VIDEO DISPLAY CORP
Form 10-Q
October 16, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended August 31, 2008.

or

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

Commission File Number 0-13394
VIDEO DISPLAY CORPORATION
(Exact name of registrant as specified on its charter)

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

1868 TUCKER INDUSTRIAL ROAD, TUCKER, GEORGIA 30084
(Address of principal executive offices)
770-938-2080
(Registrant s telephone number including area code)

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of October 12, 2008, the registrant had 9,276,234 shares of Common Stock outstanding.

Video Display Corporation and Subsidiaries
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ITEM 1. FINANCIAL STATEMENTS

Video Display Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands)

	August 31, 2008 (unaudited)	February 29, 2008
Assets		
Current Assets		
Cash	$ 1,736	$ 1,636
Accounts receivable, less allowance for doubtful accounts of $303 and $201	9,827	10,373
Inventories, net	34,842	34,550
Cost and estimated earnings in excess of billings on uncompleted contracts	1,165	2,225
Deferred income taxes	3,273	2,998
Income Taxes Refundable	66	672
Prepaid expenses and other	526	367
Total current assets	51,435	52,821
Property, plant and equipment:		
Land	585	585
Buildings	8,262	8,258
Machinery and equipment	21,265	20,943
	30,112	29,786
Accumulated depreciation and amortization	(23,137)	(22,470)
Net property, plant, and equipment	6,975	7,316
Goodwill	1,376	1,343
Intangible assets, net	2,496	2,954
Deferred income taxes	323	192
Other assets	68	74
Total assets	$ 62,673	$ 64,700

The accompanying notes are an integral part of these statements.

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Video Display Corporation and Subsidiaries
Consolidated Balance Sheets (continued)
(in thousands)

	August 31, 2008 (unaudited)	February 29, 2008
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable	**$ 5,001**	$ 7,334
Accrued liabilities	**4,743**	5,074
Billings in excess of cost and estimated earnings on uncompleted contracts	**34**	
Current maturities of notes payable to officers and directors	**633**	648
Current maturities of long-term debt and financing lease obligations	**795**	789
Total current liabilities	**11,206**	13,845
Lines of credit	**16,535**	15,164
Long-term debt, less current maturities	**1,646**	1,928
Financing lease obligations, less current maturities	**225**	313
Notes payable to officers and directors, less current maturities	**2,179**	2,377
Other long term liabilities	**122**	123
Total liabilities	**31,913**	33,750
Shareholders Equity		
Preferred stock, no par value 10,000 shares authorized; none issued and outstanding		
Common stock, no par value 50,000 shares authorized; 9,707 and 9,310 issued and outstanding at August 31, 2008 and 9,707 and 9,491 issued and outstanding at February 29, 2008	**7,293**	7,293
Additional paid-in capital	**142**	127
Retained earnings	**27,280**	26,147
Accumulated other comprehensive income	**83**	85
Treasury stock, 456 and 275 shares at cost	**(4,038)**	(2,702)
Total shareholders equity	**30,760**	30,950
Total liabilities and shareholders equity	**$ 62,673**	$ 64,700

The accompanying notes are an integral part of these statements.

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Video Display Corporation and Subsidiaries
Consolidated Statements of Operations (unaudited)
(in thousands, except per share data)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2008	2007	**2008**	2007
Net sales	**$ 19,287**	**$ 22,864**	**$ 38,792**	**$ 44,329**
Cost of goods sold	**12,219**	**15,208**	**24,532**	**29,133**
Gross profit	**7,068**	**7,656**	**14,260**	**15,196**
Operating expenses				
Selling and delivery	**1,846**	**1,967**	**3,787**	**3,889**
General and administrative	**4,180**	**3,850**	**8,360**	**7,735**
	6,026	**5,817**	**12,147**	**11,624**
Operating profit	**1,042**	**1,839**	**2,113**	**3,572**
Other income (expense)				
Interest expense	**(282)**	**(470)**	**(568)**	**(941)**
Other, net	**48**	**140**	**160**	**205**
	(234)	**(330)**	**(408)**	**(736)**
Income before income taxes	**808**	**1,509**	**1,705**	**2,836**
Income tax expense	**255**	**272**	**572**	**746**
Net income	**$ 553**	**$ 1,237**	**$ 1,133**	**$ 2,090**
Basic earnings per share of common stock	**$ .06**	**$ .13**	**$ .12**	**$ .22**
Diluted earnings per share of common stock	**$ .06**	**$ .13**	**$ .12**	**$ .22**
Basic weighted average shares outstanding	**9,374**	**9,637**	**9,421**	**9,642**

Diluted weighted average shares outstanding	**9,482**	**9,687**	**9,530**	**9,698**

The accompanying notes are an integral part of these statements.

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Video Display Corporation and Subsidiaries
Consolidated Statement of Shareholders Equity
Six Months Ended August 31, 2008 (unaudited)
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Comprehensive Income
Balance, February 29, 2008	9,491	$ 7,293	$ 127	$ 26,147	$ 85	$ (2,702)	
Net income				1,133			$ 1,133
Foreign currency translation adjustment					(2)		(2)
Total comprehensive income							$ 1,131
Repurchase of Treasury Stock	(188)					(1,390)	
Share based compensation	7		15			54	
Balance, August 31, 2008	9,310	$ 7,293	$ 142	$ 27,280	$ 83	$ (4,038)	

The accompanying notes are an integral part of these statements.

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Video Display Corporation and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	Six Months Ended August 31, 2008	2007
Operating Activities		
Net income	$ 1,133	$ 2,090
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,198	1,167
Provision for doubtful accounts	102	88
Provision for inventory reserve	620	76
Non-cash charge for share based compensation	69	(67)
Deferred income taxes	(405)	(290)
Interest on convertible note		50
Loss on sale of equipment	7	
Change in Other Assets & Liabilities	(27)	-
Changes in working capital, net of effects from acquisitions:		
Accounts receivable	444	(1,591)
Inventories	(911)	70
Prepaid expenses and other current assets	(159)	83
Accounts payable and accrued liabilities	(2,665)	235
Cost, estimated earnings and billings on uncompleted contracts	1,093	(561)
Income taxes refundable	605	
Net cash provided by operating activities	1,104	1,350
Investing Activities		
Net cash used in capital expenditures	(407)	(432)
Net cash used in investing activities	(407)	(432)
Financing Activities		
Proceeds from long-term debt, lines of credit and financing lease obligations	8,926	11,549
Payments on long-term debt, lines of credit and financing lease obligations	(7,918)	(9,602)
Proceeds from loans from officers and directors		702
Repayments of loans from officers and directors	(213)	(2,224)
Purchases and retirements of common stock and purchase of treasury stock	(1,390)	(471)
Proceeds from exercise of stock options		9
Net cash used in financing activities	(595)	(37)
Effect of exchange rate changes on cash	(2)	70

Net increase in cash	**100**	**951**
Cash, beginning of period	**1,636**	**1,226**
Cash, end of period	**$ 1,736**	**$ 2,177**

The accompanying notes are an integral part of these statements.

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Video Display Corporation and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
August 31, 2008

Note 1. Summary of Significant Accounting Policies

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

As contemplated by the Securities and Exchange Commission (the Commission) instructions to Form 10-Q, the following footnotes have been condensed and, therefore, do not contain all disclosures required in connection with annual consolidated financial statements. Reference should be made to the Company s year-end consolidated financial statements and notes thereto, including a description of the accounting policies followed by the Company, contained in its Annual Report on Form 10-K for the fiscal year ended February 29, 2008, as filed with the Commission. There have been no material changes in accounting policies during the six months ended August 31, 2008.

The financial information included in this report has been prepared by the Company, without audit. In the opinion of management, the financial information included in this report contains all adjustments (all of which are normal and recurring) necessary for a fair presentation of the results for the interim periods. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year. The February 29, 2008 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U. S. generally accepted accounting principles.

The Company has a subsidiary in the U.K., which uses the British pound as its functional currency. Assets and liabilities of this foreign subsidiary are translated using the exchange rate in effect at the end of the period. Revenues and expenses are translated using the average of the exchange rates in effect during the period. Translation adjustments and transaction gains and losses related to long-term intercompany transactions are accumulated as a separate component of shareholders equity.

Note 2. New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Values Measurements*. Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The statement does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. The statement emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Companies are required to disclose the extent to which fair value is used to measure assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period. The adoption of Statement No. 157 did not have a material impact on the Company s consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* Statement No. 159 allows companies to elect to apply fair value accounting for certain financial assets and liabilities. Statement No. 159 is applicable only to certain financial instruments and is effective for fiscal years beginning after November 15, 2007. Statement No. 159 is effective for the Company during the fiscal year ended February 28, 2009. The Company has evaluated the effect of the adoption of Statement No. 159 and due to it having no material impact on the Company s consolidated financial statements, elected not to apply it.

In March 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (Interpretation No. 48), which clarifies the accounting for uncertainty in income taxes recognized in the Companies consolidated financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*.

Video Display Corporation and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
August 31, 2008

Interpretation No. 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. In addition, it provides guidance on the measurement, derecognition, classification and disclosure of tax positions, as well as the accounting for related interest and penalties. The adoption of Interpretation No. 48 in fiscal 2008 did not have a material impact on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS 141 (R), *Business Combinations.* This statement replaces SFAS 141, Business Combinations. This statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. This statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in it s financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141 (R) will apply prospectively to business combinations for which the acquisition date is on or after the Company s fiscal year beginning March 1, 2009. While the Company has not yet evaluated this statement for the impact, if any, that SFAS 141 (R) will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after February 28, 2010.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interest in Consolidated Financial Statements.* This Statement amends Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The Company has determined the impact of SFAS 160 does not have a material effect on its consolidated financial statements. SFAS 160 is effective for the Company s fiscal year beginning March 1, 2009.

Note 3. Business Acquisition

Effective December 31, 2006, the Company acquired the Cathode Ray Tube Manufacturing and Distribution Business and certain assets of Clinton Electronics Corp. located in Loves Park, Illinois. The Cathode Ray Tube Manufacturing and Distribution Business has been an industry leader in the supply of monochrome CRTs used in video display products since 1964. The assets acquired in this transaction have been recorded based on their fair value at the date of acquisition and include inventories of $2,125,000, equipment of $100,000 and certain intellectual property and customer lists of $325,000. Consideration for the assets acquired include a $1.0 million face value Convertible Note Payable, convertible into 120,000 shares of the Company s common stock, delivered on the closing date, January 9, 2007, an agreement to deliver, on the first anniversary of the closing date, a certificate for $1,125,000 in market value of the Company s common stock as of that date, and on the second anniversary of the closing date, a certificate for $500,000 in market value of the Company s common stock as of that date. The agreement to subsequently deliver shares of common stock includes terms which limit the maximum number of shares which may be issued and provide an option for the seller to receive cash in lieu of stock, if the Company s common stock is selling for less than $7.00 per share on the applicable anniversary dates of the agreement. The Company recorded the convertible notes payable net of an implied discount of $75,000. The purchase agreement provides for an adjustment to this base purchase price on the second anniversary of the closing date, to be paid in shares of the Company s common stock, based on the remaining fair value of the initial inventories on hand as of that date. The purchase agreement also included a $300,000 cash payment on the closing date for a 12 month lease of facilities located in Loves Park. The product development designs and drawings are being amortized over a five year period, while the customer list is being amortized over a three year period, which the Company estimates to be the useful life of these assets.

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Video Display Corporation and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
August 31, 2008

Note 4. Inventories

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

Inventories consisted of the following (in thousands):

	August 31, 2008	February 29, 2008
Raw materials	**$ 20,812**	$ 19,028
Work-in-process	**6,275**	6,699
Finished goods	**13,692**	14,374
	40,779	40,101
Reserves for obsolescence	**(5,937)**	(5,551)
	$ 34,842	$ 34,550

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

Information relative to contracts in progress consisted of the following

	August 31, 2008	February 29, 2008
Costs incurred to date on uncompleted contracts	**$ 7,689**	$ 7,325
Estimated earnings recognized to date on these contracts	**1,474**	1,617
	9,163	8,942
Billings to date	**(8,032)**	(6,717)
Costs and estimated earnings in excess of billings, net	**$ 1,131**	$ 2,225
Costs and estimated earnings in excess of billings	**$ 1,165**	$ 2,225
Billings in excess of costs and estimated earnings	**(34)**	
	$ 1,131	$ 2,225

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 SOP 81-1 Accounting for Performance of Construction-Type and Certain 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

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Video Display Corporation and Subsidiaries
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August 31, 2008

items, judgment must be used in estimating related amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is probable. Billings are generated based on specific contract terms, which might be a progress payment schedule, specific shipments, etc. None of the above contracts in progress contain post-shipment obligations.

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

As of August 31, 2008 and February 29, 2008, there were no production costs which exceeded the aggregate estimated cost of all in process and delivered units relating to long-term contracts. Additionally, there were no claims outstanding that would affect the ultimate realization of full contract values. As of August 31, 2008 and February 29, 2008, there were no progress payments that had been netted against inventory.

Note 6. Intangible Assets

Intangible assets consist primarily of the unamortized value of purchased patents, customer lists, non-compete agreements and other intangible assets. Intangible assets are amortized over the period of their expected lives, generally ranging from 5 to 15 years. Amortization expense related to intangible assets was $470,000 and $470,000 for the six months ended August 31, 2008 and 2007, respectively.

The cost and accumulated amortization of intangible assets was as follows (in thousands).

	August 31, 2008		February 29, 2008	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Customer lists	**$ 3,611**	**$ 1,909**	$ 3,611	$ 1,635
Non-compete agreements	**1,245**	**928**	1,245	803
Patents	**777**	**334**	765	274
Other intangibles	**149**	**115**	149	104
	$ 5,782	**$ 3,286**	$ 5,770	$ 2,816

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Note 7. Long-term Debt and Financing Lease Obligations

Long-term debt and financing lease obligations consisted of the following (in thousands):

	August 31, 2008	February 29, 2008
Note payable to bank syndicate (RBC Centura and Regions Bank); interest rate at LIBOR plus applicable margin as defined per the loan agreement, (4.31% combined rate as of August 31, 2008); monthly principal payments of $50 plus accrued interest, payable through July 2011; collateralized by all assets of the Company.	**$ 1,750**	**$ 2,050**
Mortgage payable to bank; interest rate at Federal Home Loan Bank Board Index rate plus 1.95% (7.25% as of August 31, 2008); monthly principal and interest payments of $5 payable through October 2021; collateralized by land and building of Teltron Technologies, Inc	**489**	**500**
Other	**35**	**6**
	2,274	**2,556**
Financing lease obligations	**392**	**474**
	2,666	**3,030**
Less current maturities	**(795)**	**(789)**
	$ 1,871	**$ 2,241**

Note 8. Lines of Credit

On June 29, 2006, Video Display Corporation and Subsidiaries executed a Loan and Security Agreement with a syndicate including RBC Centura Bank and Regions Bank to provide a $17 million line of credit to the Company and a $3.5 million line of credit to the Company s subsidiary, Fox International, Inc. As of August 31, 2008, the outstanding balances of these lines of credit were $13.0 million and $3.5 million, respectively and the available amounts for borrowing were $4.0 million and $0.0 million, respectively. These loans are secured by all assets and personal property of the Company. The agreement contains covenants, including requirements related to tangible cash flow, ratio of debt to cash flow, and assets coverage. The agreement also includes restrictions on the incurrence of additional debt or liens, investments (including Company stock), divestitures and certain other changes in the business. The agreement expires in June 2009, and accordingly is classified under long term liabilities on the Company s balance sheet. The interest rate on these loans is a floating LIBOR rate based on a fixed charge coverage ratio, as defined in the loan documents. In conjunction with Loan and Security Agreement, the syndicate also executed a $3.0 million term note with the Company, and the CEO of the Company provided a $6.0 million subordinated term note to the Company.

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Video Display Corporation and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
August 31, 2008

Note 9. Segment Information

Condensed segment information is as follows (in thousands):

	Three Months Ended August 31, 2008	Three Months Ended August 31, 2007	Six Months Ended August 31, 2008	Six Months Ended August 31, 2007
Net Sales				
Display Segment	$ 13,433	$ 14,054	$ 27,249	$ 28,713
Wholesale Distribution Segment	5,855	8,810	11,543	15,616
	$ 19,288	$ 22,864	$ 38,792	$ 44,329
Operating profit				
Display Segment	$ 1,093	$ 1,356	$ 2,138	$ 3,074
Wholesale Distribution Segment	(51)	483	(25)	498
Income from Operations	1,042	1,839	2,113	3,572
Interest expense	(282)	(470)	(568)	(941)
Other income, net	48	140	160	205
Income before income taxes	$ 808	$ 1,509	$ 1,705	$ 2,836

Note 10. Supplemental Cash Flow Information

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

	Six Months Ended August 31, 2008	Six Months Ended August 31, 2007
Cash Paid for:		
Interest	$ 454	$ 902
Income taxes, net of refunds	$ 279	$ 1,169

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Video Display Corporation and Subsidiaries
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August 31, 2008

Note 11. Shareholder s Equity

Earnings Per Share

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

The following table sets forth the computation of basic and diluted earnings per share for the three and six month periods ended August 31, 2008 and 2007 (in thousands, except per share data):

	Net Income	Weighted Average Common Shares Outstanding	Earnings Per Share
Three months ended August 31, 2008			
Basic	**$ 553**	**9,374**	**$ 0.06**
Effect of dilution:			
Options		**108**	
Diluted	**$ 553**	**9,482**	**$ 0.06**
Three months ended August 31, 2007			
Basic	$ 1,237	9,637	$ 0.13
Effect of dilution:			
Options		50	
Diluted	$ 1,237	9,687	$ 0.13
Six months ended August 31, 2008			
Basic	**$ 1,133**	**9,421**	**$ 0.12**
Effect of dilution:			
Options		**109**	
Diluted	**$ 1,133**	**9,530**	**$ 0.12**
Six months ended August 31, 2007			
Basic	$ 2,090	9,642	$ 0.22
Effect of dilution:			
Options		56	
Diluted	$ 2,090	9,698	$ 0.22

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Video Display Corporation and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
August 31, 2008

Stock-Based Compensation Plans

For the six month period ended August 31, 2008 and August 31, 2007, the Company recognized general and administrative expense of $23,112 and $(66,630) respectively related to share-based compensation. After the adoption of SFAS No. 123(R), the liability for the share-based compensation recognized is presented in the consolidated balance sheet as part of additional paid in capital. As of August 31, 2008, total unrecognized compensation costs related to stock options granted was $80,572. The unrecognized stock option compensation cost is expected to be recognized over a period of approximately 4 years.

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing model, which requires the Company to estimate the expected term of the stock option grants and expected future stock price volatility over the term. The term represents the expected period of time the Company believes the options will be outstanding based on historical information. Estimates of expected future stock price 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.

No options were granted for the six month period ending August 31, 2008 and options were granted to the new Chief Financial Officer during the six month period ended August 31, 2007 in the amount of $115,163.

Stock Repurchase Program

The Company has a stock repurchase program, pursuant to which it was originally authorized to repurchase up to 462,500 shares of the Company s common stock in the open market. On January 11, 2006, the Board of Directors of the Company approved a non-time limited continuation of the stock repurchase program, and authorized the Company to repurchase up to 600,000 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 six months ended August 31, 2008, the Company repurchased 187,903 shares at an average price of $7.40 per share, which have been added to treasury shares on the consolidated balance sheet. Under this program, an additional 187,429 shares remain authorized to be repurchased by the Company at August 31, 2008. The Loan and Security Agreement executed by the Company on June 29, 2006 included restrictions on investments which restricted further repurchases of stock under this program. The company currently is authorized by the bank to repurchase in excess of 100,000 additional shares.

Note 12. Comprehensive Income

Statement No. 130 *Reporting Comprehensive Income* establishes standards for reporting and display of non-owner changes in shareholders equity. For the Company, total non-owner changes in shareholders equity include net income/(loss) and the change in the cumulative foreign exchange translation adjustment component of shareholders equity. During the six months ended August 31, 2008 and 2007, total comprehensive income was $1.1 million and $2.2 million, respectively.

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Video Display Corporation and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
August 31, 2008

Note 13. Related Party Transactions

In conjunction with an agreement involving re-financing of the Company s lines of credit and Loan and Security Agreement, on June 29, 2006 the Company s CEO provided a $6.0 million subordinated term note to the Company with monthly principal payments of $33,333 plus interest through July 2021. The interest rate on this note is equal to the prime rate plus one percent. The note is secured by a general lien on all assets of the Company, subordinate to the lien held by the syndicate of RBC Centura and Regions Bank. The balance outstanding under this loan agreement was approximately $2.6 million at August 31, 2008 and $2.8 million at February 29, 2008. Interest paid during the quarter ending August 31, 2008 and August 31, 2007 on this note was $53,312 and $86,488, respectively and interest paid for the six months ending August 31, 2008 and August 31, 2007 was $108,397 and $189,917, respectively.

A demand note is outstanding from another officer in the amount of $237,051 bearing interest at 8%. Interest on the demand note for the six months ending August 31, 2008 was $9,918. Principal payments of $15,086 were made on these notes in the six months ending August 31, 2008.

Note 14. Convertible Notes Payable

In connection with the purchase of the Cathode Ray Tube Manufacturing and Distribution Business and certain assets of Clinton Electronics Corp. discussed in Note. 5, the Company issued a $1.0 million face value non-interest bearing Convertible Note Payable with a maturity date of January 8, 2008. The note was convertible into 120,000 shares of the Company s common stock at any time prior to maturity. The Company recognized a $75,000 discount on the debt to reflect the inherent interest in the notes, which was accreted as interest expense over the one year life of the note. Total interest expense accreted on this note for the six months ending August 31, 2007 was $37,500.

During fiscal 2004, the Company issued four non-interest bearing notes payable due August 2007, valued at $125,000 each, and convertible at any time into common shares of the Company s stock at a rate of $12.50 per share. The Company recognized a $150,000 discount on the debt to reflect the inherent interest in the notes. This discount on debt is accreted as interest expense over the three year life of the notes. The discount fully accreted upon conversion of the debt to equity. During the fourth quarter of fiscal 2005, one of the notes was converted into 10,000 shares of the Company s common stock. During the first quarter of fiscal 2006, another of the notes was converted into 10,000 shares of the Company s common stock. The remaining two notes were paid during the second quarter of fiscal 2008. Total interest expense accreted on these notes for the six months ending August 31, 2007 was $12,500.

Video Display Corporation and Subsidiaries
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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the attached interim consolidated financial statements and with the Company s 2008 Annual Report to Shareholders, which included audited consolidated financial statements and notes thereto for the fiscal year ended February 29, 2008, as well as Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company is a leader in the manufacture and distribution of a wide range of display devices, encompassing, among others, entertainment, military, medical and simulation display solutions. The Company is comprised of two segments (1) the manufacture and distribution of monitors, projection systems and CRT displays and (2) the wholesale distribution of consumer electronic parts. The display segment is organized into four interrelated operations aggregated into one operating segment pursuant to the aggregation criteria of SFAS 131:

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

Data Display CRTS offers a complete range of CRTs for use in data display screen, 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 2009, management of the Company is focusing key resources on strategic efforts to dispose of unprofitable operations and seek acquisition opportunities that enhance the profitability and sales growth of the Company s more profitable product lines. In addition, the Company plans to seek new products through acquisitions and internal development that complement existing profitable product lines. Challenges facing the Company during these efforts include:

Inventory management the Company continually monitors historical sales trends as well as projected future needs to ensure adequate on hand supplies of inventory and to 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 averages over 175 days, although in many cases the Company would anticipate holding 90 to 100 days of inventory in the normal course of operations. This level of inventory is higher than some of the Company s competitors due to the fact that it sells a number of products representing older, or trailing edge, technology that may not be available from other sources. The market for these trailing edge technology products is declining and, as manufacturers for these products discontinue production or exit the business, the Company may make last time buys. In the monitor operations of the Company s business, the market for its products is characterized by fairly rapid change as a result of the development of new technologies, particularly in the flat panel display area. If the Company fails to anticipate the changing needs of its customers and accurately forecast their requirements, it may accumulate inventories of products which its customers no longer need and which the Company will

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be unable to sell or return to its vendors. Because of this, the Company s management monitors the adequacy of its inventory reserves regularly, and at August 31, 2008 and February 29, 2008 believes its reserves to be adequate.

Interest rate exposure The Company had outstanding bank debt in excess of $18.0 million as of August 31, 2008, all of which is subject to interest rate fluctuations by the Company s lenders. Changes in rates by the Federal Reserve Board have the potential to negatively affect the Company s earnings. It is the intent of the Company to continually monitor interest rates and consider converting portions of the Company s debt from floating rates to fixed rates should conditions be favorable for such interest rate swaps or hedges.

Results of Operations

The following table sets forth, for the three and six months ended August 31, 2008 and 2007, the percentages which selected items in the Statements of Operations bear to total sales:

	Three Months Ended August 31,		**Six Months Ended August 31,**	
	2008	2007	**2008**	2007
Sales				
Display Segment				
Monitors	**56.3**%	49.3%	**55.6**%	47.7%
Data Display CRTs	**11.1**	9.3	**12.4**	13.8
Entertainment CRTs	**1.9**	2.6	**1.9**	2.8
Components Parts	**0.4**	0.3	**0.3**	0.5
Total Display Segment	**69.7**%	61.5%	**70.2**%	64.8%
Wholesale Distribution Segment	**30.3**	38.5	**29.8**	35.2
	100.0%	100.0%	**100.0**%	100.0%
Costs and expenses				
Cost of goods sold	**63.3**%	66.5%	**63.2**%	65.7%
Selling and delivery	**9.6**	8.6	**9.8**	8.8
General and administrative	**21.7**	16.9	**21.6**	17.5
	94.6%	92.0%	**94.6**%	92.0%
Income from Operations	**5.4**%	8.0%	**5.4**%	8.0%
Interest expense	**(1.5)**%	(2.0)%	**(1.5)**%	(2.1)%
Other income, net	**0.3**	0.6	**.4**	.5
Income before income taxes	**4.2**%	6.6%	**4.3**%	6.4%
Provision for income taxes	**1.3**	1.2	**1.4**	1.7
Net Income	**2.9**%	5.4%	**2.9**%	4.7%

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Net sales

Consolidated net sales decreased $3.6 million for the three months ended August 31, 2008 and decreased $5.5 million for the six months ended August 31, 2008 as compared to the three and six months ended August 31, 2007, respectively. Display segment sales decreased $0.6 million for the three month comparative period and decreased $1.5 million for the six-month comparative period. Sales within the Wholesale Distribution segment decreased $3.0 million for the three month comparative period and decreased $4.1 million for the six-month comparative period.

The net decrease in Display Segment sales for the three months ended August 31, 2008 is primarily attributed to the monitor and entertainment divisions, as compared to the same period ended August 31, 2007. The Monitor revenues decreased $0.4 million for the three month comparable period but increased $0.4 million over the six-month period primarily due to the completion of long term contracts. Entertainment CRTs revenues decreased $0.2 to the comparable three month period and $0.5 to the comparable six-month period. A significant portion of the entertainment division s sales are to major television retailers as replacements for products sold under manufacturer and extended warranties. Due to continued lower retail sales prices for mid-size television sets (25 to 30), fewer extended warranties were sold by retailers, a trend consistent with recent prior fiscal years. The Company remains the primary supplier of product to meet manufacturers standard warranties. Growth in this division will be negatively impacted by the decreasing number of extended warranties sold for the larger, more expensive sets. Because the Company is in the replacement market, it has the ability to track retail sales trends and, accordingly, can attempt to adjust quantities of certain size CRTs carried in stock and reduce exposure to obsolescence.

Gross margins

Consolidated gross margins increased from 33.5% for the three months ended August 31, 2007 to 36.7% for the three months ended August 31, 2008 and increased from 34.3% for the six months ended August 31, 2007 to 36.8% for the six months ended August 31, 2008.

Display segment margins increased from 30.3% to 31.1% for the comparable three month period ended August 31, 2008 and increased from 30.2% to 30.8% for the comparative six month period ending August 31, 2008 due to holding overhead costs down while increasing sales. Gross margins within the Monitor division increased from 30.6% to 32.0% for the comparable three month period ending August 31, 2008 and increased from 29.0% to 30.8% for the six months ended August 31, 2008. This increase is primarily attributable to the impact of the product mix of sales in the Monitor segment in Fiscal 2008. Display division gross margins increased from 23.5% to 28.6% for the three month comparable period ending August 31, 2008, and decreased from 31.2% for the six months ended August 31, 2007 to 29.8% for the six months ended August 31, 2008, due to the impact of the decreased margins at the UK division as it transitioned the business to the Data division in the US. Gross margins in home entertainment CRTs decreased from 45.1% to 0.8% for the three month comparable period ending August 31, 2008 and decreased from 46.3% for the six months ended August 31, 2007 to 22.8% for the six months ended August 31, 2008, due to the reduction of manufactured tubes at the Chroma division. Gross margins from Component Parts sold increased from 65.9% to 114.9% for the three month comparable period ending August 31, 2008 and increased from 35.6% for the six months ended August 31, 2007 compared to 124.4% for the six months ended August 31, 2008.

The wholesale segment margins increased from 38.6% to 49.4% for the three months comparable period ended August 31, 2008 and increased from 41.7% to 50.8% for the comparable six month period ended August 31, 2008 due to the changes in customer and product mix.

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Operating expenses

Operating expenses as a percentage of sales increased from 25.4% to 31.2% for the three month comparable period ending August 31, 2008 and increased from 26.2% for the six months ended August 31, 2007 to 31.3% for the six months ended August 31, 2008, primarily due to increased legal and accounting fees and a reduction in sales.

Display segment operating expenses increased from 12.7% to 17.3% for the three month comparable period ending August 31, 2008 and from 13.2% to 16.8% for the six month period as compared to the comparable prior year period.

Wholesale Distribution segment operating expenses increased from 12.8% to 14.0% for the three month comparable period ending August 31, 2008 and increased from 13.0% to 14.6% compared to the six month period a year ago, primarily due to a reduction in sales while expenses held steady.

Interest expense

Interest expense decreased $0.2 million for the three month comparable period ending August 31, 2008 and $0.4 million for the six months ended August 31, 2008 as compared to the same period a year ago. The Company maintains various debt agreements with different interest rates, most of which are based on the prime rate or LIBOR. These decreases in interest expense reflect lower average borrowings outstanding and lower average interest rates.

Income taxes

The effective tax rate for the three month period ended August 31, 2008 and August 31, 2007 was 31.5% and 18.0%, respectively and for the six months ended August 31, 2008 and August 31, 2007 was 33.5% and 26.3%, respectively. The rate for August 31, 2007 differs from the Federal statutory rate primarily due to the tax refund, net of tax of $0.2 million from the state of Kentucky from prior years recognized in the quarter ending August 31, 2007 and the permanent deductibility of certain expenses for tax purposes and the effect of state taxes and the rate for August 31, 2008 differs from the Federal statutory rate primarily due to the effect of state taxes and the permanent non-deductibility of certain expenses for tax purposes.

The company adopted the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* in the first quarter ending May 31, 2007. See Note 2.

Foreign currency translation

Gains or losses resulting from the transactions with the Company s UK subsidiary are reported in current operations while currency translation adjustments are recognized in a separate component of shareholders equity. There were no significant gains or losses recognized in either period related to the UK subsidiary.

The Company is closing the UK subsidiary and transferring the business to its Data Display division. This process will be completed this calendar year.

Liquidity and Capital Resources

As of August 31, 2008, the Company had total cash of $1.7 million. The Company s working capital was $40.2 million and $39.0 million at August 31, 2008 and February 29, 2008, respectively. In recent years, the Company has financed its growth and cash needs primarily through income from operations, borrowings under revolving credit facilities, advances from the Company s Chief Executive Officer and long-term debt. Liquidity provided by operating activities of the Company is reduced by working capital requirements, largely inventories and accounts receivable, debt service, capital expenditures, product line additions, stock repurchases and dividends.

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

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

Cash provided by operations for the six months ended August 31, 2008 was $1.1 million as compared to cash provided of $1.4 million for the six months ended August 31, 2007. This net decrease in cash provided is primarily the result of a decrease in net income partially offset by changes in working capital, particularly accounts payable and uncompleted contracts.

Investing activities used cash of $0.4 million related to the purchase of various equipment items during the six months ended August 31, 2008, compared to cash used of $0.4 million during the six months ended August 31, 2007.

Financing activities used cash of $0.6 million for the six months ended August 31, 2008, compared to cash used of $0.1 million for the six months ended August 31, 2007, reflecting the purchases of Treasury stock of $1.4 million offset by borrowings of $0.8 million.

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

The Company has a stock repurchase program, pursuant to which it was originally authorized to repurchase up to 462,500 shares of the Company s common stock in the open market. On January 11, 2006, the Board of Directors of the Company approved a continuation of the stock repurchase program, and authorized the Company to repurchase up to 600,000 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. Under this program, an additional 187,429 shares remain authorized to be repurchased by the Company at August 31, 2008. The Loan and Security Agreement executed by Company on June 29, 2006 includes restrictions on investments and requires bank approval on further repurchases of stock under this program.

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Critical Accounting Policies

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, revenue recognition, the allowance for bad debts and warranty reserves. The Company uses the following methods and assumptions in determining its estimates:

Reserves on inventories

Reserves on inventories result in a charge to operations when the estimated net realizable value declines below cost. Management regularly reviews the Company s investment in inventories for declines in value and establishes reserves when it is apparent that the expected net realizable value of the inventory falls below its carrying amount. Management considers the projected demand for CRTs in this estimate of net realizable value. Management is able to identify consumer buying trends, such as size and application, well in advance of supplying replacement CRTs. Thus, the Company is able to adjust inventory-stocking levels according to the projected demand. The average life of a CRT is five to seven years, at which time the Company s replacement market develops. Management reviews inventory levels on a quarterly basis. Such reviews include observations of product development trends of the 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 2008 and 2007; however, the Company cannot guarantee the accuracy of future forecasts since these estimates are subject to change based on market conditions.

Revenue Recognition

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

In accordance with Emerging Issues Task Force (EITF) issue 00-10, shipping and handling fees billed to customers are classified in net sales in the consolidated statements of operations. Shipping and handling costs incurred are classified in selling and delivery in the consolidated statements of operations.

A portion of the Company s revenue is derived from contracts to manufacture flat panel and CRTs to a buyers specification. These contracts are accounted for under the provisions of the American Institute of Certified Public Accountants Statement of Position No. 81-1, Accounting for Performance of Construction-Type and Certain 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.

The Wholesale Distribution segment has several distribution agreements that it accounts for using the gross revenue basis as prescribed by EITF issue 99-19. The Company uses the gross method because the Company has general inventory risk, physical loss inventory risk and credit risk. The call center service revenue is recognized based on written pricing agreements with each manufacturer, on a per call, per email or per standard mail basis.

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Allowance for doubtful accounts

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

Warranty reserves

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

Other Accounting Policies

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

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Values Measurements.* This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and for any interim periods within those fiscal years. Statement No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The statement does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. The statement emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Companies are required to disclose the extent to which fair value is used to measure assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period. The adoption of Statement No. 157 did not have a material impact on the Management s consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* Statement No. 159 allows companies to elect to apply fair value accounting for certain financial assets and liabilities. Statement No. 159 is applicable only to certain financial instruments and is effective for fiscal years beginning after November 15, 2007. Statement No. 159 is effective for the Company during the fiscal year ended February 28, 2009. The Company has evaluated the effect of the adoption of Statement No. 159 and due to it having no material impact on the Company s consolidated financial statements, elected not to apply it.

In March 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (Interpretation No. 48), which clarifies the accounting for uncertainty in income taxes recognized in the Companies consolidated financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*.

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Interpretation No. 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. In addition, it provides guidance on the measurement, derecognition, classification and disclosure of tax positions, as well as the accounting for related interest and penalties. The adoption of Interpretation No. 48 in fiscal 2008 did not have a material impact on the Company s consolidated financial statements.

In December 2007, the FASB issued Statement No. 141 (R), *Business Combinations.* This statement replaces SFAS 141, Business Combinations. This statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement No. 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. This statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in it s financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Statement No. 141 (R) will apply prospectively to business combinations for which the acquisition date is on or after the Company s fiscal year beginning March 1, 2009. While the Company has not yet evaluated this statement for the impact, if any, that Statement No. 141 (R) will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after February 28, 2010.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interest in Consolidated Financial Statements.* This Statement amends Accounting Research Bulletin 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The Company has determined the impact of Statement No. 160 does not have a material effect on its consolidated financial statements. Statement No. 160 is effective for the Company s fiscal year beginning March 1, 2009.

Forward-Looking Information and Risk Factors

This report contains forward-looking statements and information that is based on management s beliefs, as well as assumptions made by, and information currently available to management. When used in this document, the words anticipate, believe, estimate, intends, will, and expect and similar expressions are intended to identify forwar statements. Such statements involve a number of risks and uncertainties. These risks and uncertainties, which are included under Part I, Item 1A. Risk Factors in the Company s Annual Report of Form 10-K for the year ended February 29, 2008 could cause actual results to differ materially.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company s primary market risks include fluctuations in interest rates and variability in interest rate spread relationships, such as prime to LIBOR spreads. Approximately $21.3 million of outstanding debt at August 31, 2008 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 $0.2 million in pre-tax net income assuming no further changes in the amount of borrowings subject to variable rate interest from amounts outstanding at August 31, 2008. The Company does not trade in derivative financial instruments.

The Company has a subsidiary in the U.K., which is not material, but uses the British pound as its functional currency. Due to its limited operations outside of the U.S., the Company s exposure to changes in foreign currency exchange rates between the U.S. dollar and foreign currencies or to weakening economic conditions in foreign markets is not expected to significantly impact the Company s financial position.

ITEM 4. CONTROLS AND PROCEDURES

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

Our chief executive officer and chief financial officer have conducted an evaluation of the effectiveness of our disclosure controls and procedures as of August 31, 2008. We perform this evaluation on a quarterly basis so that the conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our annual report on Form 10-K and quarterly reports on Form 10-Q. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of August 31, 2008.

Changes in Internal Controls

During the six months ended August 31, 2008, the Company initiated changes in its internal control over financial reporting to address material weaknesses discussed in the 2008 Annual Report on Form 10-K. Subsequent to the end of the fiscal year, Management instituted new reporting and approval procedures in its core accounting at its Fox subsidiary and believes that these new procedures have remediated the disclosed material weakness.

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

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PART II

Item 1. Legal Proceedings

In May 2008, the Company was named in a lawsuit captioned Barco Federal Systems, LLC and Barco N.V., a Belgian corporation v. Aydin Displays, Inc. a Pennsylvania corporation, a subsidiary of Video Display Corporation, U.S. District Court, Northern District of Georgia, 1: 08-cv-01252-JEC. The complaint filed alleges that Aydin Displays, Inc. has infringed two patents held by Barco NV of Kortrijk, Belgium and licensed to Barco Federal Systems LLC, a U.S. subsidiary devised by Barco NV presumed to qualify Barco NV as a U.S. entity for solicitation of U.S. Government defense contracts.

Aydin Displays, Inc. denies any infringement of the two Barco patents. In response to the lawsuit, Aydin Displays, Inc. has filed several counterclaims against Barco, asserting not only that Aydin Displays, Inc. has not infringed the patents, but also that Barco s patents are invalid and unenforceable. Aydin Displays, Inc. is also investigating additional claims against Barco.

Item 1A. Risk Factors

Information regarding risk factors appears under the caption Forward-Looking Statements and Risk Factors in Part I, Item 2 of this Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 29, 2008. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K.

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

None.

Item 3. Defaults upon Senior Securities

None

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

None.

Item 5. Other information

None.

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Item 6. Exhibits

Exhibit Number	Exhibit Description
3(a)	Articles of Incorporation of the Company (incorporated by reference to Exhibit 3A to the Company s Registration Statement on Form S-18 filed January 15, 1985).
3(b)	By-Laws of the Company (incorporated by reference to Exhibit 3B to the Company s Registration Statement on Form S-18 filed January 15, 1985).
10(d)	$27,500,000 promissory note dated November 10, 2004 between the Company and Bank of America (holder) (incorporated by reference to Exhibit 10(d) to the Company s 2005 Annual Report on Form 10-K).
10(e)	$6,800,000 term note dated February 27, 2006 between the Company and Ronald D. Ordway (holder) (incorporated by reference to Exhibit 10(e) to the Company s 2006 Annual Report on Form 10-K) .
10(h)	Loan and Security Agreement and related documents, dated June 14, 2006, among Video Display Corporation and Subsidiaries and RBC Centura Bank and Regions Bank as lenders and RBC Centura Bank as collateral agent (incorporated by reference to Exhibit 10(h) to the Company s Current Report on Form 8-K dated June 29, 2006).
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).
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.

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SIGNATURES

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

	VIDEO DISPLAY CORPORATION
October 15, 2008	By: /s/ Ronald D. Ordway Ronald D. Ordway Chief Executive Officer
October 15, 2008	By: /s/ Gregory L. Osborn Gregory L. Osborn Chief Financial Officer

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