement to allow the Company to purchase a promissory note, dated July 23, 2010, held by Hetra Secure Solutions Corporation on StingRay56.

5th Amendment: On March 5, 2012, the Banks amended the Credit Agreement to allow the Company to acquire StingRay56, Inc.

The outstanding balance of the line of credit at August 31, 2012 was $11.2 million and the balances of the term loans were $2.3 million and $2.7 million, respectively. The outstanding balance of the line of credit at February 29, 2012 was $11.1 million and the balances of the term loans were $2.7 million and $2.8 million, respectively. These loans are secured by all assets and personal property of the Company and a limited guarantee of the Chief Executive Officer of $3.0 million. The $3.0 million term loan is secured by real estate property of the Company and a building owned by Southeastern Metro Savings, LLC, a company in which the Company s Chief Executive Officer is a minority owner. The building will continue to be in the collateral pool until such time as the note is sufficiently paid down or it is replaced by other collateral.

Video Display Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

August 31, 2012

The Agreement contains three covenants: a fixed charge coverage ratio, ratio of senior funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA), and total liabilities to tangible net worth. The Agreement also includes restrictions on the incurrence of additional debt or liens, investments (including Company stock), divestitures and certain other changes in the business. The Agreement expires on December 1, 2013. The interest rate on these loans is a floating LIBOR rate based on a fixed charge coverage ratio, minimum 4.0%, as defined in the loan documents.

As of August 31, 2012, the Company was not in compliance with the senior funded debt to EBITDA ratio and permitted share repurchases covenants as defined by the Banks credit line agreements. A breach of these covenants could result in default under the debt agreement, which could prompt the lender to declare all amounts outstanding under the debt agreement to be immediately due and payable and terminate all commitments to extend further credit. If the Company were unable to repay those amounts, the lender could proceed against the collateral granted to secure that indebtedness. If the lender under the debt agreement accelerates the repayment of the borrowings, the Company cannot guarantee that it will have sufficient assets and funds to repay the borrowings under the debt agreements. The Company has been in talks with other banks about refinancing the current debt under an agreement with less restrictive covenants and borrowing base calculations. Management believes that a new debt agreement can be obtained by the end of third quarter, however, there can be no assurance that an agreement can be reached that is reasonable to the Company or at all. As a result of the covenant violations and the Company s likelihood of not meeting them at the next reporting period, the debt has been classified as current at August 31, 2012. The senior funded debt to EBITDA covenant was deemed to be the most restrictive by the Company and the Banks.

Note 3. Recent Accounting Pronouncements

In September 2011, the FASB issued revised guidance FASB ASU 2011-08, *Intangibles Goodwill and Other (Topic 350) - Testing Goodwill for Impairment* to allow entities to use a qualitative approach to test goodwill for impairment. The amendment permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted and the Company has chosen early adoption. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

In July 2012, the FASB issued revised guidance FASB ASU 2012-02, *Testing Indefinite Lived Assets for Impairment* to allow entities to consider qualitative values in determining whether or not indefinite lived assets should be tested for impairment. If it is more likely than not that impairment exists, testing for impairment should be performed. The update is effective for fiscal years beginning after September 15, 2012 but early adoption is permitted. Management believes that the adoption of this guidance will not have a material impact on the Company s consolidated financial statements.

Note 4. Inventories

Inventories are stated at the lower of cost (first in, first out) or market.

Video Display Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

August 31, 2012

Inventories consisted of the following (in thousands):

	August 31, 2012	February 29, 2012
Raw materials	**$ 21,595**	$ 19,106
Work-in-process	**6,643**	6,853
Finished goods	**7,566**	7,027
	35,804	32,986
Reserves for obsolescence	**(3,795)**	(3,250)
	$ 32,009	$ 29,736

Note 5. Costs and Estimated Earnings Related to Billings on Uncompleted Contracts

Information relative to contracts in progress consisted of the following:

	August 31, 2012	February 29, 2012
Costs incurred to date on uncompleted contracts	**$ 10,615**	$ 7,499
Estimated earnings recognized to date on these contracts	**6,592**	4,373
	17,207	11,872
Billings to date	**(15,327)**	(8,978)
Costs and estimated earnings in excess of billings, net	**$ 1,880**	$ 2,894
Costs and estimated earnings in excess of billings	**$ 2,214**	$ 3,236
Billings in excess of costs and estimated earnings	**(334)**	(342)
	$ 1,880	$ 2,894

Costs and estimated earnings in excess of billings are the results of contracts in progress (jobs) in completing orders to customers specifications on contracts accounted for under FASB ASC 605-35, *Revenue Recognition: Construction-Type and Production-Type Contracts*. Costs included are material, labor, and overhead. These jobs require design and engineering effort for a specific customer purchasing a unique product. The Company records revenue on these fixed-price and cost-plus contracts on the percentage of completion basis using the ratio of costs incurred to estimated total costs at completion as the measurement basis for progress toward completion and revenue recognition. Any losses identified on contracts are recognized immediately. Contract accounting requires significant judgment relative to assessing risks, estimating contract costs and making related assumptions for schedule and technical issues. With respect to contract change orders, claims, or similar items, judgment must be used in estimating related amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is probable. Billings are generated based on specific contract terms, which might be a progress payment schedule, specific shipments, etc. None of the above contracts in progress contain post-shipment obligations.

Changes in job performance, manufacturing efficiency, final contract settlements, and other factors affecting estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Video Display Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

August 31, 2012

As of August 31, 2012 and February 29, 2012, there were no production costs that exceeded the aggregate estimated cost of all in-process and delivered units relating to long-term contracts. Additionally, there were no claims outstanding that would affect the ultimate realization of full contract values. As of August 31, 2012 and February 29, 2012, there were no progress payments that had been netted against inventory.

Note 6. Intangible Assets

Intangible assets consist primarily of the unamortized value of purchased patents, customer lists, non-compete agreements and other intangible assets. Intangible assets are amortized over the period of their expected lives, generally ranging from 5 to 15 years. Amortization expense related to intangible assets was approximately $119 thousand and $157 thousand for the six months ended August 31, 2012 and 2011, respectively.

The cost and accumulated amortization of intangible assets were as follows (in thousands):

	August 31, 2012		February 29, 2012	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Customer lists	**$ 3,611**	**$ 2,759**	$ 3,611	$ 2,701
Non-compete agreements	**1,245**	**1,245**	1,245	1,245
Patents	**777**	**702**	777	692
Other intangibles	**649**	**474**	649	423
	$ 6,282	**$ 5,180**	$ 6,282	$ 5,061

Video Display Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

August 31, 2012

Note 7. Long-term Debt

Long-term debt consisted of the following (in thousands):

	August 31, 2012	February 29, 2012
Note payable to RBC Bank and Community & Southern Bank; interest rate at LIBOR plus applicable margin as defined per the loan agreement, minimum 4.00% (2.51% combined rate as of August 31, 2012); monthly principal payments of $58 plus accrued interest, payable through December 2013 with an extension to December 2015 with a renewal of the credit agreement in December 2013; collateralized by all assets of the Company.	**$ 2,333**	$ 2,683
Note payable to RBC Bank and Community & Southern Bank; interest rate at LIBOR plus applicable margin as defined per the loan agreement, minimum 4.00% (2.51% combined rate as of August 31, 2012); monthly principal payments of $17 plus accrued interest, payable through December 2013 with an extension to December 2025 with a renewal of the credit agreement in December 2013; collateralized by three properties of the Company and one property owned by the Chief Executive Officer.	**2,667**	2,767
Mortgage payable to bank; interest rate at Community Banks Base Rate plus 0.5% (3.75% as of August 31, 2012); monthly principal and interest payments of $5 payable through October 2021; collateralized by land and building of Aydin Display Systems, Inc.	**350**	373
	5,350	5,823
Less current maturities	**(5,045)**	(945)
	$ 305	$ 4,878

Note 8. Lines of Credit

On December 23, 2010, the Company and its subsidiaries executed a new Credit Agreement with RBC Bank and Community & Southern Bank (collectively, the Banks) to provide new financing to the Company to replace the existing credit agreement with RBC Bank that terminated in conjunction with this Agreement. The new Agreement provided for a line of credit of up to $17.5 million and two term loans of $3.5 million and $3.0 million.

1st Amendment: On May 26, 2011, the Banks amended the Credit Agreement to reduce the revolver commitment to $15.0 million, restate the covenants to pertain to only continuing operations of the Company and to adjust the targets for the senior funded debt to EBITDA covenant for the Company s quarters ending May 31, 2011 and August 31, 2011.

2nd Amendment: On July 26, 2011, the Banks again amended the Credit Agreement to include a swing-line promissory note of $1.0 million that is included in the revised $15.0 million revolver commitment.

3rd Amendment: On September 1, 2011, the Banks amended the Credit Agreement to allow the Company to repurchase a limited amount of the Company s common stock, equal to ten percent of the Company s net earnings after taxes, subject to meeting certain share repurchase conditions and revised the definition of the fixed charge coverage ratio and total liabilities to tangible net worth to exclude such repurchases.

4th Amendment: On January 17, 2012, the Banks amended the Credit Agreement to allow the Company to purchase a promissory note, dated July 23, 2010, held by Hetra Secure Solutions Corporation on StingRay56.

5th Amendment: On March 5, 2012, the Banks amended the Credit Agreement to allow the Company to acquire StingRay56, Inc.
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Video Display Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

August 31, 2012

The Agreement contains three covenants: a fixed charge coverage ratio, ratio of senior funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA), and total liabilities to tangible net worth. The Agreement also includes restrictions on the incurrence of additional debt or liens, investments (including Company stock), divestitures and certain other changes in the business. The Agreement expires on December 1, 2013. The interest rate on these loans is a floating LIBOR rate based on a fixed charge coverage ratio, minimum 4.0%, as defined in the loan documents.

As of August 31, 2012, the Company was not in compliance with the senior funded debt to EBITDA ratio and permitted share repurchases covenants as defined by the Banks credit line agreements. A breach of these covenants could result in default under the debt agreement, which could prompt the lender to declare all amounts outstanding under the debt agreement to be immediately due and payable and terminate all commitments to extend further credit. If the Company were unable to repay those amounts, the lender could proceed against the collateral granted to secure that indebtedness. If the lender under the debt agreement accelerates the repayment of the borrowings, the Company cannot guarantee that it will have sufficient assets and funds to repay the borrowings under the debt agreements. The Company has been in talks with other banks about refinancing the current debt under an agreement with less restrictive covenants and borrowing base calculations. Management believes that a new debt agreement can be obtained by the end of third quarter, however, there can be no assurance that an agreement can be reached that is reasonable to the Company or at all. As a result of the covenant violations and the Company s likelihood of not meeting them at the next reporting period, the debt has been classified as current at August 31, 2012. The senior funded debt to EBITDA covenant was deemed to be the most restrictive by the Company and the Banks.

Note 9. Gain on Sale of Property, Plant and Equipment

On July 5, 2012 the Company sold its property at 8-18 Riverside Drive in White Mills, PA for $750 thousand. The Company received a $60 thousand down payment and financed the remaining $690 thousand on a ten- year note at an 8% interest rate. The Company is accounting for the sale on the installment method. The total gain on the sale is approximately $602 thousand. We recognized approximately $48 thousand of the gain at the time of the sale and the remaining gain of approximately $554 thousand will be recognized as payments are received.

Video Display Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

August 31, 2012

Note 10. Supplemental Cash Flow Information

Supplemental cash flow information is as follows (in thousands):

	Six Months Ended August 31,	
	2012	2011
Cash paid for:		
Interest	**$ 356**	$ 448
Income taxes, net of refunds	**$ (249)**	$ 589
Non-cash activity:		
Reduction of note receivable for acquisition of StingRay56	**$ 250**	$
Receipt of note receivable in conjunction with the sale of the Chroma property	**$ 690**	$
Receipt of treasury stock in conjunction with the sale of Fox International, Ltd.	**$**	$ 3,272
Reduction of notes payable to officers and directors in conjunction with the sale of Fox International, Ltd.	**$**	$ 199

Note 11. Shareholder s Equity

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during each period. Shares issued during the period are weighted for the portion of the period that they were outstanding. Diluted earnings per share is calculated in a manner consistent with that of basic earnings per share while giving effect to all dilutive potential common shares that were outstanding during the period.

Video Display Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

August 31, 2012

The following table sets forth the computation of basic and diluted earnings per share for the three and six month periods ended August 31, 2012 and 2011 (in thousands, except per share data):

	Net Income	Weighted Average Common Shares Outstanding	Earnings Per Share
Three months ended August 31, 2012			
Basic-continuing operations	$ 143	7,565	$ 0.02
Effect of dilution:			
Options		60	(0.00)
Diluted	$ 143	7,625	$ 0.02
Three months ended August 31, 2011			
Basic-continuing operations	$ 1,001	7,620	$ 0.13
Basic-discontinued operations			
Effect of dilution:			
Options		316	(0.00)
Diluted	$ 1,001	7,936	$ 0.13
Six months ended August 31, 2012			
Basic-continuing operations	$ 302	7,573	$ 0.04
Effect of dilution:			
Options		56	(0.00)
Diluted	$ 302	7,629	$ 0.04
Six months ended August 31, 2011			
Basic-continuing operations	$ 2,239	7,614	$ 0.29
Basic-discontinued operations			
Effect of dilution:			
Options		326	(0.01)
Diluted	$ 2,239	7,940	$ 0.28

Stock-Based Compensation Plans

For the six-month period ended August 31, 2012 and 2011, the Company recognized general and administrative expenses of $5.9 thousand and $17.5 thousand, respectively, related to share-based compensation. The liability for the share-based compensation recognized is presented in the consolidated balance sheets as part of additional paid in capital. As of August 31, 2012, total unrecognized compensation costs related to stock options granted was $7.4 thousand. The unrecognized stock option compensation cost is expected to be recognized over a period of approximately 1 year.

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing model, which requires the Company to estimate the expected term of the stock option grants and expected future stock price volatility over the term. The term represents the expected period of time the Company believes the options will remain outstanding based on historical information. Estimates of expected future stock price volatility are based on the historic volatility of the Company s common stock, which represents the standard deviation of the differences in the weekly stock closing price, adjusted for dividends and stock splits.

Video Display Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

August 31, 2012

Three members of the board of directors were each granted 3,000 stock options during the six-month period ended August 31, 2012.

Stock Repurchase Program

The Company has a stock repurchase program, pursuant to which it was originally authorized to repurchase up to 1,632,500 shares of the Company s common stock in the open market. On July 8, 2009, the Board of Directors of the Company approved a one time continuation of the stock repurchase program, and authorized the Company to repurchase up to 1,000,000 additional shares of the Company s common stock, depending on the market price of the shares. There is no minimum number of shares required to be repurchased under the program. For the six months ended August 31, 2012, the Company repurchased 22,031 shares at an average price of $4.10 per share. The Company did not repurchase any shares in the six months ended August 31, 2011. Under the Company s stock repurchase program, an additional 705,106 shares remain authorized to be repurchased by the Company at August 31, 2012. The Credit Agreement executed by the Company on December 23, 2010 included restrictions on investments that restricted further repurchases of stock under this program. On September 1, 2011, the Agreement was amended to allow the Company to repurchase a limited amount of the Company s common stock, equal to ten percent of the Company s net earnings after taxes subject to meeting certain share repurchase conditions.

Note 12. Income Taxes

The effective tax rate for the six months ended August 31, 2012 and 2011 was 15.9% and 31.4%, respectively. These rates differ from the Federal statutory rate primarily due to the effect of state taxes, the permanent non-deductibility of certain expenses for tax purposes, and research and experimentation credits.

Note 13. Related Party Transactions

In conjunction with an agreement involving re-financing of the Company s lines of credit and Loan and Security Agreement, on June 29, 2006 the Company s CEO provided a $6.0 million subordinated term note to the Company with monthly principal payments of $33.3 thousand plus interest through July 2021. The interest rate on the note was equal to the prime rate plus one percent. The note was secured by a general lien on all assets of the Company, subordinate to the lien held by RBC Bank and Community & Southern Bank. During fiscal 2012, the Company repaid the remaining balance under this loan agreement on November 28, 2011 with consent from RBC Bank and Community & Southern Bank. The payoff was approximately $1.0 million. Interest paid on the loan in the six months ending August 31, 2011 was $60.6 thousand.

The Company s CEO provides a portion of the collateral for the term loans with the consortium of RBC Bank and Community & Southern Bank. (See Note 8 Lines of Credit)

Note 14. Legal Proceedings

During 2007, the Company acquired the Cathode Ray Tube Manufacturing and Distribution Business and certain other assets of Clinton Electronics Corp. (Clinton), including inventory and fixed assets, for a total purchase price of $2,550,000, pursuant to an Asset Purchase Agreement between the parties (the APA). The form of consideration for the assets acquired included: (i) a $1.0 million face value Convertible Note; (ii) an agreement to deliver a stock certificate representing Company Common Shares having a $1,125,000 in market value of the Company s common stock in January of 2008; and (iii) an agreement to deliver a stock certificate representing Company Common Shares having a $500,000 in market value of the Company s common stock in January of 2009. The Company had paid the $1.0 million Note Payable in January 2008. The Company disputed certain representations made by Clinton in the APA including, but not limited

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Notes to Condensed Consolidated Financial Statements (unaudited)

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to, representations concerning revenue, expenses, and inventory. As a result of this dispute, the Company did not issue the stock certificates scheduled for delivery January of 2008 and January of 2009. As such, the Company had accrued a potential liability of $1,625,000 and this accrued liability was reflected in the Company s Balance Sheet until the settlement was reached.

On August 24, 2011, the Company and the Clinton Electronics Corporation signed a settlement agreement ending the dispute involving the purchase of certain assets by the Company, pursuant to an Asset Purchase Agreement between the two companies. Prior to the negotiated settlement, the companies had agreed to arbitrate the dispute.

The terms of the settlement were not disclosed. There was no effect to the income statement due to the settlement. The previously accrued liability covered the settlement and the write off of inventory from the original agreement. The settlement did not have a material adverse effect on the Company s business, consolidated financial condition, results of operation or cash flows.

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

The following discussion should be read in conjunction with the attached interim condensed consolidated financial statements and with the Company s 2012 Annual Report to Shareholders, which included audited consolidated financial statements and notes thereto for the fiscal year ended February 29, 2012, as well as Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company is a worldwide leader in the manufacturing and distribution of a wide range of display devices, encompassing, among others, industrial, military, medical, and simulation display solutions. The Company is comprised of one segment - the manufacturing and distribution of displays and display components. The Company is organized into four interrelated operations aggregated into one reportable segment pursuant to the aggregation criteria of FASB ASC Topic 280 *Segment Reporting* :

Monitors offers a complete range of CRT, flat panel and projection display systems for use in training and simulation, military, medical, and industrial applications.

Data Display CRT offers a wide range of CRTs for use in data display screens, including computer terminal monitors and medical monitoring equipment.

Entertainment CRT offers a wide range of CRTs and projection tubes for television and home theater equipment.

Component Parts provides replacement electron guns and other components for CRTs primarily for servicing the Company s internal needs.

During fiscal 2013, management of the Company is focusing key resources on strategic efforts to dispose of unprofitable operations and seek acquisition opportunities that enhance the profitability and sales growth of the Company s more profitable product lines. The Company continues to seek new products through acquisitions and internal development that complement existing profitable product lines. Challenges facing the Company during these efforts include:

***Inventory management* -** The Company continually monitors historical sales trends as well as projected future needs to ensure adequate on-hand supplies of inventory and to mitigate the risk of overstocking slower moving, obsolete items. The Company s inventories increased particularly in the monitor division due to new product lines it is carrying due to requirements to fulfill contracts, and last - time buys. The Company has two new divisions, Aydin Visual Solutions and Aydin Cyber Security, which between the two have added $0.9 million in inventory since February 29, 2012. The Aydin Displays subsidiary has increased inventories by $0.8 million since February 29, 2012 to secure products that would no longer be available and are needed for an active contract and the Lexel subsidiary increased inventory by $1.3 million due to last - time buys of glass and other items needed for current orders. The other divisions decreased their inventories.

Certain of the Company s divisions maintain significant inventories of CRTs and component parts in an effort to ensure its customers a reliable source of supply. The Company s inventory turnover averages over approximately 230 days, although in many cases the Company would anticipate holding 90 to 100 days of inventory in the normal course of operations. This level of inventory is higher than some of the Company s competitors because it sells a number of products representing older, or trailing edge, technology that may not be available from other sources. The market for these trailing edge technology products is declining and, as manufacturers for these products discontinue production or exit the business, the Company may make last time buys. In the monitor operations of the Company s business, the market for its products is characterized by fairly rapid change as a result of the development of new technologies, particularly in the flat panel display area. If the Company fails to anticipate the changing needs of its customers and accurately forecast their requirements, it may accumulate inventories of products which its customers no longer need and which the Company will be unable to sell or return to its vendors. Because of this, the Company s management monitors the adequacy of its inventory reserves regularly, and at August 31, 2012 and February 29, 2012, believes its reserves to be adequate.

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Interest rate exposure The Company had outstanding debt of $16.5 million as of August 31, 2012, all of which is subject to interest rate fluctuations by the Company s lenders. Higher rates applied by the Federal Reserve Board could have a negative effect on the Company s earnings. It is the intent of the Company to continually monitor interest rates and consider converting portions of the Company s debt from floating rates to fixed rates should conditions be favorable for such interest rate swaps or hedges.

Results of Operations

The following table sets forth, for the three and six months ended August 31, 2012 and 2011, the percentages that selected items in the Condensed Consolidated Statements of Income bear to total sales:

	Three Months Ended August 31,		**Six Months Ended August 31,**	
	2012	2011	**2012**	2011
Sales				
Monitors	**94.6%**	92.0%	**94.6%**	91.2%
Data display CRTs	**4.7**	7.4	**4.8**	8.3
Entertainment CRTs	**0.1**	0.2	**0.1**	0.2
Components parts	**0.6**	0.4	**0.5**	0.3
Total Company	**100.0%**	100.0%	**100.0%**	100.0%
Costs and expenses				
Cost of goods sold	**71.7%**	68.5%	**71.5%**	68.6%
Selling and delivery	**11.4**	8.2	**11.3**	7.7
General and administrative	**14.6**	13.7	**15.4**	12.9
	97.7%	90.4%	**98.2%**	89.2%
Operating profit	**2.3%**	9.6%	**1.8%**	10.8%
Interest expense	**(1.4)%**	(1.2)%	**(1.4)%**	(1.3)%
Other income, net	**0.5**	0.4	**1.0**	0.2
Income before income taxes	**1.4%**	8.8%	**1.4%**	9.7%
Income tax expense	**0.2**	2.8	**0.2**	3.0
Net income	**1.2%**	6.0%	**1.2%**	6.7%

<u>Net sales</u>

Consolidated net sales decreased $4.2 million for the three months ended August 31, 2012 and $8.6 million for the six months ended August 31, 2012 as compared to the three and six months ended August 31, 2011. The Component Parts division had a slight increase in sales during both time periods ending August 31, 2012, but the other divisions all had a decrease. The Data Display and Entertainment divisions both generated less than half the sales of the comparable periods ending August 31, 2011.

The decrease in the Monitor division was lead by the Company s Display Systems division, which sales decreased for the six-month period ending August 31, 2012, compared to the six months ending August 31, 2011, from $7.8 million to $3.1 million or 60.7%. The sales decrease is a result of a transition from selling CRT products to developing and selling digital display solutions. The typical sales cycle of a new product solution is 12 to 18 months.

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We believe Display Systems is at the cusp of seeing the results of this transition. The Company s Aydin subsidiary s sales decreased by 30.4% for the six-month comparable period ending August 31, 2012, from $13.7 million to $9.5 million. The decrease was primarily due to approximately $3.0 million of shipments on long-term military contracts which have been delayed and approximately $1.0 million of projects not renewed due to lack of funding. The Z-Axis subsidiary was down 19.9% due to fewer shipments to their two major customers. Last year one of Z-Axis s major customers used Z-Axis s products to correct problems with their products already in the market place which created abnormally high demand. The second customer s demand has slowed due to decreases in orders from their military customers caused by the slowdown in overseas conflicts. Overall, the Company expects results to improve over the first six months of the fiscal year; however, the revenues are not expected to reach last year s results. The Data Display division decrease was due to the shutdown of the division s Clinton facility in the fourth quarter of fiscal 2012 and the Tucker facility s decrease was primarily to its top customer in flight simulation and decreases among most of its customer base.

Gross margins

Consolidated gross margins decreased by 32.8% for the three months ended August 31, 2012 over the three months ended August 31, 2011 and as a percent to sales decreased from 31.5% to 28.3%. The consolidated gross margin decreased by 32.5% for the six months ended August 31, 2012 over the six months ended August 31, 2011 and as a percent to sales decreased from 31.4% to 28.5% due to the decreased sales noted above while absorbing fixed costs.

Gross margins within the Monitor division decreased by 25.0% for the three month period ended August 31, 2012 over the comparable three month period ended August 31, 2011 and decreased by 31.1% for the six month period ended August 31, 2012 over the comparative six month period ended August 31, 2011 due to decreased sales volume. The actual gross margin percentages increased at both Aydin Displays and Z-Axis for the six month period ending August 31, 2012 despite lower sales due to product mix. The gross margin percentage at Display Systems decreased by 73% due to a lack of volume. The Data Display division gross margins decreased by 77.4% for the three-month comparable period ended August 31, 2012, and decreased by 58.0% for the six months ended August 31, 2012 compared to the six months ended August 31, 2011, due to the impact of the decreased revenue at the Company s display facility caused by a reduction in demand for these products due to changes in technology, i.e. CRTs being replaced by flat screens in certain applications. The gross margins in home entertainment CRTs and the Component Parts were negligible as both divisions sales continue to decline and are not material to the results of the Company. The Company expects gross margins to improve slightly compared to the first six months of the fiscal year due to improved margins at VDCDS, Aydin Displays and Z-Axis based on the forecasted product mix at these divisions.

Operating expenses

Operating expenses as a percentage of sales increased from 22.0% to 26.0% for the comparable three months ended August 31, 2012 and increased from 20.6% to 26.7% for the six months ended August 31, 2012. This was primarily due to a larger decrease in revenues than expenses. Actual expenses decreased by $0.4 million for the three month period and by $0.3 million for the six month period ending August 31, 2012 which was not as significant as the decrease in sales. Selling expenses will continue to track at last year s levels as the Company continues its marketing efforts to boost revenues. General and administrative expenses are down approximately $500,000 and will continue to be improved over last year.

Interest expense

Interest expense decreased 12.2% for the three-month comparable period ended August 31, 2012, and decreased 17.6% for the comparable six month period ended August 31, 2012 due to decreased average borrowings by the Company. The Company expects to continue to lower interest costs as the outstanding debt decreases, due to increased cash flow from operations and the management of current assets. The Company maintains various debt agreements with different interest rates, most of which are based on the prime rate or LIBOR.

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Income taxes

The effective tax rate for the three months ended August 31, 2012 and 2011 was 15.9% and 31.3%, respectively and for the six months ended August 31, 2012 and August 31, 2011 was 15.9% and 31.4% respectively. These rates differ from the Federal statutory rate primarily due to the effect of state taxes, the permanent non-deductibility of certain expenses for tax purposes, and research and experimentation credits.

Liquidity and Capital Resources

As of August 31, 2012, the Company had total cash of $27.8 thousand. The Company s working capital was $22.1 million and $37.3 million at August 31, 2012 and February 29, 2012, respectively. The decrease in the working capital is due to $15.3 million of debt reclassified to a short-term liability due to the Company s bank covenant violation and the likelihood of doing so in subsequent quarters. In recent years, the Company has financed its growth and cash needs primarily through income from operations, borrowings under revolving credit facilities, advances from the Company s Chief Executive Officer and long-term debt. Liquidity provided by operating activities of the Company is reduced by working capital requirements (largely inventories and accounts receivable), debt service, capital expenditures, and product line additions.

The Company specializes in certain products representing trailing-edge technology that may not be available from other sources, and may not be currently manufactured. In many instances, the Company s products are components of larger display systems for which immediate availability is critical for the customer. Accordingly, the Company enjoys higher gross margins on certain products, but typically has larger investments in inventories than those of its competitors.

On December 23, 2010, the Company and its subsidiaries executed a new Credit Agreement with RBC Bank and Community & Southern Bank (collectively, the Banks) to provide new financing to the Company to replace the existing credit agreement with RBC Bank that terminated in conjunction with this Agreement. The new Agreement provided for a line of credit of up to $17.5 million and two term loans of $3.5 million and $3.0 million.

1st Amendment: On May 26, 2011, the Banks amended the Credit Agreement to reduce the revolver commitment to $15.0 million, restate the covenants to pertain to only continuing operations of the Company and to adjust the targets for the senior funded debt to EBITDA covenant for the Company s quarters ending May 31, 2011 and August 31, 2011.

2nd Amendment: On July 26, 2011, the Banks again amended the Credit Agreement to include a swing-line promissory note of $1.0 million that is included in the revised $15.0 million revolver commitment.

3rd Amendment: On September 1, 2011, the Banks amended the Credit Agreement to allow the Company to repurchase a limited amount of the Company s common stock, equal to ten percent of the Company s net earnings after taxes, subject to meeting certain share repurchase conditions and revised the definition of the fixed charge coverage ratio and total liabilities to tangible net worth to exclude such repurchases.

4th Amendment: On January 17, 2012, the Banks amended the Credit Agreement to allow the Company to purchase a promissory note, dated July 23, 2010, held by Hetra Secure Solutions Corporation on StingRay56.

5th Amendment: On March 5, 2012, the Banks amended the Credit Agreement to allow the Company to acquire StingRay56, Inc.

The outstanding balance of the line of credit at August 31, 2012 was $12.5 million and the balances of the term loans were $2.5 million and $2.7 million, respectively. The outstanding balance of the line of credit at February 29, 2012 was $11.1 million and the balances of the term loans were $2.7 million and $2.8 million, respectively. These loans are secured by all assets and personal property of the Company and a limited guarantee of the Chief Executive Officer of $3.0 million. The $3.0 million term loan is secured by real estate property of the Company and a building owned by

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Southeastern Metro Savings, LLC, a company in which the Company s Chief Executive Officer is a minority officer. The building will continue to be in the collateral pool until such time as the note is sufficiently paid down or it is replaced by other collateral.

The Agreement contains three covenants: a fixed charge coverage ratio, ratio of senior funded debt to earnings before interest, taxes, depreciation and amortization (EBITDA), and total liabilities to tangible net worth. The Agreement also includes restrictions on the incurrence of additional debt or liens, investments (including Company stock), divestitures and certain other changes in the business. The Agreement expires on December 1, 2013. The interest rate on these loans is a floating LIBOR rate based on a fixed charge coverage ratio, minimum 4.0%, as defined in the loan documents.

As of August 31, 2012, the Company was not in compliance with the senior funded debt to EBITDA ratio and permitted share repurchases covenants as defined by the Banks credit line agreements. A breach of these covenants could result in default under the debt agreement, which could prompt the lender to declare all amounts outstanding under the debt agreement to be immediately due and payable and terminate all commitments to extend further credit. If the Company were unable to repay those amounts, the lender could proceed against the collateral granted to secure that indebtedness. If the lender under the debt agreement accelerates the repayment of the borrowings, the Company cannot guarantee that it will have sufficient assets and funds to repay the borrowings under the debt agreements. The Company has been in talks with other banks about refinancing the current debt under an agreement with less restrictive covenants and borrowing base calculations. Management believes that a new debt agreement can be obtained by the end of third quarter, however, there can be no assurance that an agreement can be reached that is reasonable to the Company or at all. As a result of the covenant violations and the Company s likelihood of not meeting them at the next reporting period, the debt has been classified as current at August 31, 2012. The senior funded debt to EBITDA covenant was deemed to be the most restrictive by the Company and the Banks.

The Company continues to monitor its cash and financing positions, seeking to find ways to lower its interest costs and to produce positive operating cash flow. The Company examines possibilities to grow its business as opportunities present themselves, such as new sales contracts or niche acquisitions. There could be an impact on working capital requirements to fund this growth. As in the past, the intent is to finance such projects with operating cash flows or existing bank lines; however, more permanent sources of capital may be required in certain circumstances.

Cash provided by operations for the six months ended August 31, 2012 was $0.9 million. Net income from operations provided $0.3 million, and adjustments to reconcile net income to net cash were $0.6 million including depreciation and reserves. Changes in working capital netted to $0.0 million primarily due to an increase in inventory of $2.9 million and a decrease in accounts payable and accrued liabilities of $1.0 million offset by a decrease in accounts receivable of $1.6 million, a decrease in short-term notes receivable of $0.3 million, a decrease in prepaid expenses of $0.3 million, a decrease in costs on uncompleted contracts of $1.0 million, and a decrease in refundable taxes of $0.7 million. Cash provided by operations for the six months ended August 31, 2011 was $1.2 million.

Investing activities used cash of $0.5 million due to the purchase of equipment for $0.6 million offset by $0.1 million for the proceeds from the sale of the Chroma property during the six months ended August 31, 2012. Cash provided by investing activities for the six months ended August 31, 2011 was $1.2 million.

Financing activities used cash of $0.5 million for the six months ended August 31, 2012, due to net repayments against the line of credit of $0.4 million and the purchase of treasury stock for $0.1 million. Cash used by financing activities for the six months ended August 31, 2011 was $3.6 million.

The Company s debt agreements with financial institutions contain affirmative and negative covenants, including requirements related to tangible net worth and debt service coverage and new loans. Additionally, dividend payments, capital expenditures, and acquisitions have certain restrictions. Substantially all of the Company s retained earnings are restricted based upon these covenants.

The Company has a stock repurchase program, pursuant to which it was originally authorized to repurchase up to 1,632,500 shares of the Company s common stock in the open market. On July 8, 2009, the Board of Directors of the Company approved a one time continuation of the stock repurchase program, and authorized the Company to repurchase up to 1,000,000 additional shares of the Company s common stock, depending on the market price of the shares. There is

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no minimum number of shares required to be repurchased under the program. For the six months ended August 31, 2012, the Company repurchased 22,031 shares at an average price of $4.10 per share. The Company did not repurchase any shares in the six months ended August 31, 2011. Under the Company s stock repurchase program, an additional 705,106 shares remain authorized to be repurchased by the Company at August 31, 2012. The Credit Agreement executed by the Company on December 23, 2010 included restrictions on investments that restricted further repurchases of stock under this program. On September 1, 2011, the Agreement was amended to allow the Company to repurchase a limited amount of the Company s common stock, equal to ten percent of the Company s net earnings after taxes subject to meeting certain share repurchase conditions.

On March 1, 2011, the Company sold its Fox International Ltd., Inc. subsidiary to FI Acquisitions, a company majority owned by the Company s Chief Executive Officer. The Company put its Fox International Ltd. subsidiary up for auction on January 15, 2011, and gave all interested parties a thirty-day due diligence period that was later extended until March 23, 2011, to give any potential bidders more time. FI Acquisitions was the only bidder and paid the net book value, approximately $3.5 million, for Fox International Ltd. in a stock sale, satisfied by the Company s Chief Executive Officer exchanging 800,000 shares of the Company s stock valued at approximately $3.3 million, approximately $50 thousand in cash and a reduction in notes payable to officers and directors of approximately $200 thousand. As the sale was at net book value, no gain or loss was recorded by the Company.

Critical Accounting Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations are based upon the Company s condensed consolidated financial statements. These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the use of estimates and assumptions that affect amounts reported and disclosed in the condensed consolidated financial statements and related notes. The accounting policies that may involve a higher degree of judgments, estimates, and complexity include reserves on inventories, revenue recognition, the allowance for bad debts and warranty reserves. The Company uses the following methods and assumptions in determining its estimates:

Reserves on inventories

Reserves on inventories result in a charge to operations when the estimated net realizable value declines below cost. Management regularly reviews the Company s investment in inventories for declines in value and establishes reserves when it is apparent that the expected net realizable value of the inventory falls below its carrying amount. Management considers the projected demand for CRTs in this estimate of net realizable value. Management is able to identify consumer-buying trends, such as size and application, well in advance of supplying replacement CRTs. Thus, the Company is able to adjust inventory-stocking levels according to the projected demand. The average life of a CRT is five to seven years, at which time the Company s replacement market develops. Management reviews inventory levels on a quarterly basis. Such reviews include observations of product development trends of the original equipment manufacturers, new products being marketed, and technological advances relative to the product capabilities of the Company s existing inventories. There were no significant changes in management s estimates in the second quarter of fiscal 2012 and 2011; however, the Company cannot guarantee the accuracy of future forecasts since these estimates are subject to change based on market conditions.

Revenue recognition

Revenue is recognized on the sale of products when the products are shipped, all significant contractual obligations have been satisfied, and the collection of the resulting receivable is reasonably assured. The Company s delivery term typically is F.O.B. shipping point.

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In accordance with FASB ASC Topic 605-45 *Revenue Recognition: Principal Agent Considerations* , shipping and handling fees billed to customers are classified in net sales in the consolidated income statements. Shipping and handling costs incurred are classified in selling and delivery in the consolidated income statements.

A portion of the Company s revenue is derived from contracts to manufacture flat panel and CRTs to a buyers specification. These contracts are accounted for under the provisions of FASB ASC Topic 605-35 *Revenue Recognition*: *Construction-Type and Production-Type Contracts* . These contracts are fixed-price and cost-plus contracts and are recorded on the percentage of completion basis using the ratio of costs incurred to estimated total costs at completion as the measurement basis for progress toward completion and revenue recognition. Any losses identified on contracts are recognized immediately. Contract accounting requires significant judgment relative to assessing risks, estimating contract costs and making related assumptions for schedule and technical issues. With respect to contract change orders, claims, or similar items, judgment must be used in estimating related amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is probable.

Allowance for doubtful accounts

The allowance for doubtful accounts is determined by reviewing all accounts receivable and applying historical credit loss experience to the current receivable portfolio with consideration given to the current condition of the economy, assessment of the financial position of the creditors as well as past payment history and overall trends in past due accounts compared to established thresholds. The Company monitors credit exposure and assesses the adequacy of the allowance for doubtful accounts on a regular basis. Historically, the Company s allowance has been sufficient for any customer write-offs. Although the Company cannot guarantee future results, management believes its policies and procedures relating to customer exposure are adequate.

Warranty reserves

The warranty reserve is determined by recording a specific reserve for known warranty issues and a general reserve based on claims experience. The Company considers actual warranty claims compared to net sales, then adjusts its reserve liability accordingly. Actual claims incurred could differ from the original estimates, requiring adjustments to the reserve. Management believes that its procedures historically have been adequate and does not anticipate that its assumptions are reasonably likely to change in the future.

Other accounting policies

Other loss contingencies are recorded as liabilities when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. Disclosure is required when there is a reasonable possibility that the ultimate loss will exceed the recorded provision. Contingent liabilities are often resolved over long time periods. Estimating probable losses requires analysis of multiple factors that often depend on judgments about potential actions by third parties.

Recent accounting pronouncements

In September 2011, the FASB issued revised guidance FASB ASU 2011-08, *Intangibles Goodwill and Other (Topic 350) - Testing Goodwill for Impairment* to allow entities to use a qualitative approach to test goodwill for impairment. The amendment permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted and the Company has chosen early adoption. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements.

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In July 2012, the FASB issued revised guidance FASB ASU 2012-02, *Testing Indefinite Lived Assets for Impairment* to allow entities to consider qualitative values in determining whether or not indefinite lived assets should be tested for impairment. If it is more likely than not that impairment exists, testing for impairment should be performed. The update is effective for fiscal years beginning after September 15, 2012 but early adoption is permitted. Management believes that the adoption of this guidance will not have a material impact on the Company s consolidated financial statements.

Forward-Looking Information and Risk Factors

This report contains forward-looking statements and information that is based on management s beliefs, as well as assumptions made by, and information currently available to management. When used in this document, the words anticipate, believe, estimate, intends, will, and and similar expressions are intended to identify forward-looking statements. Such statements involve a number of risks and uncertainties. These risks and uncertainties, which are included under Part I, Item 1A. Risk Factors in the Company s Annual Report of Form 10-K for the year ended February 29, 2012 could cause actual results to differ materially.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company s primary market risks include fluctuations in interest rates and variability in interest rate spread relationships, such as prime to LIBOR spreads. Approximately $16.5 million of outstanding debt at August 31, 2012 related to indebtedness under variable rate debt. Interest on the outstanding balance of this debt will be charged based on a variable rate related to the prime rate or the LIBOR rate. Both rate bases are incremented for margins specified in their agreements. Thus, the Company s interest rate is subject to market risk in the form of fluctuations in interest rates. The effect of a hypothetical one-percentage point increase across all maturities of variable rate debt would result in a decrease of approximately $0.2 million in pre-tax net income assuming no further changes in the amount of borrowings subject to variable rate interest from amounts outstanding at August 31, 2012. The Company does not trade in derivative financial instruments.

ITEM 4. CONTROLS AND PROCEDURES

Our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, such as this quarterly report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms. Our disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Our chief executive officer and chief financial officer have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of August 31, 2012. We perform this evaluation on a quarterly basis so that the conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our annual report on Form 10-K and quarterly reports on Form 10-Q. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of August 31, 2012.

Changes in Internal Controls

There have not been any changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II

Item 1. Legal Proceedings

During 2007, the Company acquired the Cathode Ray Tube Manufacturing and Distribution Business and certain other assets of Clinton Electronics Corp. (Clinton), including inventory and fixed assets, for a total purchase price of $2,550,000, pursuant to an Asset Purchase Agreement between the parties (the APA). The form of consideration for the assets acquired included: (i) a $1.0 million face value Convertible Note; (ii) an agreement to deliver a stock certificate representing Company Common Shares having a $1,125,000 in market value of the Company s common stock in January of 2008; and (iii) an agreement to deliver a stock certificate representing Company Common Shares having a $500,000 in market value of the Company s common stock in January of 2009. The Company had paid the $1.0 million Note Payable in January 2008. The Company disputed certain representations made by Clinton in the APA including, but not limited to, representations concerning revenue, expenses, and inventory. As a result of this dispute, the Company did not issue the stock certificates scheduled for delivery January of 2008 and January of 2009. As such, the Company had accrued a potential liability of $1,625,000 and this accrued liability was reflected in the Company s Balance Sheet until the settlement was reached.

On August 24, 2011, the Company and the Clinton Electronics Corporation signed a settlement agreement ending the dispute involving the purchase of certain assets by the Company, pursuant to an Asset Purchase Agreement between the two companies. Prior to the negotiated settlement, the companies had agreed to arbitrate the dispute.

The terms of the settlement were not disclosed. There was no effect to the income statement due to the settlement. The previously accrued liability covered the settlement and the write off of inventory from the original agreement. The settlement did not have a material adverse effect on the Company s business, consolidated financial condition, results of operation or cash flows.

Item 1A. Risk Factors

Information regarding risk factors appears under the caption Forward-Looking Statements and Risk Factors in Part I, Item 2 of this Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 29, 2012. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other information

None.

Video Display Corporation and Subsidiaries

August 31, 2012

Item 6. Exhibits

Exhibit Number	Exhibit Description
3(a)	Articles of Incorporation of the Company (incorporated by reference to Exhibit 3A to the Company s Registration Statement on Form S-18 filed January 15, 1985).
3(b)	By-Laws of the Company (incorporated by reference to Exhibit 3B to the Company s Registration Statement on Form S-18 filed January 15, 1985).
10(b)	Lease dated June 1, 2008 by and between Registrant (Lessee) and Ronald D. Ordway (Lessor) with respect to premises located at 4601 Lewis Road, Stone Mountain, Georgia. (incorporated by reference to Exhibit 10(b) to the Company s 2009 Annual Report on Form 10-K)
10(c)	Lease dated November 1, 2008 by and between Registrant (Lessee) and Ronald D. Ordway (Lessor) with respect to premises located at 1868 Tucker Industrial Road, Tucker, Georgia. (incorporated by reference to Exhibit 10(c) to the Company s 2009 Annual Report on Form 10-K)
10(d)	Purchase Agreement dated March 1, 2011 by and between the Company and FI Acquisition with respect to the sale of the Company s Fox International subsidiary. (incorporated by reference to Exhibit 10(d) to the Company s 2011 Annual Report on Form 10-K)
10(e)	Amendment to Loan and Security Agreement dated May 26, 2011 (incorporated by reference to Exhibit 10(e) to the Company s 2011 Annual Report on Form 10-K)
10(f)	Amendment to Loan and Security Agreement dated July 26, 2011 (incorporated by reference to Exhibit 10(f) to the Company s Report on Form 10-Q dated January 17, 2012)
10(g)	Amendment to Loan and Security Agreement dated September 1, 2011 (incorporated by reference to Exhibit 10(g) to the Company s Report on Form 10-Q dated January 17, 2012)
10(h)	Loan and Security Agreement and related documents, dated December 23, 2010, among Video Display Corporation and Subsidiaries and RBC Bank and Community and Southern Bank as lenders and RBC Bank as administrative agent (incorporated by reference to Exhibit 10(h) to the Company s Report on Form 8-K dated December 30, 2010).
10(i)	$6,000,000 Subordinated Note, dated June 29, 2006, between Video Display Corporation and Ronald D. Ordway (holder) (incorporated by reference to Exhibit 10(i) to the Company s Current Report on Form 8-K dated June 29, 2006).
10(j)	Video Display Corporation 2006 Stock Incentive Plan. (incorporated by reference to Appendix A to the Company s 2006 Proxy Statement on Schedule 14A)
10(k)	Amendment to Loan and Security Agreement dated January 17, 2012 (incorporated by reference to Exhibit 10(k) to the Company s Report on Form 10-K dated May 29, 2012)
10(l)	Amendment to Loan and Security Agreement dated May 22, 2012 (incorporated by reference to Exhibit 10(l) to the Company s Report on Form 10-K dated May 29, 2012)
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

VIDEO DISPLAY CORPORATION

October 15, 2012	By: /s/ Ronald D. Ordway Ronald D. Ordway Chief Executive Officer
October 15, 2012	By: /s/ Gregory L. Osborn Gregory L. Osborn Chief Financial Officer