VIDEO DISPLAY CORP
Form 10-Q
July 17, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended May 31, 2017

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 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
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 31, 2017, the registrant had 5,890,748 shares of Common Stock outstanding.

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ITEM 1 FINANCIAL STATEMENTS

Video Display Corporation and Subsidiaries

Interim Condensed Consolidated Balance Sheets (unaudited)

(in thousands)

	May 31, 2017 (unaudited)	February 28, 2017
Assets		
Current assets		
Cash and cash equivalents	**$ 224**	$ 135
Trading investments, at fair value	**350**	368
Accounts receivable, less allowance for doubtful accounts of $17 and $20	**1,810**	2,771
Note receivable	**179**	175
Inventories, net	**5,756**	5,838
Prepaid expenses and other	**203**	246
Total current assets	**8,522**	9,533
Property, plant, and equipment		
Land	**154**	154
Buildings	**2,839**	2,712
Machinery and equipment	**5,544**	5,539
	8,537	8,405
Accumulated depreciation and amortization	**(7,181)**	(7,124)
Net property, plant, and equipment	**1,356**	1,281
Note receivable	**544**	590
Other assets	**26**	26
Total assets	**$ 10,448**	$ 11,430

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

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Video Display Corporation and Subsidiaries

Interim Condensed Consolidated Balance Sheets (unaudited) (continued)

(in thousands)

	May 31, 2017 (unaudited)	February 28, 2017
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	**$ 965**	$ 1,397
Accrued liabilities	**847**	834
Current maturities of long-term debt	**55**	54
Customer deposits	**44**	418
Notes payable to officers and directors	**179**	175
Line of credit	**353**	237
Income taxes payable	**17**	10
Total current liabilities	**2,460**	3,125
Long-term debt, less current maturities	**64**	77
Notes payable to officers and directors	**544**	590
Deferred rent	**150**	180
Total liabilities	**3,218**	3,972
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 5,891 outstanding at May 31, 2017 and February 28, 2017	**7,293**	7,293
Additional paid-in capital	**224**	186
Retained earnings	**15,981**	16,247
Treasury stock, shares at cost; 3,841 at May 31, 2017 and February 28, 2017	**(16,268)**	(16,268)
Total shareholders equity	**7,230**	7,458
Total liabilities and shareholders equity	**$ 10,448**	$ 11,430

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

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Video Display Corporation and Subsidiaries

Interim Condensed Consolidated Income Statements (unaudited)

(in thousands, except per share data)

	Three Months Ended May 31,	
	2017	2016
Net sales	**$ 3,897**	$ 3,710
Cost of goods sold	**3,300**	3,294
Gross profit	**597**	416
Operating expenses		
Selling and delivery	**243**	232
General and administrative	**880**	829
	1,123	1,061
Operating loss	**(526)**	(645)
Other income (expense)		
Interest income (expense)	**(4)**	3
Investment gains	**1**	47
Other, net	**270**	213
	267	263
Income/ (loss) before income taxes	**(259)**	(382)
Income tax expense	**7**	10
Net income (loss)	**$ (266)**	$ (392)
Net income (loss) per share:		
Net (loss) per share-basic	**$ (0.05)**	$ (0.07)

Net (loss) per share-diluted	**$ (0.04)**	$ (0.07)
Basic weighted average shares outstanding	**5,891**	5,891
Diluted weighted average shares outstanding	**6,091**	5,891

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

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Video Display Corporation and Subsidiaries

Interim Condensed Consolidated Statement of Shareholders Equity

Three Months Ended May 31, 2017 (unaudited)

(in thousands)

	Common Shares	Share Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance, February 28, 2017	5,891	$ 7,293	$ 186	$ 16,247	$ (16,268)
Net loss				(266)	
Share based compensation			38		
Balance, May 31, 2017	5,891	$ 7,293	$ 224	$ 15,981	$ (16,268)

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

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Video Display Corporation and Subsidiaries

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

(in thousands)

	Three Months Ended May 31, 2017	Three Months Ended May 31, 2016
Operating Activities		
Net loss	**$ (266)**	$ (392)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	**58**	59
Provision for doubtful accounts	**(3)**	(6)
Provision for inventory reserve	**83**	92
Non-cash charge for share based compensation	**38**	2
Deferred rental income	**(30)**	(30)
Realized gain on investments	**(2)**	(42)
Changes in working capital items:		
Accounts receivable	**964**	492
Note receivable		16
Inventories	**(114)**	310
Prepaid expenses and other assets	**43**	(519)
Customer deposits	**(374)**	559
Accounts payable and accrued liabilities	**(419)**	(638)
Cost, estimated earnings and billings on uncompleted contracts		(160)
Income taxes refundable/payable	**7**	4
Net cash provided by (used in) operating activities	**(15)**	(253)
Investing Activities		
Capital expenditures	**(20)**	(158)
Purchases of investments	**(444)**	(488)
Sales of investments	**599**	527
Net cash provided by (used in) investing activities	**135**	(119)
Financing Activities		
Proceeds from related party loans		912
Repayment of loans from related parties		(85)
Proceeds/ repayments of line of credit and long-term debt	**103**	(13)
Payments on marginal float	**(134)**	(41)

Net cash provided by (used in) financing activities		**(31)**		773
Net change in cash and cash equivalents		**89**		401
Cash and cash equivalents, beginning of year		**135**		595
Cash and cash equivalents, end of period	**$**	**224**	$	996

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

Video Display Corporation and Subsidiaries

May 31, 2017

Note 1. Summary of Significant Accounting Policies

The interim 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 as of and for the fiscal year ended February 28, 2017, as filed with the Commission. There are no material changes in accounting policy during the three months ended May 31, 2017.

The consolidated financial information included in this report has been prepared by the Company, without audit. In the opinion of management, the interim condensed consolidated 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 28, 2017 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 (U.S. GAAP).

Note 2. Banking & Liquidity

The accompanying interim condensed consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has sustained losses for each of the last three years and has seen a decline in both its working capital and liquid assets during this time. Losses over this time are due to a combination of decreasing revenues across all divisions without a commensurate reduction of expenses. The Company s working capital and liquid asset position are presented below (in thousands) as of May 31, 2017 and February 28, 2017:

	May 31, 2017	February 28, 2017
Working capital	**$ 6,069**	$ 6,408
Liquid assets	**$ 573**	$ 503

Management has implemented a plan to improve the liquidity of the Company. The Company has been fulfilling a plan to increase revenues at all the divisions, each structured to the particular division which has resulted with an increase in the current backlog and growth in revenues. Operating costs increased during the quarter ended May 31, 2017 due to $133 thousand in legal fees related to the Lexel bankruptcy settlement agreement and formalizing an agreement to sell certain assets of Lexel. The Company has reduced other expenses at the divisions, as well as at the corporate location with the expectation that further decreases can be achieved. The completion of the merger of the two Florida businesses into one facility and the relocation of Lexel Imaging into a new facility have projected annual savings of approximately $500 thousand per year. Management continues to explore options to monetize certain long-term assets of the business. If additional and more permanent capital is required to fund the operations of the Company, no assurance can be given that the Company will be able to obtain the capital on terms favorable to the Company, if at all.

The ability of the Company to continue as a going concern is dependent upon the success of management s plans to improve revenues, the operational effectiveness of continuing operations, to liquidate the subsidiary noted above, the procurement of suitable financing, or a combination of these. The uncertainty regarding the potential success of management s plan create substantial doubt about the ability of the Company to continue as a going concern.

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Video Display Corporation and Subsidiaries

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Note 3. Fair Value Measurements and Financial Instruments

The Financial Accounting Standards Board s (FASB s) fair value measurement guidance 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 guidance describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets measured at fair value on a recurring basis by the Company consist of investment securities held for trading using Level 1 inputs. The following table sets forth financial assets and liabilities that were accounted for at fair value on a recurring basis as of May 31, 2017 and February 28, 2017 (in thousands):

	May 31,2017	Level 1 Assets and Liabilities	Level 2 Assets and Liabilities	Level 3 Assets and Liabilities
Current trading investments:				
Stocks, options and ETF (long)	362	362		
Stocks, options and ETF (short)	(12)	(12)		
Total value of investments	$ 350	$ 350		

	February 28,2017	Level 1 Assets and Liabilities	Level 2 Assets and Liabilities	Level 3 Assets and Liabilities
Current trading investments:				
Stocks, options and ETF (long)	484	484		
Stocks, options and ETF (short)	(2)	(2)		
Total value of investments	$ 482	$ 482		
Current Liabilities:				

Margin balance	(114)	(114)
Total value of liabilities	(114)	(114)
Total	$ 368	$ 368

Video Display Corporation and Subsidiaries

May 31, 2017

The Company s financial instruments which are not measured at fair value on the consolidated balance sheets include cash, accounts receivable, short-term liabilities, and debt. The estimated fair value of these financial instruments were determined using Level 2 inputs and approximate cost due to the short period of time to maturity. Recorded amounts of long-term debt are considered to approximate fair value due to either interest rates that fluctuate with the market or are otherwise commensurate with the current market.

Note 4. Recent Accounting Pronouncements

In May, 2014, the FASB issued Accounting Standards Update No. (ASU) 2014-09 *Revenue with Contracts from Customers* . ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS) . The new guidance (i) removes inconsistencies, and weaknesses in revenue requirements, (ii) provides a more robust framework for addressing revenue issues, (iii) improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (iv) provides more useful information to users of financial statements through improved disclosure requirements, and (v) simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance is effective for annual reporting periods beginning after December 15, 2016 including interim periods within that reporting period; however, a one year delay has been approved with the issuance of ASU 2015-14 *Revenue with Contracts from Customers* . The Company is still evaluating the effects that the adoption of this update will have on the Company s consolidated financial position or results of operations.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* . ASU 2015-11 requires an entity to measure inventory within the scope of this update at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The guidance is effective for annual reporting periods beginning after December 15, 2016 and related interim periods. Early adoption is permitted. The adoption of this standard did not have a material effect on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* . ASU 2015-17 requires deferred tax assets and liabilities, along with related valuation allowances, to be classified as noncurrent on the balance sheet. Each tax jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. The adoption of this standard did not have a material effect on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* . ASU 2016-02 increases transparency and comparability among organizations by requiring entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about the lease arrangements. The guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the impact of this guidance on the Company s consolidated financial statements.

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Video Display Corporation and Subsidiaries

May 31, 2017

Note 5. Inventories

Inventories are stated at the lower of cost (first in, first out) or market and consisted of the following (in thousands):

	May 31, 2017	February 28, 2017
Raw materials	**$ 4,945**	$ 5,217
Work-in-process	**1,369**	1,001
Finished goods	**1,393**	1,519
	7,707	7,737
Reserves for obsolescence	**(1,951)**	(1,899)
	$ 5,756	$ 5,838

Note 6. Long-Term Debt and Other Obligations

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

	May 31, 2017	February 28, 2017
Mortgage payable to bank; interest rate at BB&T Bank base rate plus 0.5% (4.00% as of May 31, 2017); monthly principal and interest payments of $5 thousand payable through October 2021; collateralized by land and building of Teltron Technologies, Inc.	**$ 119**	$ 131
	119	131
Less current maturities	**(55)**	(54)
	$ 64	$ 77

The Company had no outstanding margin account borrowing as of May 31, 2017 and $0.1 million as of February 28, 2017. The margin account borrowings are used to purchase marketable equity securities and are netted against the investments in the balance sheet to show net trading investments. The gross investments were $0.5 million leaving net investments of $0.4 million after the margin account borrowings of $0.1 million at February 28, 2017. The margin interest rate is 2%.

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Video Display Corporation and Subsidiaries

May 31, 2017

Note 7. Related Party Transactions

On March 30, 2016, the Company entered into an assignment with recourse of the note receivable from Z-Axis Inc. (Z-Axis) with Ronald D. Ordway, CEO, and Jonathan R. Ordway, related parties, for the sum of $912 thousand. The note receivable is collateralized by a security interest in the shares of Z-Axis as well as a personal guaranty of its majority shareholder. Z-Axis is current on all scheduled payments regarding this note. The Company retains the right to repurchase the note at any time for 80% of the outstanding principle balance. Also, in the event of default by Z-Axis, the Company is obligated to repurchase the note for 80% of the remaining principle balance plus any accrued interest. Accordingly, the Company has recognized this transaction as secured borrowing in accordance with the provisions of ASC 860-10. The $ 0.9 million, 9% interest rate, note originated on March 30, 2016, with payments beginning on April 16, 2016 and continuing for 56 months thereafter. The balance of the note was $723 thousand and $765 thousand as of May 31, 2017 and February 28, 2017, respectively.

Note 8. Supplemental Cash Flow Information

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

	Three Months Ended May 31,	
	2017	2016
Cash paid for:		
Interest	**$ 4**	$ 5
Income taxes, net of refunds	**$**	$ 6
Non-cash activity:		
Note receivable paid directly to officer	**$ 42**	26
Note payable to officer	**$ (42)**	(26)
Imputed interest expense	**$ 16**	17
Imputed interest income	**$ (16)**	(17)
Capital additions transferred from inventory	**$ 113**	

Note 9. Shareholder s Equity

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income or loss 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 (loss) per share is calculated in a manner consistent with that of basic earnings (loss) per share while giving effect to all potentially dilutive common shares that were outstanding during the period.

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Video Display Corporation and Subsidiaries

May 31, 2017

The following table sets forth the computation of basic and diluted earnings (loss) per share for the three-month periods ended May 31, 2017 and 2016 (in thousands, except per share data):

	Net Income (Loss)	Weighted Average Common Shares Outstanding	Earnings (Loss) Per Share
Three months ended May 31, 2017			
Basic	$ (266)	5,891	$ (0.05)
Effect of dilution:			
Options		200	
Diluted	$ (266)	6,091	$ (0.04)
Three months ended May 31, 2016			
Basic	$ (392)	5,891	$ (0.07)
Effect of dilution:			
Options			
Diluted	$ (392)	5,891	$ (0.07)

Stock-Based Compensation Plans

For the three-month period ended May 31, 2017 and 2016, the Company recognized general and administrative expenses of $38 thousand and $2 thousand, respectively, related to share-based compensation. The liability for the share-based compensation recognized is presented in the consolidated balance sheet as part of additional paid in capital. As of May 31, 2017, and May 31, 2016 total unrecognized compensation costs related to stock options granted was $77 thousand and $3 thousand, respectively. The unrecognized stock option compensation cost is expected to be recognized over a period of approximately 3 years.

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.

140,000 new options and 60,000 replacement options were granted during the three month period ended May 31, 2017 and no options were granted for the three month period ending May 31, 2016.

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Video Display Corporation and Subsidiaries

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Stock Repurchase Program

The Company has a stock repurchase program, pursuant to which it had been authorized to repurchase up to 2,632,500 shares of the Company s common stock in the open market. On January 20, 2014, 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 1,500,000 additional shares of the Company s common stock in the open market. There is no minimum number of shares required to be repurchased under the program.

For the quarters ending May 31, 2017 and May 31, 2016, the Company did not purchase any shares of the Video Display Corporation stock. Under the Company s stock repurchase program, an additional 502,644 shares remain authorized to be repurchased by the Company at May 31, 2017.

Note 10. Income Taxes

The effective tax rate for the three months ended May 31, 2017 and 2016 was (2.7%) and (2.6%) respectively. The Company lost $0.3 and $0.4 million dollars for the quarter ending May 31, 2017 and May 31, 2016, respectively, which resulted in a tax expense of $7 thousand and $10 thousand in Kentucky state taxes for the Lexel Imaging subsidiary, respectively. Due to the losses by the Company, a full valuation allowance was allocated to the deferred tax asset created by the loss. The net effect of this allowance was to have zero Federal tax expense for the quarter ended May 31, 2017 and May 31, 2016, respectively.

Note 11. Legal Proceedings

The Company is involved in various legal proceedings related to claims arising in the ordinary course of business.

On May 19, 2017, Lexel Imaging s Chapter 11 Bankruptcy case was dismissed upon approval of a settlement agreement between Lexel Imaging (Lexel) and its landlord, Alidade Bull Lea, LLC (Alidade). The settlement agreement requires Lexel to surrender possession of the rental property on or before September 30, 2017 and remit to Alidade all past due rent of approximately $232 thousand. Lexel is also required to make payments totaling $100 thousand into an escrow account by July 28, 2017. These funds will be held by Alidade s counsel until full and timely compliance with the settlement agreement are met, at which time the funds will be returned to Lexel.

The settlement agreement also stipulates certain events of default for non-compliance. Events of default include, but are not limited to the following; 1) failure to make timely payment of back owed rent, escrow payments, and ongoing monthly rents through the exit date, 2) failure to enter into a new lease agreement or asset purchase agreement for all or substantially all of Lexel s assets, with an unaffiliated third party on or before June 30, 2017, and 3) failure to vacate the property as defined.

In the event management s intentions are determined to be a violation of the above settlement agreement, it is at least reasonably possible that Lexel could incur: 1) losses of $100 thousand related to forfeiture of the escrow deposit, 2) costs of $200 thousand for the civil judgment, 3) additional legal fees incurred by Alidade related to enforcement of the settlement agreement (while foregoing remedies), and 4) subjection to eviction from the property causing significant interruption to business operations, which includes inventory of $2.1 million as of May 31, 2017. While management believes its relocation plans are appropriate under the settlement agreement, they can provide no assurance that their actions will not trigger a default under the settlement agreement, as noted above.

Note 12. Subsequent Events

On June 15, 2017 Lexel Imaging signed a new five (5) year lease with Honeyhill Properties, LLC, satisfying one of the stipulations of the settlement agreement as part of its dismissal from bankruptcy.

On June 22, 2017 Lexel Imaging completed the sale of certain assets for $1.3 million. The Company will continue to operate the remainder of Lexel Imaging and expects to continue to be profitable once its move is completed into the new facility. Although the subsidiary s revenues will decrease due to the sale, the division has taken measures to also reduce the cost structure of the business including lowering fixed costs by over $600 thousand per year with the new five (5) lease it signed with Honeyhill Properties and adjusting the workforce for the anticipated level of business. Lexel will continue to manufacture CRTS and will focus on its core lines of business. Therefore, Lexel Imaging will continue to be included in continuing operations.

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Video Display Corporation and Subsidiaries

May 31, 2017

On July 3, 2017 Video Display Corporation and Ordway Properties, LLC purchased Honeyhill Properties, LLC (LLC) for $1.5 million. Video Display Corporation purchased a thirty-three percent (33%) ownership interest in the LLC for $500 thousand. The LLC is the owner of the property at 510 Henry Clay Blvd. in Lexington, KY. The land and building are the only assets of the LLC. The building has two tenants, Lexel Imaging and another business owned by the previous owner of the LLC. As part of the purchase agreement for the LLC, the affiliated company of the seller was granted two years of free rent.

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 2017 Annual Report to Shareholders, which included audited condensed consolidated financial statements and notes thereto as of and for the fiscal year ended February 28, 2017, as well as Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company manufactures and distributes 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.

Simulation and Training Products offers a wide range of projection display systems for use in training and simulation, military, medical, entertainment and industrial applications.

Cyber Secure Products offers advanced TEMPEST technology, and (EMSEC) products. This business also provides various contract services including the design and testing solutions for defense and niche commercial uses worldwide.

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

Broadcast and Control Center Products offers high-end visual display products for use in video walls and command and control centers.

During fiscal 2018, management of the Company is focusing key resources on strategic efforts to grow its business through internal sales of the Company s more profitable product lines and reduce expenses in all areas of the business to bring its cost structure in line with the current size of the business. During the quarter ended May 31, 2017, the expenses of the Company did increase over last year. See below in Liquidity . Challenges facing the Company during these efforts include:

Liquidity The accompanying interim condensed consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has sustained losses for each of the last three years and has seen a decline in both its working capital and liquid assets during this time. Losses over this time are due to a combination of decreasing revenues across all divisions without a commensurate reduction of expenses. The Company s working capital and liquid asset position are presented below (in thousands) as of May 31, 2017 and February 28, 2017:

	May 31, 2017	February 28, 2017
Working capital	**$ 6,069**	$ 6,408
Liquid assets	**$ 573**	$ 503

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Video Display Corporation and Subsidiaries

May 31, 2017

Management has implemented a plan to improve the liquidity of the Company. The Company has been fulfilling a plan to increase revenues at all the divisions, each structured to the particular division which has resulted with an increase in the current backlog and growth in revenues. Operating costs increased during the quarter ended May 31, 2017 due to $133 thousand in legal fees related to the Lexel bankruptcy settlement agreement and formalizing an agreement to sell certain assets of Lexel. The Company has reduced other expenses at the divisions, as well as at the corporate location with the expectation that further decreases can be achieved. The completion of the merger of the two Florida businesses into one facility and the relocation of Lexel Imaging into a new facility have projected annual savings of approximately $500 thousand per year. Management continues to explore options to monetize certain long-term assets of the business. If additional and more permanent capital is required to fund the operations of the Company, no assurance can be given that the Company will be able to obtain the capital on terms favorable to the Company, if at all.

The ability of the Company to continue as a going concern is dependent upon the success of management s plans to improve revenues, the operational effectiveness of continuing operations, to liquidate the subsidiary noted above, the procurement of suitable financing, or a combination of these. The uncertainty regarding the potential success of management s plan create substantial doubt about the ability of the Company to continue as a going concern.

Inventory management The Company s business units utilize different inventory components than the divisions had in the past. The Company has a monthly reserve at each of its divisions to offset any obsolescence although most purchases are for current orders, which should reduce the amount of obsolescence in the future. The Company still has CRT inventory in stock and component parts for legacy products, although it believes the inventory will be sold in the future, will continue to reserve for any additional obsolescence. Management believes its inventory reserves at May 31, 2017 and February 28, 2017 are adequate.

Results of Operations

The following table sets forth, for the three months ended May 31, 2017 and 2016, the percentages that selected items in the Interim Condensed Consolidated Income Statements bear to total sales:

(in thousands)	**Three Months Ended May 31**			
	2017		**2016**	
	Dollars		**Dollars**	
Sales				
Simulation and Training (VDC Display Systems)	**765**	**19.6%**	877	23.7%
Data Display CRT (Lexel and Data Display)	**1,918**	**49.2**	2,193	59.1
Broadcast and Control Centers (AYON Visual)	**738**	**19.0**	220	5.9
Cyber Secure Products (AYON Cyber Security)	**476**	**12.2**	420	11.3

Total Company	**3,897**	**100.0%**	3,710	100.0%
Costs and expenses				
Cost of goods sold	**3,300**	**84.7%**	3,294	88.8%
Selling and delivery	**243**	**6.2**	232	6.3
General and administrative	**880**	**22.6**	829	22.3
	4,423	**113.5%**	4,355	117.4%
Operating loss	**(526)**	**(13.5)%**	(645)	(17.4)%

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Interest income/ (expense)	**(4)**	**(0.1)%**	3	0.1%
Investment gains	**1**	**0.0**	47	1.3
Other income, net	**270**	**7.0**	213	5.7
Income/(loss) before income taxes	**(259)**	**(6.6)%**	(381)	(10.3)%
Income tax expense/ (benefit)	**7**	**0.2**	10	0.3
Net income/ (loss)	**(266)**	**(6.8)%**	(391)	(10.6)%

Net sales

Consolidated net sales increased 5.0% for the three months ended May 31, 2017 compared to the three months ended May 31, 2016. The Company s AYON Visual Solutions division was up 235% or $0.5 million for the quarter from last year s quarter. Their business is project driven and they completed a couple of projects in the first quarter. They have completed all of their current projects and presently are bidding and seeking new projects. The Display Systems division was down by 12.8% for the quarter or $0.1 million, due primarily to supply programs with major customers who are refreshing the projects with new enhancements and had no orders this quarter. The division is working with customers with projects expected to begin shipping in third and fourth quarter this year, similar to last year. The Data Display division showed a decrease of 12.5% due to decreases throughout their customer base and the completion of a large long term order with a foreign customer by the Lexel division. The Lexel division will expect less revenues going forward as certain assets and business were sold in June, 2017. The Data division should have steady business driven by their number one customer s orders for replacement CRTs for their simulators. AYON Cyber Security s sales increased by 13.3% or $56 thousand. This division is expected to exceed last year s results for the remainder of the year due to their large backlog of over $3.0 million and expected new orders from the current customer base and addition of new customers. Last year s sales for this division were $1.7 million. Their current backlog is nearly double all of the last fiscal year s business.

Gross margins

Consolidated gross margins were increased both as a percentage to sales (15.3% to 11.2%) and actual dollars ($597 thousand to $416 thousand) for the three months ended May 31, 2017 compared to the three months ended May 31, 2016.

Three of the divisions showed an increase in their gross margin percentage. AYON Visual Solutions increased 444.2% with a $181 thousand increase in gross margins for the comparable quarter based on completing two large projects. AYON Cyber Security increased 103.4% with a $294 thousand increase due to the steady flow of orders for phones and some contract work which was service related. The Data Displays division increased gross margins by 92.9% or $41 thousand on the strength of steady orders from their top customer, a flight simulation company. VDC Display Systems division and the Lexel Imaging division both had a decrease in gross margins primarily due to lower revenues. The Company is moving AYON Cyber Security and merging it with VDC Display Systems to control costs. Each of these divisions are expected to improve their results as the year progresses, AYON as it ships against its $3.0 million backlog and VDC Display Systems due to upcoming orders they have been pursuing. Both will benefit from economies of scale once they are both in the same facility.

Operating expenses

Operating expenses increased by 5.8% or $62 thousand for the three months ended May 31, 2017 compared to the three months ended May 31, 2016. The increase was due to legal expenses of $133 thousand associated with the

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bankruptcy proceedings with Lexel Imaging and the legal expenses for the sale of certain assets of Lexel Imaging. These expenses are non-recurring. The Company expects to continue to reduce costs while increasing revenues with the completion of the consolidation of its two Florida businesses to one location and the move of Lexel Imaging to a much lower cost facility.

Interest expense

Interest expense was $4 thousand for the quarter ending May 31, 2017 and $22 thousand for the quarter ending May 31, 2016. The interest expense is related to the balance owed on a building the Company owns in Pennsylvania and the interest on the margin balance in the Company s investment account, which is a 2% rate.

Other Income/ expense

For the three months ended May 31, 2017, the Company earned $208 thousand on royalties and $34 thousand in rental income. For the three months ended May 31, 2016, the Company earned $173 thousand in royalty income and rental income of $30 thousand.

Income taxes

The effective tax rate for the three months ended May 31, 2017 and 2016 was (2.7%) and (2.6%) respectively. The Company lost $0.3 and $0.4 million dollars for the quarter ending May 31, 2017 and May 31, 2016, respectively, which resulted in a tax expense of $7 thousand and $10 thousand in Kentucky state taxes for the Lexel Imaging subsidiary, respectively. Due to the losses by the Company, a full valuation allowance was allocated to the deferred tax asset created by the loss. The net effect of this allowance was to have zero Federal tax expense for the quarter ended May 31, 2017 and May 31, 2016, respectively.

Liquidity and Capital Resources

The accompanying interim condensed consolidated financial statements were prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has sustained losses for each of the last three years and has seen a decline in both its working capital and liquid assets during this time. These losses were a combination of low revenues at all divisions without a commensurate reduction of expenses. During the year ended February 28, 2017, the Company operated using cash from operations of $1.1 million, which was primarily generated from a $1.0 net loss. During the quarter ended May 31, 2017 operational cash flows provided $0.1 million. Related to these operational results the Company s working capital and liquid asset position are presented below (in thousands) as of May 31, 2017 and February 28, 2017:

	May 31, 2017	February 28, 2017

Working capital	**$ 6,069**	$ 6,408
Liquid assets	**$ 573**	$ 503

Management has implemented a plan to improve the liquidity of the Company. The Company has been implementing a plan to increase revenues at all the divisions, each structured to the particular division with an increase in the current backlog and growth in revenues. The Company has reduced expenses at the divisions, as well as at the corporate location with the expectation that expenses will be decreased even more with the completion of the merger of

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the two Florida businesses into one facility and the plant move of the Lexel Imaging facility into a new facility at an estimated savings of approximately $500 thousand per year. Management continues to explore options to monetize certain long-term assets of the business, including the sale of certain assets of its Lexel Imaging subsidiary, which was finalized in June, 2017. If additional and more permanent capital is required to fund the operations of the Company, no assurance can be given that the Company will be able to obtain the capital on terms favorable to the Company, if at all.

The ability of the Company to continue as a going concern is dependent upon the success of management s plans to improve revenues, the operational effectiveness of continuing operations, to liquidate the subsidiary noted above, the procurement of suitable financing, or a combination of these. The uncertainty regarding the potential success of management s plan create substantial doubt about the ability of the Company to continue as a going concern.

Cash used by operations for the three months ended May 31, 2017 was negligible. The net loss from operations was $0.3 million and adjustments to reconcile net loss to net cash were $0.2 million including inventory reserves, depreciation and non-cash charges for share based compensation. Changes in working capital provided $0.1 million, primarily due to a decrease in accounts receivable of $1.0 million, smaller adjustments totaling $0.1 million, offset by a decrease in accounts payable of $0.4 million, a decrease in customer deposits of $0.4 million and a decrease in inventory of $0.1 million. Cash used by operations for the three months ended May 31, 2016 was $0.3 million.

Investing activities provided $0.1million. $0.5 million was used for the purchase of investment securities offset by $0.6 million for the sale of investment securities for the three months ended May 31, 2017. Investing activities used cash of $0.1 million due to the capital expenditures for the Cocoa building during the three months ended May 31, 2016.

Financing activities were negligible for the quarter ended May 31, 2017. Financing activities provided $0.8 million primarily due to the proceeds from related party loan of $0.9 million offset by the repayment of $0.1 million to the CEO for the three months ended May 31, 2016.

The Company has a stock repurchase program, pursuant to which it has been authorized to repurchase up to 2,632,500 shares of the Company s common stock in the open market. On January 20, 2014, 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 1,500,000 additional shares of the Company s common stock on the open market, depending on the market price of the shares. There is no minimum number of shares required to be repurchased under the program. For the quarters ended May 31, 2017 and May 31, 2016, the Company did not repurchase any shares. Under the Company s stock repurchase program, an additional 502,644 shares remain authorized to be repurchased by the Company at May 31, 2017.

Critical Accounting Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations are based upon the Company s interim condensed consolidated financial statements. These interim condensed consolidated financial statements have been prepared in accordance with U.S. GAAP. These principles require the use of estimates and assumptions that affect amounts reported and disclosed in the interim 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, and the sufficiency of the valuation reserve related to deferred tax assets. 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

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reserves when it is apparent that the expected net realizable value of the inventory falls below its carrying amount. 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. Management believes its inventory reserves at May 31, 2016 and February 29, 2016 are adequate.

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.

In accordance with ASC 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 simulation systems to a buyers specification. These contracts are accounted for under the provisions of ASC 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.

Other Loss Contingencies

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.

Income Taxes

Deferred income taxes are provided to reflect the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. As of May 31, 2017 and February 28, 2017 the Company has established a valuation allowance of $7.5 million and $7.4 million, respectively on the Company s current and non-current deferred tax assets.

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The Company accounts for uncertain tax positions under the provisions of ASC 740, which contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not, that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating the Company s tax positions and tax benefits, which may require periodic adjustments. At May 31, 2017, the Company did not record any liabilities for uncertain tax positions.

Recent Accounting Pronouncements

In May, 2014, the FASB issued Accounting Standards Update No. (ASU) 2014-09 *Revenue with Contracts from Customers* . ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS) . The new guidance (i) removes inconsistencies, and weaknesses in revenue requirements, (ii) provides a more robust framework for addressing revenue issues, (iii) improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, (iv) provides more useful information to users of financial statements through improved disclosure requirements, and (v) simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance is effective for annual reporting periods beginning after December 15, 2016 including interim periods within that reporting period; however, a one year delay has been approved with the issuance of ASU 2015-14 *Revenue with Contracts from Customers* . The Company is still evaluating the effects that the adoption of this update will have on the Company s consolidated financial position or results of operations.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* . ASU 2015-11 requires an entity to measure inventory within the scope of this update at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The guidance is effective for annual reporting periods beginning after December 15, 2016 and related interim periods. Early adoption is permitted. The adoption of this standard did not have a material effect on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* . ASU 2015-17 requires deferred tax assets and liabilities, along with related valuation allowances, to be classified as noncurrent on the balance sheet. Each tax jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. The adoption of this standard did not have a material effect on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* . ASU 2016-02 increases transparency and comparability among organizations by requiring entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about the lease arrangements. The guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the impact of this guidance on the Company s consolidated financial statements.

Subsequent Events

On June 15, 2017 Lexel Imaging signed a new five (5) year lease with Honeyhill Properties, LLC, satisfying one of the stipulations of the settlement agreement as part of its dismissal from bankruptcy.

On June 22, 2017 Lexel Imaging completed the sale of certain assets for $1.3 million. The Company will continue to operate the remainder of Lexel Imaging and expects to continue to be profitable once its move is completed to the new facility. Although the subsidiary s revenues will decrease due to the sale, the division has taken measures to also reduce the cost structure of the business including lowering fixed costs by over $600 thousand per year with the new five (5) lease it signed with Honeyhill Properties and adjusting the workforce for the anticipated level of business.

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On July 3, 2017 Video Display Corporation and Ordway Properties, LLC purchased Honeyhill Properties, LLC (LLC) for $1.5 million. Video Display Corporation purchased a thirty-three percent (33%) ownership interest in the LLC for $500 thousand. The LLC is the owner of the property at 510 Henry Clay Blvd. in Lexington, KY. The land and building are the only assets of the LLC. The building has two tenants, Lexel Imaging and another business owned by the previous owner of the LLC. As part of the purchase agreement for the LLC, the affiliated company of the seller was granted two years of free rent.

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 expect and similar expressions are intended to identify forwar 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 on Form 10-K for the year ended February 28, 2017 could cause actual results to differ materially.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company s primary market risks include changes in technology. The Company operates in an industry which is continuously changing. Failure to adapt to the changes could have a detrimental effect on the Company.

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 May 31, 2017. 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 May 31, 2017.

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
None.

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, 2016. 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.

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(a)	Lease dated April 1, 2015 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 2015 Annual Report on Form 10-K.)
10(b)	Lease dated February 19, 2015 by and between Registrant (Lessee) and Ordway Properties LLC (Lessor) with respect to premises located at 5155 King Street, Cocoa, FL. (incorporated by reference to Exhibit 10(g) to the Company s 2015 Annual Report on Form 10-K.)
10(c)	Video Display Corporation 2006 Stock Incentive Plan. (incorporated by reference to Appendix A to the Company s 2006 Proxy Statement on Schedule 14A)
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.
32.1	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

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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

July 17, 2017	By: /s/ Ronald D. Ordway Ronald D. Ordway Chief Executive Officer
July 17, 2017	By: /s/ Gregory L. Osborn Gregory L. Osborn Chief Financial Officer

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