

VIDEO DISPLAY CORP  
Form 10-K  
May 29, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended February 29, 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 in its charter)

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Georgia  
(State of

58-1217564  
(IRS Employer

Incorporation)

Identification No.)

1868 Tucker Industrial Road, Tucker Georgia  
(Address of principal executive offices)

30084  
(Zip code)

Registrant's telephone number, including area code: (770) 938-2080

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	NASDAQ/NMS

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

None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

Indicate by check mark if 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). YES  NO

As of August 31, 2011, the aggregate market value of the voting and non-voting common equity held by non-affiliates based upon the closing sales price for the Registrant's common stock as reported in the NASDAQ National Market System was \$10,218,517.

The number of shares outstanding of the registrant's Common Stock as of May 1, 2012 was 7,581,521.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the definitive proxy statement to be delivered to stockholders in connection with our 2012 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K. In addition, certain exhibits previously filed with the registrant's prior Forms 10-K, Forms 8-K, Form S-18 and Schedule 14A are incorporated by reference in Part IV of this Form 10-K.

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### **PART I**

#### **Item 1. Business.**

##### **General**

Video Display Corporation (the Company or we ) is a world-class provider and manufacturer of video products, components, and systems for visual display and presentation of electronic information media in all requirements and environments. The Company designs, engineers, manufactures, markets, distributes and installs technologically advanced display products and systems, from basic components to turnkey systems for government, military, aerospace, medical, industrial, and commercial organizations. The Company markets its products worldwide primarily from facilities located in the United States and several sales and service agents located worldwide. Please read the comments under the caption Forward looking statements and risk factors in Item 1A Risk Factors of this Annual Report on Form 10-K.

On March 1, 2011, the Company sold its subsidiary Fox International Ltd. to FI Acquisitions LLC. We accounted for this disposition as discontinued operations, and accordingly, we have reclassified the consolidated financial results for all periods presented to reflect them as such. Unless otherwise noted, discussions in this Form 10-K pertain to our continuing operations.

##### **Description of Principal Business**

The Company generates revenues from the manufacturing and distribution of displays and display components. The Company operates primarily in two divisions: Monitors and Display CRTs.

Consolidated Net Sales by division for fiscal 2012 are comprised of the following:

Monitors (91.2%)

Data Display CRTs (8.3%)

Entertainment CRTs (0.2%)

Component Parts (0.3%)

A more detailed discussion of sales by category of product is included under the section entitled Principal Products by Division.

The Company's manufacturing and distribution facilities are located in Georgia, Florida, Louisiana, Pennsylvania, New York, and Kentucky, in addition to several sales and service agents located worldwide.

The Company continues to explore opportunities to expand its product offerings in the display industry. The Company anticipates that this expansion will be achieved by adding new products or by acquiring existing companies that would enhance the Company's position in the display industry. Management continually evaluates product trends externally in the industry and internally in the divisions in which the Company operates. Overall trends are discussed herein under Flat Panel and Other Technology. During the last three years, the Company expended significant research and development funds (approximately \$0.9 million in fiscal 2012) in high-resolution projection displays, active matrix liquid crystal display (AMLCD) technologies, and infrared imaging (IR) for commercial and military applications.

##### **Segment Information**

In prior years, we had two reportable segments: Displays and Wholesale. These segments were identified and aggregated based on the types of products and markets they served. On March 1, 2011, Fox International Ltd. was sold, which represented our entire wholesale segment. The remaining operations are deemed to meet the criteria for aggregation under the applicable authoritative guidance and, as such, these operations are reported as one segment within the Consolidated Financial Statements.

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### **Principal Products by Division**

#### ***Monitors***

The Company's monitor operations are conducted in Phelps, New York (Z-Axis); Birdsboro, Pennsylvania (Aydin); Cape Canaveral, Florida (Display Systems); Lexington, Kentucky (Lexel) and Tucker, Georgia (Aydin Visual Solutions).

This portion of the Company's operations, which contributed approximately 91% of fiscal 2012 consolidated net sales, involves the design, engineering, and manufacture of complete monochrome, color monitor, and projector display units using new CRTs or flat panel displays. The Company will customize these units for specific applications, including ruggedization for military uses or size reduction due to space limitations in industrial and medical applications. Because of the Company's flexible and cost efficient manufacturing, it is able to handle low volume orders that generate higher margins.

This portion of the Company's operations targets niche markets where competition from major multinational electronics companies tends to be lower. The prime customers for these products include defense, security, training, and simulation areas of the United States of America and foreign militaries as well as the major defense contractors such as the Boeing Company, L-3 Communications Corporation, Lockheed Martin Corporation, and others. These defense contractors utilize the Company's products for ruggedized mission critical applications such as shipboard and nuclear submarines. Flight simulator displays are also produced to provide a full range of flight training simulations for military applications. The primary components for the ruggedized product line consist of projection systems, CRT and flat panel displays, circuit boards and machine parts.

Although most monitors are customized to meet a customer's specifications, all monitors sold include the following general components: CRT or flat panel displays, circuit boards, and machine parts. Most of the Company's monitors are then ruggedized, which allows them to withstand adverse conditions, such as extreme temperature, depth, altitude, and vibration.

The Company anticipates that AMLCD and plasma display products, due to their lower space and power requirements, will eventually become the display of choice in many display applications. The significance of this continuing trend has had an effect on the Company. In anticipation of long-term trends toward flat panel display usage, the Company has focused its efforts, as well as its acquisition strategy, toward flat panel technologies for niche market applications in the medical, simulation, training and military markets. However, there remains a market for CRTs in many industrial applications and the CRT business remains a large portion (approximately 33%) of the Company's revenues.

#### ***Data Display CRTs***

Since its organization in 1975, the Company has been engaged in the distribution and manufacture of CRTs using new and recycled CRT glass bulbs, primarily in the replacement market, for use in data display screens, including computer terminal monitors, medical monitoring equipment and various other data display applications and in television sets.

The Company's CRT manufacturing operations of new and recycled CRTs are conducted at facilities located in Bossier City, Louisiana (Novatron) and Lexington, Kentucky (Lexel). The Company's Tucker, Georgia location is the Company's primary distribution point for data display CRTs purchased from outside sources.

The Company maintains the capability of manufacturing a full range of monochrome CRTs as well as remanufacturing color CRTs from recycled glass. In addition, our Lexel operations manufactures a wide range of radar, infrared, camera and direct-view storage tubes for military and security applications. All CRTs manufactured by the Company are tested for quality in accordance with standards approved by Underwriters Laboratories.

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The Company also distributes new CRTs and other electronic tubes purchased from original manufacturers. The Company sells CRTs into the replacement market which sometimes takes five to seven years to develop; these purchased inventories sometimes do not sell as quickly as other inventories. Bulk CRT purchases have declined over the past few years as the Company is managing current inventory levels against the anticipated reduction in future CRT demand due to the growth of flat panel technology.

The Company maintains an internal sales organization to sell directly to OEMs (original equipment manufacturers) and their service organizations and markets its products through approximately 75 independent wholesale electronics distributors located throughout the U.S.

In addition to factors affecting the overall market for such products, the Company's sales volume in the CRT replacement markets is dependent upon the Company's ability to provide prompt response to customers' orders, while maintaining quality control and competitive pricing. The Company's CRT manufacturing activities are scheduled primarily based upon current and projected future customer needs.

### ***Component Parts***

The Company, through its Tucker, Georgia based electron gun manufacturing subsidiary, Southwest Vacuum Devices, Inc., manufactures electron gun assemblies comprised of small metal, glass and ceramic parts. The assembly process is highly labor intensive. While the particular electron guns being sold are of the Company's own design, most are replacements for electron guns previously designed for original equipment CRTs used in television sets and computer monitors. Raw materials consist of glass and metal stamped parts.

Although Southwest Vacuum markets its products to independent customers, the majority of electron guns produced by the Company are consumed internally among the Company's own CRT manufacturing facilities. Sales to these related divisions, which have been eliminated in the consolidated financial statements, amounted to approximately \$168,000 and \$223,000 for fiscal 2012 and 2011, respectively.

### **Patents and Trademarks**

The Company is currently in the process of applying for patents on newly developed products and technology and holds patents with respect to certain products and services. The Company also sells products under various trademarks and trade names. Additionally, the Company licenses certain electronic technology to other manufacturing companies, which generated royalty revenues of approximately \$109,000 and \$224,000 in fiscal 2012 and 2011, respectively. The Company believes that its patents and trademarks are of value and intends to protect its rights when, in its view, these rights are infringed upon. The Company's key patents expire in 2014. The Company believes that success in its industry primarily will be dependent upon incorporating emerging technology into new product line introductions, frequent product enhancements, and customer support and service.

### **Seasonal Variations in Business**

Historically, there has not been seasonal variability in the Company's business.

### **Working Capital Practices**

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. On May 26, 2011, the Banks amended the Credit Agreement (1<sup>st</sup> Amendment) 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. On July 26, 2011, the Banks again amended the Credit Agreement (2<sup>nd</sup> Amendment) to include a swing-line promissory note of \$1.0 million that is included in the revised \$15.0 million revolver commitment. On September 1, 2011, the Banks amended the Credit Agreement (3<sup>rd</sup> Amendment) 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. On January 17, 2012, the Banks amended the Credit Agreement (4<sup>th</sup> Amendment) to allow the Company to purchase a promissory note, dated July 23, 2010, held by Hetra Secure Solutions Corporation on StingRay56. Additionally, on March 5, 2012, the Banks amended the Credit Agreement (5<sup>th</sup> Amendment) to allow the Company to acquire StingRay56, Inc.

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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.

The agreement contains three covenants, as amended: 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, as amended), 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.

The Company is in compliance with the covenants under the new and amended loan agreements as of February 29, 2012. As of February 28, 2011, the Company was not in compliance with the consolidated fixed charge coverage ratio or the senior funded debt to EBITDA ratio as defined by the RBC and Community & Southern Bank credit line agreements. The Company subsequently received a waiver of these covenant violations from RBC Bank and Community & Southern Bank through the July 15, 2011 reporting of the next measurement of these covenants as of the Company's first quarter end. The senior funded debt to EBITDA covenant was deemed to be the most restrictive by the Company and the Banks.

## **Concentration of Customers**

The Company sells to a variety of domestic and international customers on an open-unsecured account basis. These customers principally operate in the medical, military, industrial and avionics industries. The Company had direct and indirect net sales to the U.S. government, primarily the Department of Defense for training and simulation programs that comprised approximately 42% and 46% of consolidated net sales for fiscal 2012 and 2011, respectively. Sales to foreign customers were 9% and 17% of consolidated net sales for fiscal 2012 and 2011, respectively. The Company has two customers that comprise 12.2% (Lockheed Martin) and 10.9% (Sigma Pumps) of the Company's net sales in fiscal 2012. The Company attempts to minimize credit risk by reviewing customers' credit history before extending credit, and by monitoring customers' credit exposure on a daily basis. The Company establishes an allowance for doubtful accounts receivable based upon factors surrounding the credit risk of specific customers, historical trends and other information.

## **Backlog**

The Company's backlog is comprised of undelivered, firm customer orders, which are scheduled to ship within eighteen months. The Company's backlog was approximately \$24.0 million at February 29, 2012 and \$30.9 million at February 28, 2011. It is anticipated that more than 85% of the February 29, 2012 backlog will ship during fiscal 2013.

## **Government Contracts**

The Company, primarily through its Aydin, Lexel, and Display Systems subsidiaries, had contracts with the U.S. government (principally the Department of Defense and Department of Defense subcontractors) which generated net sales of approximately \$26.9 million and \$27.2 million for fiscal 2012 and 2011, respectively. The Company's costs and earnings in excess of billings on these contracts were approximately \$3.2 million at February 29, 2012 and \$2.2 million at February 28, 2011. The Company had billings in excess of costs and earnings on these contracts of \$0.3 million at February 29, 2012 and \$1.0 million at February 28, 2011. These contracts are typically less than twelve months in duration and specify a delivery schedule for units ordered. Most of these government contracts specify a designated number of units to be delivered at a specified price, rather than on a cost plus basis. These contracts are subject to government audit to ensure conformity with design specifications.



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### **Environmental Matters**

The Company's operations are subject to federal, state, and local laws and regulations relating to the generation, storage, handling, emission, transportation, and discharge of materials into the environment. The costs of complying with environmental protection laws and regulations have not had a material adverse impact on the Company's consolidated financial condition, results of operations, or cashflow in the past and are not expected to have a material adverse impact in the foreseeable future.

### **Research and Development**

The objectives of the Company's research and development activities are to increase efficiency and quality in its manufacturing and assembly operations and to enhance its existing product line by developing alternative product applications to existing display systems and electron optic technology. The Company includes research and development expenditures in the consolidated financial statements as a part of general and administrative costs. Research and development costs were approximately \$0.9 million and \$0.7 million in fiscal 2012 and 2011, respectively.

### **Employees**

As of February 29, 2012, the Company employed 324 persons on a full time basis. Of these, 106 were employed in executive, administrative, and clerical positions, 29 were employed in sales and distribution, and 189 were employed in manufacturing operations. The Company believes its employee relations to be satisfactory.

### **Competition**

The Company believes that it has a competitive advantage in the display industry due to its ability to engineer custom display solutions for a variety of industrial and military applications, its ability to provide internally produced component parts, and its manufacturing flexibility. As a result, the Company can offer more customization in the design and engineering of new products. With the operations of Aydin Displays, Lexel Imaging and Display Systems, the Company believes it has become one of the leading suppliers within the specialty display markets.

The Company utilizes flat panel displays in many of its monitor units. These flat panels are purchased from OEMs. The consolidated net sales generated in fiscal 2012 from products utilizing flat panel technology were \$22.9 million as compared to \$16.4 million in fiscal 2011. Historically, a significant portion of the Company's revenues is generated from the replacement CRT market. Although the CRT market remains a quite viable market, the growth in flat panel products is outpacing growth in CRT products. As trends continue to become more defined, and replacement of these products occurs in five to seven years, the Company foresees a bigger impact and utilization of flat panel products in its business. There is competition in the area of flat panel technology and the Company will strive to rely on its ability to adapt and incorporate designs into its future products so that it may compete in a profitable manner. Currently, the flat panel market is made up of many competitors of various sizes, none holding a dominant position in the flat panel marketplace.

The Company now operates in several markets in the areas of custom electronic circuitry. The Company's Z-Axis subsidiary specializes in custom power supply and circuit board solutions, the Company's Aydin Display Systems subsidiary specializes in custom flat panel displays for the government and industrial markets and the Company's VDC Display Systems division specializes in projector design and video solutions. The Company became the North American distributor for the German company Eyevis GmbH, focusing on configurable visual solutions for command and control and other large format visuals in the energy, utility, transportation, industrial and security markets.

The Company believes it has a competitive advantage and is the sole source in providing many of its CRTs to the customer base of its Data Displays and Lexel subsidiaries as these operations have been providing reliable products and services to these customers for more than 30 years. Lexel manufactures a broad range of CRT and direct view storage tube ( DVST ) solutions used in military, industrial, and commercial applications, including avionics, projection, medical and general-purpose displays. Data Displays offers a wide range of high performance imaging devices and high resolution displays for medical, business applications, military, and fight simulation.

The Company is a wholesale distributor of original equipment CRTs purchased from other manufacturers and produces its own CRTs at its Lexel manufacturing facility. The Company believes it is the only company that

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offers complete service in replacement markets with its manufacturing and recycling capabilities. The Company's ability to compete effectively in this market is dependent upon its continued ability to respond promptly to customer orders and to offer competitive pricing.

### **Discontinued Operations**

On March 1, 2011, the Company sold its Fox International Ltd. subsidiary to FI Acquisitions, a company owned by Video Display's Chief Executive Officer. We accounted for this disposition as discontinued operations, and, accordingly, we have reclassified the consolidated financial results for all periods presented to reflect them as such. (see Note 15 Discontinued Operations)

### **Item 1A. Risk Factors.**

#### **Forward looking statements and risk factors**

All statements other than statements of historical facts included in this report, including, without limitation, those statements contained in Item 1, are statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934. The words expect, estimate, anticipate, predict, believe and similar expressions and variations thereof are intended to identify forward-looking statements. Such statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things: (i) trends affecting the Company's consolidated financial condition or results of operations; (ii) the Company's financing plans; (iii) the Company's business and growth strategies, including potential acquisitions; and (iv) other plans and objectives for future operations. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties and actual results may differ materially from those predicted in the forward-looking statements or which may be anticipated from historical results or trends.

Our Company operates in technology-based markets that involve a number of risks, some of which are beyond our control. The following discussion highlights some risks and uncertainties that investors should consider, in conjunction with all other information in this Annual Report on Form 10-K. Additional risks and uncertainties not presently known to the Company may impair the Company's business and operations. If any of the following risks actually occur, the Company's business, consolidated financial condition, cash flows, or results of operations could be materially affected.

#### **Changes in government priorities may affect military spending, and our consolidated financial condition and results of operations could suffer if their purchases decline.**

We currently derive a significant portion of our net sales (42% in fiscal 2012) from direct and indirect sales to the U.S. government. If we are unable to replace expiring contracts, which are typically less than twelve months in duration, with contracts for new business, our sales could decline, which would have a material adverse effect on our business, consolidated financial condition, results of operations, or cash flows. We expect that direct and indirect sales to the U.S. government will continue to account for a substantial portion of our sales in the foreseeable future. We have no assurance that these government-related sales will continue to reach or exceed historical levels in future periods.

#### **Migration to flat panel and other technology may negatively affect our CRT business.**

The Company acquires CRT inventory when the replacement market appears to demonstrate adequate future demand and the purchase price allows a reasonable profit for the risk. Due to the extended time frame for the replacement market to develop (five to seven years), these purchased inventories may not sell as quickly as other inventories. If the Company is unable to manage CRT inventory levels in coordination with reduced future CRT demand due to the growth of flat panel technology, the marketability of inventory on hand may be affected and the Company may incur significant costs in the disposal of excess inventory.

The Company anticipates that flat panel and other technology products, due to their lower space and power requirements, will eventually become the display of choice in many display applications. In anticipation of long-term trends toward flat panel display usage, the Company has focused its efforts and its acquisition strategy toward flat panel technologies. If the Company is unable to replace any future declines in CRT sales with products based on other technologies, our business may be adversely affected.

#### **Our industry is highly competitive and competitive conditions may adversely affect our business.**

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Our success depends on our ability to compete in markets that are highly competitive, with rapid technological advances and products that require constant improvement in both price and performance. In most of our markets, we are experiencing increased competition, and we expect this trend to continue. This environment may result in changes in relationships with customers or vendors, the ability to develop new relationships, or the business failure of customers or vendors, which may negatively affect our business. If our competitors are more successful than we are in developing new technology and products, our business may be adversely affected.

Competitive pressures may increase or change through industry consolidation, entry of new competitors, marketing changes or otherwise. There can be no assurance that the Company will be able to continue to compete effectively with existing or potential competitors.

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### **Competitors or third parties may infringe on our intellectual property.**

The Company holds patents with respect to certain products and services. The Company also sells products under various trademarks and trade names. Should competitors or third parties infringe on these rights, costly legal processes may be required to defend our intellectual property rights, which could adversely affect our business.

### **Future acquisitions may not provide benefits to the Company.**

The Company's growth strategy includes expansion through acquisitions. There can be no assurance that the Company will be able to complete further acquisitions or that past or future acquisitions will not have an adverse impact on the Company's consolidated operations.

### **If we are unable to retain certain key personnel and hire new, highly-skilled personnel, we may not be able to execute our business plan.**

Our future success depends on the skills, experience, and efforts of our senior managers. The loss of services of any of these individuals, or our inability to attract and retain qualified individuals for key management positions, could negatively affect our business.

### **Our business operations could be disrupted if our information technology systems fail to perform adequately.**

We depend upon our information technology systems in the conduct of our operations and financial reporting. If our major information systems fail to perform as anticipated, we could experience difficulties in maintaining normal business operations. Such systems related problems could adversely affect product development, sales, and profitability.

### **Changes to accounting rules or regulations may adversely affect our results of operations.**

New accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future. Future changes to accounting rules or regulations or the questioning of current accounting practices, may adversely affect our consolidated financial condition, or results of operations.

### **The Company's stock price may be negatively affected by a variety of factors.**

In addition to any impact the Company's operating performance, potential future Company sales of common stock, the Company's dividend policies or possible anti-takeover measures available to the Company may have, changes in securities markets caused by general foreign or domestic economic, consumer or business trends, the impact of interest rate policies by the federal reserve board, and other factors outside the Company's control may negatively affect our stock price.

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### **Changes to estimates related to long-term assets, or operating results that are lower than our current estimates, may cause us to incur impairment charges.**

If the Company determines it is more likely than not that the fair value of a reporting unit is less than the carrying value, then it applies the processes prescribed in FASB ASC Topic 350 *Intangible Assets* and FASB ASC Topic 360 *Property, Plant, and Equipment*.

We make certain estimates and projections in connection with our impairment analyses for goodwill and other long-term assets. If these estimates or projections change or prove incorrect, we may be required to record impairment charges. If these impairment charges were significant, our consolidated financial position or results of operations would be adversely affected.

### **International factors could negatively affect our business.**

A significant portion of our consolidated net sales (8% in fiscal 2012) is made to foreign customers. We also receive a significant amount of our raw materials from foreign vendors. We are subject to the risks inherent in conducting our business across national boundaries, many of which are outside of our control. These risks include the following:

Economic downturns;

Currency exchange rate and interest rate fluctuations;

Changes in governmental policy, including, among others, those relating to taxation;

International military, political, diplomatic and terrorist incidents;

Government instability;

Nationalization of foreign assets;

Natural disasters could disturb our supply chains; and

Tariffs and governmental trade policies.

We cannot ensure that one or more of these factors will not negatively affect our international customers and, as a result, our business and consolidated financial performance.

### **Our level of indebtedness could adversely affect the future operation of our business.**

Our level of indebtedness could have important consequences, including:

making it more difficult for us to make payments on the debt, as our business may not be able to generate sufficient cash flows from operating activities to meet our debt service obligations;

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increasing our vulnerability to general economic and industry conditions;

requiring a substantial portion of cash flow from operating activities to be dedicated to the payment of our outstanding lines of credit and long-term debt, and as a result reducing our ability to use our cash flow to fund our operations and capital expenditures, capitalize on future business opportunities and expand our business and execute our strategy;

exposing us to the risk of increased interest rates since much of our borrowings are at variable rates of interest;

causing us to make non-strategic divestitures;

limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements and other general corporate purposes; and

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limiting our ability to adjust to changing market conditions and to react to competitive pressure and placing us at a competitive disadvantage compared to our competitors who may have lower debt leverage.

### **Our debt agreements contain covenants that limit our flexibility in operating our business.**

The agreements governing our indebtedness contain various covenants that limit our ability to engage in specified types of transactions, and which may adversely affect our ability to operate our business. Among other things, these covenants limit our ability to:

incur additional indebtedness;

make certain investments, loans or advances;

transfer and sell certain assets;

create or permit liens on assets;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;

engage in any business activity substantially different from our current businesses;

pay dividends;

purchase treasury shares; and

cause, permit, or suffer a change in capital ownership.

A breach of any of these covenants could result in default under our debt agreements, which could prompt the lender to declare all amounts outstanding under the debt agreements to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lender could proceed against the collateral granted to secure that indebtedness. If the lender under the debt agreements accelerates the repayment of borrowings, we cannot assure the shareholders that we will have sufficient assets and funds to repay the borrowings under our debt agreements. See related comments under the caption "Management's Discussion of Liquidity and Capital Resources" in Part II, Item 7 in this Annual Report of Form 10-K.

### **Item 1B. Unresolved Staff Comments.**

None.

### **Item 2. Properties.**

The Company leases its corporate headquarters at 1868 Tucker Industrial Road in Tucker, Georgia (within the Atlanta metropolitan area). Its headquarters occupy approximately 10,000 square feet of the total 59,000 square feet at this location. The remainder is utilized as warehouse and assembly facilities. This location, as well as one other, is leased from a related party at current market rates. See Part III, Item 13 Certain Relationships and Related Transactions in this Annual Report on Form 10-K. Management believes the facilities to be adequate for its needs.





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The following table details manufacturing, warehouse, and administrative facilities:

Location	Square Feet	Lease Expires
Tucker, Georgia	59,000	October 31, 2018
Stone Mountain, Georgia	45,000	May 31, 2018
White Mills, Pennsylvania	110,000	Company Owned
Bossier City, Louisiana	26,000	Company Owned
Birdsboro, Pennsylvania	40,000	Company Owned (a)
Phelps, New York	32,000	Company Owned
Cape Canaveral, Florida	30,000	January 17, 2014
Lexington, Kentucky	80,000	March 31, 2015

- (a) The Birdsboro, Pennsylvania property secures mortgage loans from a bank with a principal balance of \$0.4 million as of February 29, 2012. This mortgage loan bears an interest rate of approximately 3.75%. Monthly principal and interest payments of approximately \$5,000 are payable through October 2021.

**Item 3. Legal Proceedings.**

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

During 2007, the Company acquired the Cathode Ray Tube Manufacturing and Distribution Business and certain other assets of Clinton Electronics Corp. ( Clinton ), including inventory, 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 \$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 \$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 disputed 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 4. Submission of Matters to a Vote of Security Holders.**

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this Annual Report.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.**

The Company's common stock is traded on the National Association of Securities Dealers Automated Quotation System ( NASDAQ ) national market system under the symbol VIDE.

The following table shows the range of prices for the Company's common stock as reported by NASDAQ for each quarterly period beginning on March 1, 2010. The prices reflect inter-dealer prices, without mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

Quarter Ended	For Fiscal Years Ended			
	February 29, 2012		February 28, 2011	
	High	Low	High	Low
May	\$ 3.98	\$ 3.45	\$ 5.38	\$ 4.39
August	4.32	3.37	4.87	3.87
November	4.77	3.45	4.50	3.79
February	6.32	4.84	4.20	3.70

There were approximately 430 holders of record of the Company's common stock as of May 15, 2012.

Payment of cash dividends in the future will be dependent upon the earnings and financial condition of the Company and other factors that the Board of Directors may deem appropriate. The Company is restricted by certain loan agreements regarding the payout of cash dividends.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table provides information as of February 29, 2012 regarding compensation plans (including individual compensation arrangements) under which Common Stock of the Company is authorized for issuance.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Stock Option Plan			
Equity compensation plans approved by security holders	59,000	\$ 4.46	755,000

**Issuer Purchases of Equity Securities**

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. During the fiscal year ended February 29, 2012, the Company purchased 89,281 shares. Under this program, an additional 727,137 shares remain authorized to be repurchased by the Company at February 29, 2012. In addition, the Company acquired an additional 800,000 shares as part of the sale of its Fox International Ltd, Inc. subsidiary on March 1, 2011. As discussed in Note 5, the Loan and Security Agreement executed by Company on

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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.

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### **Item 6. Selected Financial Data**

N/A

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

We have reclassified management's discussion and analysis for all periods presented to reflect the consolidated financial results of our Fox International Ltd. as discontinued operations. See "Results of Operations-Discontinued Operations" later in this Item 7 for more information. Additionally, as Fox International, Ltd. represented our entire wholesale segment, we have also reflected that change by presenting all periods in one reportable segment. Unless otherwise noted, discussions below pertain to our continuing 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 wide range of CRT, flat panel and projection display systems for use in training and simulation, military, medical, and industrial applications.

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

**Entertainment CRTs** 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 2012, management of the Company focused key resources on strategic efforts to dispose of unprofitable operations and seeking 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 needs to ensure adequate on hand supplies of inventory and to ensure against overstocking of slower moving, obsolete items.

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 averaged 231 days during 2012, 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 Company also maintains inventory for warranty repairs and replacements for products out in the field which are no longer in its current products. In the monitor operations of the Company's business, the market for its products is characterized by 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 or 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. The Company's management monitors the adequacy of its inventory reserves regularly, and at February 29, 2012, believes its reserves to be adequate.

**Interest rate exposure** - The Company had outstanding debt of approximately \$17 million and \$22 million, as of February 29, 2012 and February 28, 2011, respectively, subject to interest rate fluctuations by the Company's lenders. Variable interest rates on the Company's loans and the potential for rate hikes could negatively affect the Company's future earnings. It is the intent of the Company to continually monitor interest

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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.

**Table of Contents****Operations**

The following table sets forth, for the fiscal years indicated, the percentages that selected items in the Company's consolidated statements of operations bear to total revenues (amounts in thousands):

(See Item 1. Business Description of Principal Business and Principal Products for discussion about the Company's Products and Divisions.)

	2012		2011	
	Amount	%	Amount	%
<b>Net Sales</b>				
Monitors	\$ 58,596	91.2%	\$ 51,936	88.0%
Data Display CRTs	5,302	8.3	6,498	11.0
Entertainment CRTs	127	0.2	353	0.6
Component Parts	206	0.3	252	0.4
<b>Total Company</b>	<b>64,231</b>	<b>100.0</b>	<b>59,039</b>	<b>100.0</b>
<b>Costs and expenses</b>				
Cost of goods sold	\$ 44,286	69.0%	\$ 43,544	73.8%
Selling and delivery	5,485	8.5	4,387	7.4
General and administrative	8,437	13.1	6,689	11.3
	<b>58,208</b>	<b>90.6</b>	<b>54,620</b>	<b>92.5</b>
Income from operations	6,023	9.4	4,419	7.5
Interest expense	(793)	(1.3)	(946)	(1.6)
Other income, net	120	0.2	245	0.4
<b>Income before income taxes</b>	<b>5,350</b>	<b>8.3</b>	<b>3,718</b>	<b>6.3</b>
Provision for income taxes	1,773	2.8	1,317	2.2
<b>Income from continuing operations</b>	<b>3,577</b>	<b>5.5</b>	<b>2,401</b>	<b>4.1</b>
Loss from discontinued operations, net of tax			(1,314)	(2.2)
<b>Net Income</b>	<b>\$ 3,577</b>	<b>5.5%</b>	<b>\$ 1,087</b>	<b>1.9%</b>

**Fiscal 2012 Compared to Fiscal 2011****Net Sales**

Consolidated net sales increased \$5.2 million or 8.8% to \$64.2 million for fiscal 2012, compared to \$59.0 million for fiscal 2011.

The Company's business is more concentrated in the monitor division of the Company where all the new growth is occurring as the market for CRTs declines and moves to newer technologies. The Company is now a video display solutions company, while it still services the existing CRT markets, which overall account for approximately 33% of the Company's revenues. The Monitor revenues increased \$6.7 million due to growth of long-term contracts at Aydin Displays and Z-Axis which experienced tremendous growth in its custom manufacturing and power supply sales due to new business. Overall, Aydin Displays revenues increased 37% over the prior fiscal year to \$26.7 million and Z-Axis increased 78% in net revenues to \$16.9 million over the prior fiscal year. Display Systems business was down 28% from the prior fiscal year as it finished out a multi-year contract for the U.S. Marine Corps at the start of the fiscal year and due to changes in the projector industry which affected the sales of its CRT projectors. Lexel experienced a 20.7% decline in revenues due to a decline in orders for various types of its CRT business. Lexel is expected to rebound in fiscal 2013 due to foreign sales projections which were down in fiscal 2012. Data Display CRT sales in fiscal 2012 declined due to decreased demand in the CRT market including the division's largest customer. Sales are expected to improve with the customer as they were working down their inventory levels in fiscal 2012.



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Entertainment CRT and Component Parts net sales declined by a combined 45% in fiscal 2012 compared to fiscal 2011. The two divisions represent only 0.5% of the Company's revenues for fiscal 2012. Due to the continued shift to flat screen televisions, the market for replacement CRTs in the consumer market has diminished. The Company is winding down its business in replacement CRTs for the consumer market and indeed this is a small fraction of the Company's overall business. Component Parts sales have generally declined in recent years due to weaker demand for electron gun and stem sales. This business will continue to decline as the CRT industry moves to the new technologies. The division primarily supplies the other divisions with parts they need to complete the assembly of their products.

### Gross Margins

Consolidated gross margins increased to 31.1% for fiscal 2012 from 26.3% for fiscal 2011. Overall gross margin dollars increased by \$4.5 million or 28.7% versus the prior fiscal year.

The only division which experienced an increase in gross margin percentage and dollars was the Monitor division. The product mix of the division changed due to increases in flat panel displays and custom manufacturing. The margins for the Monitor division improved as the division's revenues increased and better efficiencies were achieved within their operations due to better utilization of capacity and equipment upgrades at Z-Axis. The Monitor division gross margin dollars increased \$5.7 million or 39.9% over the prior fiscal year. The gross margin percentages also increased from 27.5% in fiscal 2011 to 34.0% in fiscal 2012.

Data Display CRT gross margin dollars decreased by 77.7% for fiscal 2012 compared to fiscal 2011. This decrease in margin dollars was due to a decrease in market demand for CRT products and costs associated with closing the Company's Clinton Display Systems facility in the fourth quarter of the Company's fiscal year. Gross margins in Entertainment CRTs decreased in fiscal 2012 from the prior year due to the decrease in sales volume of high margin products at the Company's Louisiana facility and the Chroma division. The Chroma division was closed in the Company's second quarter. Gross margins from Component Parts decreased in fiscal 2012 due to low sales volume and the inability to cover fixed costs. The division primarily exists to service and supply parts to other divisions within the Company. Gross margins for these divisions represented less than 1% of the Company's gross margin dollars.

### Operating Expenses

Operating expenses as a percentage of sales increased to 21.7% for fiscal 2012 from 18.7% for fiscal 2011 primarily reflecting increases in salaries, legal fees, research and development and professional services. The higher salaries are attributable to increases in commission due to higher sales volumes and additional sales people including the new division, Aydin Visual Solutions. The increased legal fees and professional services are for services in the sale of the Fox subsidiary, the settlement of the Clinton Displays dispute (see Note 11), certain government contract issues, and acquisition issues. Finally, research and development costs increased as the Company increased its work on new products.

### Plant Closure

As of February 29, 2012 the Company closed its Clinton Displays facility in Loves Park, Illinois, a manufacturer of CRTs. The remaining inventory and CRT-related operations were moved to the Company's Lexel Imaging Systems subsidiary in Lexington, Ky. where they will continue to be manufactured and its Data Displays distribution facility in Tucker, Ga. The operating losses generated by Clinton Displays for the years ended February 29, 2012 and February 28, 2011 were approximately \$1,275 thousand and \$446 thousand and are included in the Company's results from operations.

### Interest Expense

Interest expense decreased to \$0.8 million for fiscal 2012 compared to \$0.9 million in fiscal 2011. Overall, interest expense decreased by \$0.2 million as the Company reduced debt by nearly \$5 million during the current fiscal year. This was achieved by the increased profitability of the Company, better use of its assets and paying off higher interest debt. 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 fiscal 2012 was 33.1% compared to 35.4% for fiscal 2011. The lower effective rate in 2012 was primarily due to research and experimentation credits, the domestic production activities deduction, and various other permanent items.

### Discontinued Operations

On March 1, 2011, the Company sold its Fox International Ltd. subsidiary to FI Acquisitions, a company owned by Video Display's Chief Executive Officer. We accounted for this disposition as discontinued operations, and, accordingly, we have reclassified the consolidated financial results for all periods presented to reflect them as such. The loss from discontinued operations, net of tax, in fiscal 2011 was \$1.3 million. (see Note 15 Discontinued Operations)

### *Liquidity and Capital Resources*

At February 29, 2012 and February 28, 2011, the Company had total cash of \$0.1 million and \$2.8 million, respectively. Of the \$2.8 million on February 28, 2011, \$1.4 million was restricted cash. The Company's working capital was \$37.3 and \$40.4 million at February 29, 2012 and February 28, 2011, respectively. In recent years, the Company has financed its growth and cash needs primarily through income from operations, borrowings under revolving credit facilities, borrowings from its CEO and long-term debt.

The Company specializes in certain products representing trailing-edge technology that may not be available from other sources, and may not be manufactured currently. 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, but typically has larger investments in inventories than those of its competitors.

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The Company continually monitors its cash and financing positions in order to find ways to lower its interest costs and to produce positive operating cash flow. The Company examines possibilities to grow its business through internal sales growth 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 was \$4.2 million in fiscal 2012 and \$5.9 million in fiscal 2011. Of this, \$7.7 million was due to the operating activities of the Company due primarily to the net income of \$3.6 million, the provision for inventory reserves of \$1.7 million, depreciation and amortization of \$1.1 million, the change in deferred taxes of \$0.9 million and other small changes totaling \$0.4 million. During fiscal 2012, net working capital items decreased by \$3.6 million. The primary changes were accounts payable decrease of \$1.3 million that resulted from the Company becoming more current with its vendors as operations improved, an increase of \$1.7 million in unbilled costs on uncompleted contracts and \$1.6 million increase in inventories. Changes in prepaid expenses accounted for the other decreases of \$0.1 million. These were offset by a decrease in accounts receivable of \$1.1 million and an increase in taxes refundable of \$0.1 million.

Investing activities used cash of \$0.2 million in fiscal 2012 and used \$2.2 million of cash in fiscal 2011. The use of the letter of credit purchased in fiscal 2011 provided \$1.4 million which was offset by capital expenditures of \$0.6 million for used equipment by Z-Axis, Aydin Displays and Lexel Imaging, \$0.8 million payment for the settlement of Clinton and \$0.2 million for the purchase of a note receivable for StingRay 56. In fiscal 2011, the purchase of a letter of credit for \$1.4 million and capital expenditures were \$0.9 million offset by \$0.1 million on the proceeds from the sale of equipment. Capital expenditures in fiscal 2011 were primarily for expansion at the Company's Z-axis facility, which used \$0.8 million of the total spent in fiscal 2011. The Company does not anticipate significant investments in capital assets for fiscal 2013 beyond normal maintenance requirements.

Financing activities used cash of \$5.2 million in fiscal 2012 primarily for paying down debt. During fiscal 2011, the Company used \$2.7 million of cash primarily to pay down debt.

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. On May 26, 2011, the Banks amended the Credit Agreement (1<sup>st</sup> Amendment) 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. On July 26, 2011, the Banks again amended the Credit Agreement (2<sup>nd</sup> Amendment) to include a swing-line promissory note of \$1.0 million that is included in the revised \$15.0 million revolver commitment. On September 1, 2011, the Banks amended the Credit Agreement (3<sup>rd</sup> Amendment) 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. On January 17, 2012, the Banks amended the Credit Agreement (4<sup>th</sup> Amendment) to allow the Company to purchase a promissory note, dated July 23, 2010, held by Hetra Secure Solutions Corporation on StingRay56. Additionally, on March 5, 2012, the Banks amended the Credit Agreement (5<sup>th</sup> Amendment) to allow the Company to acquire StingRay56, Inc.

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.

The agreement contains three covenants, as amended: 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, as amended), 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.

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The Company is in compliance with the covenants under the new and amended loan agreements as of February 29, 2012. As of February 28, 2011, the Company was not in compliance with the consolidated fixed charge coverage ratio or the senior funded debt to EBITDA ratio as defined by the RBC and Community & Southern Bank credit line agreements. The Company subsequently received a waiver of these covenant violations from RBC Bank and Community & Southern Bank through the July 15, 2011 reporting of the next measurement of these covenants as of the Company's first quarter end. The senior funded debt to EBITDA covenant was deemed to be the most restrictive by the Company and the Banks.

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. During the fiscal year ended February 29, 2012, the Company repurchased 89,281 shares at an average price of \$4.46 per share, which were added to treasury shares on the consolidated balance sheet. Under this program, an additional 727,137 shares remain authorized to be repurchased by the Company at February 29, 2012. In addition, the Company acquired an additional 800,000 shares as part of the sale of its Fox International Ltd, Inc. subsidiary on March 1, 2012. As discussed in Note 5, the Loan and Security Agreement executed by 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.

**Transactions with Related Parties, Contractual Obligations, and Commitments**

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 \$33,333 plus interest through July 2021. The interest rate on this note was equal to the prime rate plus one percent. Interest payments of \$86.4 thousand and \$206.5 thousand were paid on this note in fiscal 2012 and fiscal 2011, respectively. The note was secured by a general lien on all assets of the Company, subordinate to the lien held by the syndicate of RBC Bank and Community & Southern Bank. The Company repaid the remaining balance outstanding under this loan agreement on November 28, 2011 with consent from RBC Bank and Community & Southern Bank. The payoff was approximately \$1.0 million.

The Company's CEO provides a portion of the collateral for one of the term loans with the consortium of RBC Bank and Community & Southern Bank. (see Note 5)

On March 1, 2011, the Company sold its Fox International Ltd. subsidiary to FI Acquisitions, a company owned by Video Display's Chief Executive Officer. We accounted for this disposition as discontinued operations, and, accordingly, we have reclassified the consolidated financial results for all periods presented to reflect them as such.

**Contractual Obligations**

Future maturities of long-term debt, future contractual obligations due under operating leases, and other obligations at February 29, 2012 are as follows (in thousands):

	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$ 16,880	\$ 945	\$ 13,786	\$ 506	\$ 1,643
Interest obligations on long-term debt (a)	1,809	657	750	152	250
Operating lease obligations	4,123	1,060	2,269	635	159
Purchase obligations	8,278	8,278			
Warranty reserve obligations	151	151			
Total	\$ 31,241	\$ 11,091	\$ 16,805	\$ 1,293	\$ 2,052

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(a) This line item was calculated by utilizing the effective rate on outstanding debt as of February 29, 2012.

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### **Off-Balance Sheet Arrangements**

Effective March 1, 2011, the Company has an arrangement with RBC Bank and Community & Southern Bank allowing a building owned by the Chief Executive Officer to be used as part of the collateral on a \$3.0 term loan with a consortium between RBC Bank and Community & Southern Bank.

### **Critical Accounting Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon the Company's consolidated financial statements. These 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 consolidated financial statements and related notes. The accounting policies that may involve a higher degree of judgments, estimates, and complexity include reserves on inventories, the allowance for bad debts, contract revenue recognition as well as profitability or loss recognition estimates 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 attempts to determine by historical usage analysis and numerous other market factors, 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 OEMs, new products being marketed and technological advances relative to the product capabilities of the Company's existing inventories. There have been no significant changes in management's estimates in 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.

The reserve for inventory obsolescence was approximately \$3.3 million and \$4.9 million at February 29, 2012 and February 28, 2011, respectively. During fiscal 2012 and 2011, the Company disposed of \$4.6 million and \$1.8 million of inventory, respectively. The increase in disposals during 2012 was due to several factors. \$1.7 million of inventory was disposed of at the Company's Clinton Displays facility; \$0.8 million was disposed of after the settlement agreement was reached with Clinton Electronics Corporation (see Note 11) and the remainder when the Company closed the plant in February 2012. Data Display disposed of \$1.7 million with the majority of the disposals being attributed to inventory it acquired from the Company's former subsidiary, Fox International, Ltd, Inc. before its sale to FI Acquisition, LLC on March 1, 2012 (see Note 15). The Company's Aydin Displays and VDCDS divisions each disposed of \$0.6 million. Other divisions disposed of \$0.2 million of inventory. Of the \$4.6 million of inventory disposed of during the year, \$3.3 million was previously included in the inventory reserve and \$0.8 million was previously accrued in conjunction with the Clinton settlement. Analysis of the inventory determined there was no longer a need for some of the inventory and it was better to dispose of it for tax purposes and free up valuable space.

#### *Revenue and profit or loss recognition*

Revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable and collect-ability can be reasonably assured. The Company's delivery term typically is F.O.B. shipping point.

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 statements of income. Shipping and handling costs incurred for the delivery of product to customers are classified in selling and delivery in the consolidated statements of income.

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A portion of the Company's revenue is derived from contracts to manufacture display systems to a buyer's 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 bad debts*

The allowance for bad debts is determined by reviewing all accounts receivable and applying 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 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 bad debts 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 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 feels that historically its procedures have been adequate and does not anticipate that its assumptions are reasonably likely to change in the future.

### *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 can reasonably be estimated. 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.

### *Discontinued Operations*

On March 1, 2011, the Company sold its Fox International Ltd. 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, which 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 of his personally-owned shares of the Company's stock valued at approximately \$3.3 million and approximately \$250,000 in cash.

### *Goodwill and Other Intangible Assets*

Goodwill represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method. Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized and evaluated annually for impairment. If the Company determines it is more likely than not that the fair value of a reporting unit is less than the carrying value, then it applies the processes prescribed in FASB ASC Topic 350 *Intangible Assets* and FASB ASC Topic 360 *Property, Plant, and Equipment*. We make certain estimates and projections in connection with impairment analyses for goodwill and other long-term assets. If these estimates or projections change or prove incorrect, we may be required to record impairment charges. If these impairment charges were significant, our consolidated financial position or results of operations would be adversely affected. Management has assessed the Company's intangible assets and has not recognized any impairment of assets for the twelve months ended February 29, 2012.

### *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

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expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company accounts for uncertain tax positions under the provisions of ASC Topic 740, Accounting For Uncertainty In Income Taxes-An Interpretation of ASC Topic 740 ( ASC Topic 740 ). ASC Topic 740 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 February 29, 2012, the Company did not record any liabilities for uncertain tax positions.

### **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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**Impact of Inflation**

Inflation has not had a material effect on the Company's results of operations to date.

**Item 7A. Quantitative and Qualitative Disclosures 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 \$17 million of outstanding debt at February 29, 2012 related to long-term 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 \$170,000 in pre-tax income assuming no further changes in the amount of borrowings subject to variable rate interest from amounts outstanding at February 29, 2012. The Company does not trade in derivative financial instruments.



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**Item 8. Financial Statements and Supplementary Data.**

Video Display Corporation and Subsidiaries

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors

Video Display Corporation

We have audited the accompanying consolidated balance sheets of Video Display Corporation and subsidiaries (the Company) as of February 29, 2012 and February 28, 2011, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the two-year period ended February 29, 2012. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Video Display Corporation and subsidiaries as of February 29, 2012 and February 28, 2011, and the results of their operations and their cash flows for each of the years in the two-year period ended February 29, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ Carr, Riggs & Ingram, LLC  
Atlanta, Georgia  
May 29, 2012

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## Video Display Corporation and Subsidiaries

## Consolidated Balance Sheets

(in thousands)

	February 29, 2012	February 28, 2011
Assets		
Current Assets		
Cash	\$ 148	\$ 1,399
Restricted cash		1,388
Accounts receivable, less allowance for bad debts of \$176 and \$134, respectively	7,193	8,496
Inventories, net	29,736	30,593
Cost and estimated earnings in excess of billings on uncompleted contracts	3,236	2,192
Deferred income taxes	1,936	2,659
Income taxes refundable	680	770
Prepaid expenses and other current assets	842	825
Assets of discontinued operations		5,710
Total current assets	43,771	54,032
Property, plant and equipment:		
Land	336	336
Buildings	6,659	6,340
Machinery and equipment	17,884	17,583
	24,879	24,259
Accumulated depreciation	(20,463)	(19,737)
Net property, plant and equipment	4,416	4,522
Note receivable	250	
Goodwill	1,291	1,376
Intangible assets, net	1,221	1,504
Deferred income taxes	648	823
Other assets	6	5
Assets of discontinued operations		1,208
Total assets	\$ 51,603	\$ 63,470

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

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## Video Display Corporation and Subsidiaries

## Consolidated Balance Sheets

(in thousands)

	February 29, 2012	February 28, 2011
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$ 3,237	\$ 4,387
Accrued liabilities	1,945	3,690
Billings in excess of cost and estimated earnings on uncompleted contracts	342	1,026
Current maturities of notes payable to officers and directors		396
Current maturities of long-term debt	945	943
Liabilities of discontinued operations		3,208
<b>Total current liabilities</b>	<b>6,469</b>	<b>13,650</b>
Lines of credit	11,057	13,336
Long-term debt, less current maturities	4,878	5,822
Notes payable to officers and directors, less current maturities		1,374
Other long-term liabilities	246	296
Liabilities of discontinued operations		188
<b>Total liabilities</b>	<b>22,650</b>	<b>34,666</b>
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 7,581 outstanding at February 29, 2012, and 9,732 issued and 8,409 outstanding at February 28, 2011	7,293	7,293
Additional paid-in capital	114	175
Retained earnings	32,065	28,488
Treasury stock, 2,151 shares at February 29, 2012 and 1,323 shares at February 28, 2011 at cost	(10,519)	(7,152)
<b>Total shareholders' equity</b>	<b>28,953</b>	<b>28,804</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 51,603</b>	<b>\$ 63,470</b>

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

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## Video Display Corporation and Subsidiaries

## Consolidated Statements of Income

(in thousands, except per share data)

	February 29, 2012	February 28, 2011
Net sales	\$ 64,231	\$ 59,039
Cost of goods sold	44,286	43,544
<b>Gross profit</b>	<b>19,945</b>	<b>15,495</b>
Operating expenses		
Selling and delivery	5,485	4,387
General and administrative	8,437	6,689
	<b>13,922</b>	<b>11,076</b>
Operating income	6,023	4,419
Other income (expense)		
Interest expense	(793)	(946)
Other, net	120	245
Total other income (expense)	(673)	(701)
Income from continuing operations before income taxes	5,350	3,718
Provision for income taxes	1,773	1,317
Net income from continuing operations	\$ 3,577	\$ 2,401
Loss from discontinued operations, net of income tax benefit of \$0 and \$665, respectively		(1,314)
Net income	\$ 3,577	\$ 1,087
Net income (loss) per share:		
From continuing operations basic	\$ 0.47	\$ 0.29
From continuing operations diluted	\$ 0.46	\$ 0.28
From discontinued operations basic	\$	\$ (0.16)
From discontinued operations diluted	\$	\$ (0.15)
Average shares outstanding basic	7,612	8,370
Average shares outstanding diluted	7,802	8,700

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



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## Video Display Corporation and Subsidiaries

## Consolidated Statements of Shareholders' Equity

(in thousands)

	<b>Common Shares*</b>	<b>Share Amount</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>
Balance, February 28, 2010	8,365	7,293	193	27,401	(7,390)
Net income				1,087	
Stock awards	44		(55)		238
Share based compensation			37		
Balance, February 28, 2011	8,409	7,293	175	28,488	(7,152)
Net income				3,577	
Options exercised	20		(54)		98
Stock awards	39		(30)		195
Repurchase of treasury stock	(889)				(3,670)
Share based compensation	2		23		10
Balance, February 29, 2012	7,581	\$ 7,293	\$ 114	\$ 32,065	\$ (10,519)

\* Common Shares are shown net of Treasury Shares

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

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## Video Display Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

(in thousands)

	February 29, 2012	February 28, 2011
<b>Operating Activities</b>		
Net income	\$ 3,577	\$ 1,087
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations, net of tax		1,314
Depreciation and amortization	1,091	1,213
Provision for doubtful accounts	232	233
Provision for inventory reserve	1,678	1,774
Non-cash charge for share based compensation	243	220
Deferred income taxes	898	49
Net unrealized loss on equity securities	31	20
Gain on disposal of equipment	(5)	(14)
Changes in working capital items:		
Accounts receivable	1,071	346
Inventories	(1,646)	1,350
Cost, estimated earnings and billings, net on uncompleted contracts	(1,727)	2,042
Prepaid expenses and other assets	(50)	(352)
Decrease (increase) in income taxes refundable	89	(607)
Accounts payable and accrued liabilities	(1,320)	(2,751)
Net cash provided by operating activities	4,162	5,924
<b>Investing Activities</b>		
Notes receivable for StingRay 56 purchase	(250)	
Capital expenditures	(617)	(957)
Proceeds on sale of equipment	5	102
Proceeds from sale of Fox International, Ltd.	51	
Redemption (purchase) of letter of credit/CD	1,388	(1,388)
Payment for settlement of Clinton	(800)	
Net cash provided by(used in) investing activities	223	(2,243)
<b>Financing Activities</b>		
Proceeds from long-term debt, lines of credit and financing lease obligations	18,684	29,546
Repayments of long-term debt, lines of credit and financing lease obligations	(21,905)	(31,195)
Proceeds from notes payable from officers and directors	10	350
Repayments of notes payable to officers and directors	(1,581)	(1,423)
Purchases and re-issues of treasury stock	(398)	
Net cash used in financing activities	(5,190)	(2,722)
<b>Discontinued Operations</b>		
Operating activities		170
Investing activities		(339)
Financing activities		138



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Net cash used in discontinued operations		(31)	
Net change in cash	(1,251)		928
Cash, beginning of year	1,399		465
Cash, continuing operations	148		1,393
Cash, discontinued operations			6
Cash, end of year	\$ 148		\$ 1,399

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

See Note 13 for supplemental cash flow information.

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### **Notes to Consolidated Financial Statements**

#### **Note 1. Summary of Significant Accounting Policies**

##### **Fiscal Year**

All references herein to 2012 and 2011 mean the fiscal years ended February 29, 2012 and February 28, 2011, respectively. Unless otherwise noted, these policies and disclosures pertain to our continuing operations.

##### **Nature of Business**

Video Display Corporation and subsidiaries (the Company or we) is a world-class provider and manufacturer of video products, components, and systems for data display and presentation of electronic information media in various requirements and environments. The Company designs, engineers, manufactures, markets, distributes and installs technologically advanced display products and systems, from basic components to turnkey systems for government, military, aerospace, medical and commercial organizations.

##### **Principles of Consolidation**

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

##### **Basis of Accounting**

*The FASB Accounting Standards Codification* (FASB ASC) establishes the source of authoritative accounting standards generally accepted in the United States of America (GAAP) recognized by the Financial Accounting Standards Board (FASB) to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB amends the FASB ASC through Accounting Standards Updates (ASUs). We refer to ASCs and ASUs throughout these consolidated financial statements.

##### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Examples include provisions for returns, bad debts, inventory reserves, valuations on deferred income tax assets, goodwill, and other intangible assets, accounting for percentage of completion contracts and the length of product life cycles and fixed asset lives. Actual results could vary from these estimates.

##### **Revenue Recognition**

Revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable and collect-ability can be reasonably assured. The Company's delivery term typically is F.O.B. shipping point. The Company offers one-year and two-year limited warranties on certain products. The Company records, under the provisions of FASB ASC Topic 460-10-25 *Guarantees: Recognition*, a liability for estimated warranty obligations at the date products are sold. Adjustments are made as new information becomes available.

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 statements of income. Shipping and handling costs incurred are classified in selling and delivery in the consolidated statements of income. Shipping costs of \$0.4 million and \$0.3 million were included in the fiscal years ended 2012 and 2011, respectively.

A portion of the Company's revenue is derived from contracts to manufacture video displays to a buyer's specification. These contracts are accounted for under the provisions of FASB ASC Topic 605-35 *Revenue Recognition: Construction-Type and Production-Type Contracts*. The Company utilizes the percentage of completion method as contemplated by this ASC to recognize revenue on all contracts to design, develop, manufacture, or modify complex electronic equipment to a buyer's specification. Percentage of completion is measured using the ratio of costs incurred to estimated total costs at completion. Any losses identified on contracts are recognized immediately.



**Table of Contents****Research and Development**

The Company includes research and development expenditures in the consolidated financial statements as a part of general and administrative expenses. Research and development costs were approximately \$0.9 million and \$0.7 million in the fiscal years ended 2012 and 2011, respectively.

**Financial Instruments**

Fair values of cash, accounts receivable, short-term liabilities, and debt approximate cost due to the short period of time to maturity. Recorded amounts of long-term debt and convertible debentures are considered to approximate fair value due to either rates that fluctuate with the market or are otherwise commensurate with the current market.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are customer obligations due under normal trade terms. The Company sells its products primarily to general contractors, government agencies, manufacturers, and consumers of video displays and CRTs. Management performs continuing credit evaluations of its customers' financial condition and although the Company generally does not require collateral, letters of credit may be required from its customers in certain circumstances, such as foreign sales. The allowance for doubtful accounts is determined by reviewing all accounts receivable and applying 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 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. Management believes accounts receivable are stated at amounts expected to be collected.

The following is a rollforward of the Allowance for Doubtful Accounts (in thousands):

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Deductions	Balance at End of Period
February 29, 2012	\$ 134	\$ 232	\$ 190	\$ 176
February 28, 2011	117	233	216	134

**Warranty Reserves**

The warranty reserve is determined by recording a specific reserve for known warranty issues and a general reserve based on historical 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 historically its procedures have been adequate and does not anticipate that its assumptions are reasonably likely to change in the future.

**Inventories**

Inventories consist primarily of flat panel displays, CRTs, electron guns, monitors, and electronic parts. Inventories are stated at the lower of cost (primarily first-in, first-out) or market.

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 its products in this estimate of net realizable value. Management is able to forecast the usage of its products from buying trends of its customers and the open sales orders from customers. Thus, the Company is able to adjust inventory-stocking levels according to the projected

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demand. Management reviews inventory levels on a quarterly basis. Such reviews include observations of product development trends of the Original Equipment Manufacturers (OEMs), new products being marketed, and technological advances relative to the product capabilities of the Company's existing inventories. There have been no significant changes in management's estimates in 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.

### **Property, Plant and Equipment**

Property, plant, and equipment are stated at cost. Depreciation is computed principally by the straight-line method for financial reporting purposes over the following estimated useful lives: Buildings ten to twenty-five years; Machinery and Equipment five to ten years. Depreciation expense totaled approximately \$0.8 million and \$0.9 million for the fiscal years ended 2012 and 2011, respectively. Substantial betterments to property, plant, and equipment are capitalized and routine repairs and maintenance are expensed as incurred.

Management reviews and assesses long-lived assets, which includes property, plant, and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, management estimates the future cash flows expected to result from the use of the asset. If the sum of the undiscounted expected cash flows is less than the carrying amount of the asset, an impairment loss is recognized based upon the estimated fair value of the asset.

### **Goodwill and Other Intangibles**

Goodwill and non-amortizable intangible assets are assessed yearly for qualitative factors to determine if an impairment event is likely to have occurred unless events or circumstances exist that would require an assessment in the interim. Using the revised guidance in FASB ASU 2011-08, the Company uses a qualitative approach 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 more likely, the Company, in order to estimate the fair value of goodwill and non-amortizable intangible assets estimates future revenue, considers market factors, and estimates our future cash flows. Based on these key assumptions, judgments and estimates, we determine whether we need to record an impairment charge to reduce the value of the assets carried on our balance sheet to their estimated fair value. Assumptions, judgments, and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors, such as industry and economic trends, and internal factors, such as changes in our business strategy or our forecast. Although we believe the assumptions, judgments and estimates we have made are reasonable and appropriate, different assumptions, judgments and estimates could materially affect our reported consolidated financial results. As a result of such testing in February 2012 and 2011, the Company determined there was no impairment of goodwill.

Amortizable intangible assets consist primarily of customer lists and non-competition agreements related to acquisitions. Intangible assets are amortized using the straight-line method over their estimated period of benefit. The Company identifies and records impairment losses on intangible assets when events and circumstances indicate that such assets might be impaired. No impairment of intangible assets has been identified during either of the periods presented.

### **Stock-Based Compensation Plans**

The Company accounts for employee share-based compensation under the fair value method and uses an option pricing model for estimating the fair value of stock options at the date of grant as required by FASB ASC Topic 718-10-30, *Compensation - Stock Compensation: Initial Measurement*. For the fiscal years ended February 29, 2012 and February 28, 2011, the Company recognized general and administrative expense of \$23,494 and \$36,672 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 February 29, 2012, total unrecognized compensation costs related to stock options and shares of restricted stock granted was \$16,557. The unrecognized share based compensation cost is expected to be recognized ratably over a period of approximately one year.

On September 3, 2010 the Company awarded employees restricted stock in recognition of their willingness to forego a portion of their salary during the past year. The restricted stock vests 25% at the end of each quarter and was fully vested at the end of one year. The Company recognized \$164,979 of general and administrative expenses related to the awards for year ending February 29, 2012 and \$183,205 for the year ending February 28, 2011. No similar grants were awarded in fiscal 2012.

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**Table of Contents****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. During the fiscal year ended February 29, 2012, the Company repurchased 89,281 shares at an average price of \$4.46 per share, which were added to treasury shares on the consolidated balance sheet. Under this program, an additional 727,137 shares remain authorized to be repurchased by the Company at February 29, 2012. In addition, the Company acquired an additional 800,000 shares as part of the sale of its Fox International Ltd, Inc. subsidiary on March 1, 2012. As discussed in Note 5, the Loan and Security Agreement executed by 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.

**Taxes on Income**

The Company accounts for income taxes under the asset and liability method prescribed in FASB ASC Topic 740, *Income Taxes*, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than possible enactments of changes in the tax laws or rates. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company has determined that no valuation allowance is needed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

The Company accounts for uncertain tax positions under the guidance in FASB ASC Topic 740-10-25-6, *Income Tax: Basic Recognition Threshold*, which prescribes the accounting for uncertainty in income taxes recognized in the Company's consolidated financial statements. This guidance requires that a position taken or expected to be taken in a tax return be recognized in the consolidated financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. As of February 29, 2012, and February 28, 2011, the Company did not have any material unrecognized tax benefits.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as components of interest expense and other expense, respectively, in arriving at pretax income. The Company did not have any interest and penalties accrued upon the adoption of FASB ASC Topic 740-10-25 and, as of February 29, 2012, and February 28, 2011 the Company did not have any interest and penalties accrued related to unrecognized tax benefits.

The Company's tax years ended February 28, 2011, 2010, and 2009 remain open to examination by the Internal Revenue Service (IRS).

**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 year. Shares issued or repurchased during the year are weighted for the portion of the year 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 potentially dilutive common shares that were outstanding during the period.

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The following is a reconciliation of basic earnings per share to diluted earnings per share for 2012 and 2011, (in thousands, except for per share data):

	Net Income (loss)	Average Shares Outstanding	Net Income Per Share
<b>2012</b>			
Basic continuing operations	\$ 3,577	7,612	\$ 0.47
Basic discontinued operations			
Effect of dilution:			
Options		190	(.01)
Diluted earnings per share	\$ 3,577	7,802	\$ 0.46
<b>2011</b>			
Basic continuing operations	\$ 2,401	8,370	\$ 0.29
Basic discontinued operations	\$ (1,314)	8,370	\$ (0.16)
Effect of dilution:			
Options		330	
Diluted earnings per share	\$ 1,087	8,700	\$ 0.13

Stock options, debentures, and other liabilities convertible into 11,000 and 50,000 shares respectively of the Company's common stock were anti-dilutive and, therefore, were excluded from the fiscal 2012 and 2011 diluted earnings per share calculation.

**Segment Reporting**

The Company applies FASB ASC Topic 280, *Segment Reporting* to report information about operating segments in its annual and interim financial reports. An operating segment is defined as a component that engages in business activities, whose operating results are reviewed by the chief operating decision maker in order to make decisions about allocating resources, and for which discrete financial information is available. In prior years, the Company had two reportable segments: Display and Wholesale. Those segments were identified and aggregated based on the types of products and markets they served. On March 1, 2011, Fox International Ltd. was sold, which represented the Company's wholesale segment. The remaining continuing operations are deemed to meet the criteria for aggregation under the applicable authoritative guidance and, as such, these operations are reported as one segment within the Consolidated Financial Statements.

Sales to foreign customers were 9% and 17% of consolidated net sales for fiscal 2012 and 2011, respectively.

**Discontinued Operations**

As noted above, the Company sold its wholesale business on March 1, 2011. The assets, liabilities, operating losses and cash flows from this business are reflected as discontinued operations in the consolidated financial statements for all periods presented.

**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.





**Table of Contents****Note 2. Costs and Estimated Earnings Related to Billings on Uncompleted Contracts**

Information relative to contracts in progress consisted of the following (in thousands):

	February 29, 2012	February 28, 2011
Costs incurred to date on uncompleted contracts	\$ 7,499	\$ 5,598
Estimated earnings recognized to date on these contracts	4,373	2,941
	<b>11,872</b>	8,539
Billings to date	<b>(8,978)</b>	(7,373)
	<b>\$ 2,894</b>	\$ 1,166
Costs and estimated earnings in excess of billings, net	<b>\$ 2,894</b>	\$ 1,166
	<b>\$ 3,236</b>	\$ 2,192
Costs and estimated earnings in excess of billings	<b>(342)</b>	(1,026)
Billings in excess of costs and estimated earnings	<b>\$ 2,894</b>	\$ 1,166

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 Topic 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 contains 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. The effect of changes in the estimated profitability of contracts for fiscal 2012 was to increase net earnings by approximately \$0.6 million pre-tax and \$0.4 million after tax above the amounts that would have been reported had the preceding year contract profitability estimates been used. The effect of changes in the estimated profitability of contracts for fiscal 2011 was to decrease net earnings by approximately \$0.3 million pre-tax and \$0.2 million after tax below the amounts that would have been reported had the preceding year contract profitability estimates been used.

As of February 29, 2012 and February 28, 2011, 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 February 29, 2012 and February 28, 2011, there were no progress payments that had been netted against inventory.

**Note 3. Intangible Assets**

Intangible assets consist primarily of the unamortized value of purchased patents/designs, customer lists, non-compete agreements and miscellaneous other intangible assets. Intangible assets are amortized over the period of their expected lives, generally ranging from five to 15 years. Amortization expense related to intangible assets was \$283 thousand and \$339 thousand for fiscal 2012 and 2011, respectively. As of February 29, 2012 and February 28, 2011, the cost and accumulated amortization of intangible assets was as follows (in thousands):

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	February 28, 2012		February 28, 2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Customer lists	\$ 3,611	\$ 2,701	\$ 3,611	\$ 2,583
Non-compete agreements	1,245	1,245	1,245	1,245
Patents/designs	777	692	777	627
Other intangibles	649	423	649	323
	<b>\$ 6,282</b>	<b>\$ 5,061</b>	<b>\$ 6,282</b>	<b>\$ 4,778</b>

Expected amortization expense for the next five years and thereafter is as follows (in thousands):

Year	Amortization Expense
2013	\$ 238
2014	\$ 238
2015	\$ 163
2016	\$ 130
2017	\$ 120
Thereafter	\$ 332

**Note 4. Inventories**

Inventories consisted of the following (in thousands):

	February 29, 2012	February 28, 2011
Raw materials	\$ 19,106	\$ 20,750
Work-in-process	6,853	6,997
Finished goods	7,027	7,760
	<b>32,986</b>	<b>35,507</b>
Reserves for obsolescence	<b>(3,250)</b>	<b>(4,914)</b>
	<b>\$ 29,736</b>	<b>\$ 30,593</b>

During fiscal 2012, the Company disposed of inventories of \$4.6 million of which \$4.1 million was previously allowed for through inclusion in the inventory reserve and accrued in conjunction with the Clinton settlement. During fiscal 2011, the Company disposed of inventories of \$1.3 million of which \$1.3 million was previously reserved.

The following is a rollforward of the Inventory Reserves (in thousands):

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Deductions	Balance at End of Period
February 29, 2012	\$ 4,914	\$ 1,678	\$ 3,342	\$ 3,250
February 28, 2011	4,428	1,774	1,288	4,914

**Note 5. Lines of Credit and Long-Term Debt**

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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

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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. On May 26, 2011, the Banks amended the Credit Agreement (1<sup>st</sup> Amendment) 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. On July 26, 2011 the Banks again amended the Credit Agreement (2<sup>nd</sup> Amendment) to include a swing-line promissory note of \$1.0 million that is included in the revised \$15.0 million revolver commitment. On September 1, 2011, the Banks amended the Credit Agreement (3<sup>rd</sup> Amendment) 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. On January 17, 2012, the Banks amended the Credit Agreement (4<sup>th</sup> Amendment) to allow the Company to purchase a promissory note, dated July 23, 2010, held by Hetra Secure Solutions Corporation on StingRay56. Additionally, on March 5, 2012, the Banks amended the Credit Agreement (5<sup>th</sup> Amendment) to allow the Company to acquire StingRay56, Inc.

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.

The agreement contains three covenants, as amended: 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, as amended), 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.

The Company is in compliance with the covenants under the new and amended loan agreements as of February 29, 2012. As of February 28, 2011, the Company was not in compliance with the consolidated fixed charge coverage ratio or the senior funded debt to EBITDA ratio as defined by the Banks' credit line agreements. The Company subsequently received a waiver of these covenant violations from the Banks through the July 15, 2011 reporting of the next measurement of these covenants as of the Company's first quarter end. The senior funded debt to EBITDA covenant was deemed to be the most restrictive by the Company and the Banks.

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

	February 29, 2012	February 28, 2011
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 February 29, 2012; therefore, minimum 4% rate applied.) Monthly principal payments of \$58 plus accrued interest, payable through December 2015; collateralized by all assets of the Company.	2,683	3,383
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 February 29, 2012; therefore, minimum 4% rate applied.) Monthly principal payments of \$17 plus accrued interest, payable through December 2025; collateralized by four properties of the Company.	2,767	2,967
Mortgage payable to bank; interest rate at Federal Home Loan Bank Board Index rate plus 0.5% (3.75% as of February 29, 2012); monthly principal and interest payments of \$5 payable through October 2021; collateralized by land and building of Teltron Technologies, Inc.	373	415
	<b>5,823</b>	6,765
Less current maturities	<b>(945)</b>	(943)
	<b>\$ 4,878</b>	\$ 5,822



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Future maturities of long-term debt are as follows (in thousands):

Year	Amount
2013	\$ 945
2014	12,004
2015	948
2016	834
2017	252
Thereafter	1,897
	<b>\$ 16,880</b>

**Note 6. Notes Payable to Officers and Directors**

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 \$33,333 plus interest through July 2021. The interest rate on this note is 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 the Banks. The Company repaid the remaining balance outstanding under this loan agreement on November 28, 2011 with consent from the Banks. The payoff was approximately \$1.0 million. Interest payments of \$86.4 thousand and \$206.5 thousand were paid on this note in fiscal 2012 and fiscal 2011, respectively.

**Note 7. Accrued Expenses and Warranty Obligations**

The following provides a reconciliation of changes in the Company's warranty reserve for fiscal years 2012 and 2011. The Company provides no other guarantees.

	2012	2011
Balance at beginning of year	\$ 216	\$ 451
Provision for current year sales	190	444
Warranty costs incurred	(255)	(679)
Balance at end of year	\$ 151	\$ 216

Accrued liabilities consisted of the following (in thousands):

	February 29, 2012	February 28, 2011
Accrued compensation and benefits	\$ 1,052	\$ 981
Accrued liability to issue stock		1,625
Accrued warranty	151	216
Accrued customer advances	78	207
Accrued other	664	661
	<b>\$ 1,945</b>	<b>\$ 3,690</b>

**Note 8. Stock Options**

Upon recommendation of the Board of Directors of the Company, on August 25, 2006, the shareholders of the Company approved the Video Display Corporation 2006 Stock Incentive Plan (Plan), whereby options to purchase up to 500,000 shares of the Company's common stock may

be granted and up to 100,000 restricted

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common stock shares may be awarded. Options may not be granted at a price less than the fair market value, determined on the day the options are granted. Options granted to a participant who is the owner of ten percent or more of the common stock of the Company may not be granted at a price less than 110% of the fair market value, determined on the day the options are granted. The exercise price of each option granted is fixed and may not be re-priced. The life of each option granted is determined by the plan administrator, but may not exceed the lesser of five years from the date the participant has the vested right to exercise the option, or seven years from the date of the grant. The life of an option granted to a participant who is the owner of ten percent or more of the common stock of the Company may not exceed five years from the date of grant. All full-time or part-time employees, and Directors of the Company, are eligible for participation in the Plan. In addition, any consultant or advisor who renders bona fide services to the Company, other than in connection with the offer or sale of securities in a capital-raising transaction, is eligible for participation in the Plan. The plan administrator is appointed by the Board of Directors of the Company, and must include two or more outside, independent Directors of the Company. The Plan may be terminated by action of the Board of Directors, but in any event will terminate on the tenth anniversary of its effective date.

Prior to expiration on May 1, 2006, the Company maintained an incentive stock option plan whereby options to purchase up to 1.2 million shares could be granted to directors and key employees at a price not less than fair market value at the time the options were granted. Upon vesting, options granted are exercisable for a period not to exceed ten years. No further options may be granted pursuant to the plan after the expiration date; however, those options outstanding at that date will remain exercisable in accordance with their respective terms.

Information regarding the stock option plans is as follows:

	Number of Shares (in thousands)	Average Exercise Price Per Share
Outstanding at February 28, 2010	93	\$ 5.21
Granted	9	4.19
Forfeited or expired	(6)	7.91
Outstanding at February 28, 2011	96	\$ 5.05
Granted	9	3.65
Forfeited or expired	(46)	3.42
Outstanding at February 29, 2012	59	\$ 4.46
<b>Options exercisable</b>		
February 28, 2011	32	\$ 3.50
February 29, 2012	33	4.98

Range of Exercise Prices	Number Outstanding at February 29, 2012 (in thousands)	Options Outstanding Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Options Exercisable	
				Number Exercisable at February 29, 2012 (in thousands)	Weighted Average Exercise Price
\$ 3.20 - 3.27	13	3.3	\$ 3.23	13	\$ 3.23
3.59 - 3.65	18	6.0	3.62		
4.19 - 4.20	17	5.9	4.19	9	4.19
7.65 - 7.71	11	4.9	7.68	11	7.68
	59	5.2	\$ 4.46	33	\$ 4.98

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 be outstanding based on historical information. Estimates of expected future stock price



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volatility are based on the historic volatility of the Company's common stock. The Company calculates the historic volatility based on the weekly stock closing price, adjusted for dividends and stock splits. The fair value of the stock options is based on the stock price at the time the option is granted, the annualized volatility of the stock and the discount rate at the grant date.

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On September 3, 2010, the Company awarded employees restricted stock in recognition of their willingness to forego a portion of their salary during the past year. The restricted stock vests 25% at the end of each quarter and will be fully vested at the end of one year. The Company recognized \$164,979 of general and administrative expenses related to the awards for year ending February 29, 2012 and \$183,205 for the year ending February 28, 2011.

**Note 9. Taxes on Income**

Provision for income taxes in the consolidated statements of income consisted of the following components (in thousands):

	<b>Fiscal Year Ended</b>	
	<b>February 29, 2012</b>	<b>February 28, 2011</b>
<b>Current:</b>		
Federal	<b>\$ 484</b>	\$ 1,021
State	<b>391</b>	135
	<b>875</b>	1,156
<b>Deferred:</b>		
Federal	<b>781</b>	140
State	<b>117</b>	21
	<b>898</b>	161
<b>Total</b>	<b>\$ 1,773</b>	\$ 1,317

Income before provision for taxes consisted of the following (in thousands):

	<b>Fiscal Year Ended</b>	
	<b>February 29, 2012</b>	<b>February 28, 2011</b>
U.S. operations	<b>\$ 5,350</b>	\$ 3,718
Foreign operations		
	<b>\$ 5,350</b>	\$ 3,718

The provision for income taxes differs from the amount computed by applying the federal statutory rate of 34% to income before income taxes as follows (in thousands):

	<b>Fiscal Year Ended</b>	
	<b>February 29, 2012</b>	<b>February 28, 2011</b>
Statutory U.S. federal income tax rate	<b>\$ 1,819</b>	\$ 1,264
State income taxes, net of federal benefit	<b>212</b>	147
Research and experimentation credits	<b>(128)</b>	(141)
Deferred tax rate change		144
Non-deductible expenses	<b>14</b>	26
Domestic production activities deduction	<b>(145)</b>	(102)
Other	<b>1</b>	(21)

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Taxes at effective income tax rate	<b>\$ 1,773</b>	\$ 1,317
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The effective tax rate for fiscal 2012 was 33.1% compared to 35.4% for fiscal 2011. The lower effective rate in 2012 than the effective rate in 2011 was primarily due to research and experimentation credits, the domestic production activities deduction and various other permanent items.

Deferred income taxes as of February 29, 2012 and February 28, 2011 reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and certain tax loss carry forwards.

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The sources of the temporary differences and carry forwards, and their effect on the net deferred tax asset consisted of the following (in thousands):

	<b>Fiscal Year Ended</b>	
	<b>February 29, 2012</b>	<b>February 28, 2011</b>
Deferred tax assets:		
Uniform capitalization costs	\$ 410	\$ 427
Inventory reserves	1,203	1,889
Accrued liabilities	465	503
Allowance for doubtful accounts	65	71
Amortization of intangibles	624	651
	<b>2,767</b>	<b>3,541</b>
State net operating loss carry-forward	106	1
Foreign tax credit carry-forward	99	99
Deferred tax liabilities:		
Basis difference of property, plant and equipment	(329)	(110)
Other	(59)	(49)
Net deferred tax assets	<b>\$ 2,584</b>	<b>\$ 3,482</b>
Current asset	<b>\$ 1,936</b>	<b>\$ 2,659</b>
Non-current asset	<b>648</b>	<b>823</b>
	<b>\$ 2,584</b>	<b>\$ 3,482</b>

Undistributed earnings of the Company's foreign subsidiary have been considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the foreign country. The Company closed the foreign subsidiary and has determined the tax liability to be immaterial.

**Note 10. Benefit Plan**

The Company maintains defined contribution plans that are available to all U.S. employees. The Company did not make a contribution in fiscal years ended 2012 and 2011, respectively, for 401(k) matching contributions.

**Note 11. Commitments and Contingencies**Operating Leases

The Company leases various manufacturing facilities and transportation equipment under leases classified as operating leases, expiring at various dates through 2018. These leases provide that the Company pay taxes, insurance, and other expenses on the leased property and equipment. Rent expense for all leases was approximately \$1.3 million in 2012 and 2011.

Future minimum rental payments due under these leases are as follows (in thousands):

<b>Fiscal Year</b>	<b>Amount</b>
2013	\$ 1,060
2014	1,046

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2015	856
2016	367
2017	321
Thereafter	473
	\$ 4,123

**Table of Contents****Related Party Leases**

Included above are leases for manufacturing and warehouse facilities leased from the Company's Chief Executive Officer under operating leases expiring at various dates through 2018. Rent expense under these leases totaled approximately \$314 thousand in fiscal 2012 and 2011.

Future minimum rental payments due under these leases with related parties are as follows (in thousands):

<b>Fiscal Year</b>	<b>Amount</b>
2013	\$ 314
2014	314
2015	314
2016	314
2017	314
Thereafter	474
	<b>\$ 2,044</b>

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

**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, 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 \$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 \$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 disputed 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.

**Note 12. Concentrations of Risk and Major Customers**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and accounts receivable. At times, such cash in banks are in excess of the FDIC insurance limit.

The Company sells to a variety of domestic and international customers on an open-unsecured account basis, in certain cases requiring letters of credit. These customers principally operate in the medical, military, and avionics industries. The Company had direct and indirect net sales to the U.S. government, primarily the Department of Defense for training and simulation programs, which comprised approximately 42% and 46% of

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consolidated net sales in fiscal 2012 and 2011, respectively. Sales to foreign customers were 8% and 17% of consolidated net sales in fiscal 2012 and 2011, respectively. The Company had two customers who comprised more than 10% of the Company's sales in FY 2012, Lockheed Martin (11.7%) and Sigma Pumps (10.9%). Both accounts are in good standing with the Company.

The Company attempts to minimize credit risk by reviewing all customers' credit history before extending credit, by monitoring customers' credit exposure on a daily basis and requiring letters of credit for certain sales. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

**Note 13. Supplemental Cash Flow Information**

	<b>Fiscal Year Ended</b>	
	<b>(in thousands)</b>	
	<b>February 29, 2012</b>	<b>February 28, 2011</b>
<b>Cash paid for:</b>		
Interest	<b>\$ 815</b>	\$ 949
Income taxes, net of refunds	<b>\$ 785</b>	\$ 1,086
<b>Non-cash activity:</b>		
Receipt of treasury stock in conjunction with the sale of Fox International, Ltd.	<b>\$ 3,272</b>	
Reduction of notes payable to officers and directors in conjunction with the sale of Fox International, Ltd.	<b>\$ 199</b>	

**Note 14. Selected Quarterly Financial Data (unaudited)**

The following table sets forth selected quarterly consolidated financial data for the fiscal years ended February 29, 2012 and February 28, 2011, respectively. The summation of quarterly net income per share may not agree with annual net income per share due to rounding. Excludes discontinued operations.

	<b>2012</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	<small>(in thousands, except per share amounts)</small>			
Net Sales	\$ 17,025	\$ 16,541	\$ 16,036	\$ 14,629
Gross profit	5,330	5,214	5,370	4,031
Net income	1,238	1,001	1,258	80
Basic net income per share	\$ 0.16	\$ 0.13	\$ 0.17	\$ 0.01
Diluted net income per share	\$ 0.15	\$ 0.13	\$ 0.17	\$ 0.01

	<b>2011</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
	<small>(in thousands, except per share amounts)</small>			
Net Sales	\$ 14,281	\$ 17,126	\$ 13,121	\$ 14,511
Gross profit	4,018	4,699	3,240	3,538
Net income	720	1,241	150	290
Basic net income per share	\$ 0.09	\$ 0.15	\$ 0.02	\$ 0.03

Diluted net income per share	\$ 0.08	\$ 0.14	\$ 0.02	\$ 0.03
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**Table of Contents****Note 15. Discontinued Operations**

On March 1, 2011, the Company sold its subsidiary Fox International Ltd. to FI Acquisitions LLC. The Company accounted for this business as discontinued operations during the year ended February 28, 2011. The operating results of the discontinued operations are summarized below (in thousands):

	February 28, 2011
Net sales	\$ 18,453
Cost of goods sold	9,519
<b>Gross profit</b>	<b>8,934</b>
Operating expenses	
Selling and delivery	3,801
General and administrative	7,006
	<b>10,807</b>
Operating loss	(1,873)
Other income (expense)	
Interest expense	(132)
Other, net	26
	(106)
Loss from discontinued operations before income taxes	(1,979)
Benefit for income taxes	(665)
<b>Loss from discontinued operations</b>	<b>\$ (1,314)</b>

The balance sheet of the discontinued operations is summarized below (in thousands):

	February 28, 2011
<b>Assets</b>	
Current Assets	
Cash	\$ (6)
Accounts receivable, less allowance for bad debts of \$21	1,312
Inventories, net	4,280
Deferred income taxes	(2)
Prepaid expenses and other current assets	126
Total current assets	5,710
Property, plant and equipment:	
Land	249
Buildings	1,978
Machinery and equipment	5,706

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	7,933
Accumulated depreciation	(6,748)
Net property, plant and equipment	1,185
Other assets	23
Total assets	\$ 6,918

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	February 28, 2011
Liabilities and Shareholders Equity	
Current liabilities	
Accounts payable	\$ 2,167
Accrued liabilities	579
Current maturities of notes payable to officers and directors	263
Current maturities of long-term debt And financing lease obligations	199
<b>Total current liabilities</b>	<b>3,208</b>
Financing lease obligations, less current maturities	188
<b>Total liabilities</b>	<b>3,396</b>
Shareholders Equity	
Retained earnings	3,522
<b>Total shareholders equity</b>	<b>3,522</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 6,918</b>

Fox International Ltd. had a demand note payable outstanding from an officer, bearing interest at 8%. The demand note was satisfied in fiscal 2011 and a new note was established. Principal payments of \$153,000 were made on this note in fiscal 2011. Interest payments of \$9,000 were paid on this note in fiscal 2011. The balance outstanding on this note was approximately \$263,000 at February 28, 2011.

Additionally, as of February 28, 2011 Fox International Ltd. had approximately \$387,000 of financing lease obligations and \$1,056,000 of operating lease obligations over the next five years.

On March 1, 2011, the Company sold its Fox International Ltd. 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 of approximately \$3.5 million for Fox International 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 and approximately \$250,000 in cash.

**Note 16. Subsequent Events**

On March 5, 2012 the Company acquired the assets of StingRay56, Inc., a company which specializes in advanced tempest technology and products through a strict foreclosure agreement. The Company will operate the new division as part of its subsidiary, Aydin Displays, Inc. The assets acquired included approximately \$338 thousand of fixed assets, \$221 thousand in inventory, and \$44 thousand of accounts receivables.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A (T). Controls and Procedures.***Evaluation of disclosure controls and procedures.*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (February 29, 2012). Our disclosure controls and procedures are intended to ensure that the information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as the principal executive and

financial officers, respectively, to

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allow final decisions regarding required disclosures. Based on their evaluation of the Company's disclosure controls and procedures as of February 29, 2012, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective.

The required certifications of our Chief Executive Officer and our Chief Financial Officer are included as exhibits to this Annual Report on Form 10-K. The disclosures set forth in this Item 9A contain information concerning the evaluation of our disclosure controls and procedures, internal control over financial reporting and changes to internal control referred to in those certifications. Those certifications should be read in conjunction with this Item 9A for a more complete understanding of the matters covered by the certifications.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

*Changes in Internal Controls*

There have not been any other 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 year to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

***Management's Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

All internal controls, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of February 29, 2012. In making this assessment, management used the criteria set forth in the framework established by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) entitled *Internal Control- Integrated Framework*. Based on such assessment, our management concluded that as of February 29, 2012 our internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

*Limitations on the effectiveness of controls.*

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that internal control over financial reporting and our disclosure controls and procedures will prevent all errors and potential fraud. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at that reasonable assurance level. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their

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costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Video Display Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Item 9B. Other Information.**

None.

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**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information contained in Video Display Corporation's Proxy Statement to be filed within 120 days of the Company's 2012 fiscal year end (the 2012 Proxy Statement), with respect to directors and executive officers of the Company under the headings "Election of Directors" and "Executive Officers", is incorporated herein by reference in response to this item; provided, however, that the information contained in the 2012 Proxy Statement under the heading "Compensation and Stock Option Committee Report" or under the heading "Performance Graph" shall not be incorporated herein by reference.

**Item 11. Executive Compensation.**

The information contained in the 2012 Proxy Statement under the heading, "Executive Compensation and Other Benefits", with respect to executive compensation, is incorporated herein by reference in response to this item.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information contained in the 2012 Proxy Statement under the headings "Common Stock Ownership" and "Executive Compensation and Other Benefits", is incorporated herein by reference in response to this item.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information contained in the 2012 Proxy Statement under the heading, "Transactions with Affiliates", is incorporated herein by reference in response to this item.

**Item 14. Principal Accounting Fees and Services.**

The information contained in the 2012 Proxy Statement under the heading, "Audit Fees and All Other Fees" is incorporated herein by reference in response to this item.

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**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

(a) The following documents are filed as part of this Report:

1. Financial Statements:

The following consolidated financial statements of the Company and its consolidated subsidiaries and the Reports of the Independent Registered Public Accounting Firms are included in Part II, Item 8.

Report of Independent Registered Public Accounting Firm

Condensed Consolidated Balance Sheets as of February 29, 2012 and February 28, 2011.

Condensed Consolidated Statements of Income - Fiscal Years Ended February 29, 2012 and February 28, 2011.

Condensed Consolidated Statements of Shareholders' Equity - Fiscal Years Ended February 29, 2012 and February 28, 2011.

Condensed Consolidated Statements of Cash Flows - Fiscal Years Ended February 29, 2012 and February 28, 2011.

Notes to Condensed Consolidated Financial Statements

(b) Exhibits

<b>dExhibit Number</b>	<b>Exhibit Description</b>
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(e) to the Company's Report on Form 10-Q dated January 17, 2012)
10(g)	



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Amendment to Loan and Security Agreement dated September 1, 2011 (incorporated by reference to Exhibit 10(e) 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
10(l)	Amendment to Loan and Security Agreement dated March 5, 2012
21	Subsidiary Companies
23.1	Consent of Carr, Riggs & Ingram, LLC
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 Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 29, 2012

VIDEO DISPLAY CORPORATION

By: /s/ Ronald D. Ordway  
 Ronald D. Ordway  
 Chairman of the Board and  
 Chief Executive Officer

**POWER OF ATTORNEY**

Know all men by these presents, that each person whose signature appears below constitutes and appoints Ronald D. Ordway as attorney-in-fact, with power of substitution, for him in any and all capacity, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature -Name	Capacity	Date
/s/ Ronald D. Ordway Ronald D. Ordway	Chief Executive Officer, Treasurer and Director (Principal Executive Officer)	May 29, 2012
/s/ Gregory L. Osborn Gregory L. Osborn	Chief Financial Officer and Director (Principal Financial Officer)	May 29, 2012
/s/ David S. Cooper David S. Cooper	Director	May 29, 2012
/s/ Carolyn Howard Carolyn Howard	Director	May 29, 2012
/s/ Roger W. Lusby, III Roger W. Lusby, III	Director	May 29, 2012