VIRCO MFG CORPORATION
Form 10-Q
June 09, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 April 30, 2011

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 1-8777

VIRCO MFG. CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	95-1613718
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2027 Harpers Way, Torrance, CA	90501
(Address of Principal Executive Offices)	(Zip Code)

Registrant s Telephone Number, Including Area Code: (310) 533-0474

No change

Former name, Former Address and Former Fiscal Year, if Changed Since Last Report.

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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. (Check one):

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

The number of shares outstanding for each of the registrant s classes of common stock, as of the latest practicable date: Common Stock, $.01 par value 14,204,988 shares as of June 1, 2011.

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Exhibit 10.1 Amendment No. 8 to Second Amended and Restated Credit Agreement, dated as of May 31, 2011, between Virco Mfg. Corporation and Wells Fargo Bank, National Association.
Exhibit 10.2 Separation Agreement and General Release of Claims between Virco Mfg. Corporation and Larry O. Wonder, dated May 24, 2011.
Exhibit 31.1 Certification of Robert A. Virtue, President, pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2 Certification of Robert E. Dose, Vice President, Finance, pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1 Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	4/30/2011	1/31/2011	4/30/2010
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Assets			
Current assets			
Cash	$ 768	$ 1,529	$ 1,080
Trade accounts receivables, net	10,038	10,462	13,468
Other receivables	51	168	40
Income tax receivable	345	367	273
Inventories			
Finished goods, net	13,926	9,617	15,840
Work in process, net	24,796	13,773	27,900
Raw materials and supplies, net	12,778	11,980	14,012
	51,500	35,370	57,752
Deferred tax assets, net			1,947
Prepaid expenses and other current assets	2,020	1,619	1,942
Total current assets	64,722	49,515	76,502
Property, plant and equipment			
Land and land improvements	3,108	3,108	3,329
Buildings and building improvements	47,797	47,797	47,796
Machinery and equipment	119,598	118,799	117,063
Leasehold improvements	2,699	2,699	2,688
	173,202	172,403	170,876
Less accumulated depreciation and amortization	131,637	130,342	127,132
Net property, plant and equipment	41,565	42,061	43,744
Deferred tax assets, net	2,596	2,605	10,546
Other assets	6,407	6,407	6,310

Total assets	$ 115,290	$ 100,588	$ 137,102

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VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	4/30/2011	1/31/2011	4/30/2010
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Liabilities			
Current liabilities			
Checks released but not yet cleared bank	$ 1,976	$ 1,154	$ 4,172
Accounts payable	13,573	8,382	12,966
Accrued compensation and employee benefits	4,256	3,946	4,179
Current portion of long-term debt	11,652	12	14,742
Deferred Tax Liability	1,398	1,398	
Other accrued liabilities	6,204	5,125	5,638
Total current liabilities	39,059	20,017	41,697
Non-current liabilities			
Accrued self-insurance retention and other	5,568	4,924	5,767
Accrued pension expenses	17,942	18,027	17,439
Income tax payable	731	722	1,134
Long-term debt, less current portion	7,500	6,496	7,532
Total non-current liabilities	31,741	30,169	31,872
Commitments and contingencies			
Stockholders equity			
Preferred stock:			
Authorized 3,000,000 shares, $.01 par value; none issued or outstanding Common stock:			
Authorized 25,000,000 shares, $.01 par value; issued 14,204,998 at 04/30/2011, 14,204,998 shares at 01/31/2011 and 14,121,004 at 04/30/2010	142	142	142
Additional paid-in capital	114,109	114,467	114,201
Accumulated deficit	(60,019)	(54,465)	(41,239)
Accumulated other comprehensive loss	(9,742)	(9,742)	(9,571)
Total stockholders equity	44,490	50,402	63,533
Total liabilities and stockholders equity	$ 115,290	$ 100,588	$ 137,102

See Notes to Unaudited Condensed Consolidated Financial Statements.

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VIRCO MFG. CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited (Note 1)

	Three months ended	
	4/30/2011	4/30/2010
	(In thousands, except share data)	
Net sales	$ 24,256	$ 24,860
Costs of goods sold	17,478	18,589
Gross profit	6,778	6,271
Selling, general, administrative & other expenses	11,936	12,532
Interest expense	214	233
Loss before income taxes	(5,372)	(6,494)
Income tax expense (benefit)	28	(1,413)
Net loss	$ (5,400)	$ (5,081)
Net loss per common share Basic and diluted	$ (0.38)	$ (0.36)
Weighted average shares outstanding Basic and diluted	14,205	14,157
Dividend declared per common share		
Cash	$ 0.05	$ 0.05

Net loss per share was calculated based on basic shares outstanding due to the anti-dilutive effect on the inclusion of common stock equivalent shares.

See Notes to Unaudited Condensed Consolidated Financial Statements.

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VIRCO MFG. VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited (Note 1)

	Three months ended	
	4/30/2011	4/30/2010
	(In thousands)	
Operating activities		
Net loss	$ (5,400)	$ (5,081)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,299	1,371
Provision for doubtful accounts	15	15
Deferred income taxes	18	(1,413)
Stock based compensation	199	200
Changes in operating assets and liabilities		
Trade accounts receivable	409	644
Other receivables	117	101
Inventories	(16,130)	(14,163)
Income taxes	22	(14)
Prepaid expenses and other assets	(401)	(483)
Accounts payable and accrued liabilities	7,609	4,691
Net cash used in operating activities	(12,243)	(14,132)
Investing activities		
Capital expenditures	(803)	(679)
Net cash used in investing activities	(803)	(679)
Financing activities		
Issuance of debt	12,644	15,353
Repayment of debt	(3)	(3)
Cash dividends paid	(356)	(354)
Repurchase of common stock		(150)
Net cash provided by financing activities	12,285	14,846
Net (decrease) increase in cash	(761)	35
Cash at beginning of period	1,529	1,045
Cash at end of period	$ 768	$ 1,080

Non cash disclosures:				
Cash dividends declared but not paid	$	355	$	352

See Notes to Unaudited Condensed Consolidated Financial Statements.

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VIRCO MFG. CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2011

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended April 30, 2011, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2012. The balance sheet at January 31, 2011, has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2011 (Form 10-K). All references to the Company refer to Virco Mfg. Corporation and its subsidiaries.

Note 2. Seasonality

The market for educational furniture is marked by extreme seasonality, with over 50% of the Company s total sales typically occurring from June to September each year, which is the Company s peak season. Hence, the Company typically builds and carries significant amounts of inventory during and in anticipation of this peak summer season to facilitate the rapid delivery requirements of customers in the educational market. This requires a large up-front investment in inventory, labor, storage and related costs as inventory is built in anticipation of peak sales during the summer months. As the capital required for this build-up generally exceeds cash available from operations, the Company has historically relied on third-party bank financing to meet cash flow requirements during the build-up period immediately preceding the peak season.

In addition, the Company typically is faced with a large balance of accounts receivable during the peak season. This occurs for two primary reasons. First, accounts receivable balances typically increase during the peak season as shipments of products increase. Second, many customers during this period are government institutions, which tend to pay accounts receivable more slowly than commercial customers.

The Company s working capital requirements during and in anticipation of the peak summer season require management to make estimates and judgments that affect assets, liabilities, revenues and expenses, and related contingent assets and liabilities. On an on-going basis, management evaluates its estimates, including those related to market demand, labor costs, and stocking inventory.

Note 3. New Accounting Standards

There were no accounting pronouncements applicable to the Company in the first quarter of 2011.

Note 4. Inventories

Inventories consist of raw materials, work in progress, and finished goods of manufactured products. Inventories are stated at lower of cost or market and consist of materials, labor, and overhead. The Company determines the cost of inventory by the first-in, first-out method. The value of inventory includes any related production overhead costs incurred in bringing the inventory to its present location and condition. The Company records the cost of excess capacity as a period expense, not as a component of capitalized inventory valuation. Management continually monitors production costs, material costs, and inventory levels to determine that the interim inventories are fairly stated. The Company records the cost of excess capacity as a period expense, not as a component of capitalized inventory valuation.

Management continually monitors production costs, material costs and inventory levels to determine that interim inventories are fairly stated.

Note 5. Debt

At April 30, 2011, the Company had outstanding borrowings pursuant to its revolving line of credit with Wells Fargo Bank of $19,140,000. The revolving line typically provided for advances of up to 80% on eligible accounts receivable and 20% 55% on eligible inventory, subject to the specific terms of the facility. The advance rates fluctuates depending on the time of year and the types of assets. The revolving credit facility will mature on June 30, 2012, with interest payable monthly at a fluctuating rate equal to the Wells Fargo Bank s prime rate plus 1.25%. The agreement had an unused commitment fee of 0.375% as of April 30, 2011. Availability under the line was $9,528,000 at April 30, 2011.

The terms of the revolving line of credit are set forth in the Second Amended and Restated Credit Agreement (as amended, the Agreement), dated as of March 12, 2008, between the Company and Wells Fargo Bank, National Association (the Lender). The Credit Agreement has been amended from time to time to modify covenants or other terms and conditions. Subsequent to the first quarter of 2011, effective May 31, 2011, the Company entered into Amendment No. 8, which extended the maturity date of the loan to June 30, 2012. No other terms were modified in this agreement.

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The revolving credit facility with Wells Fargo Bank is subject to financial covenants that include a maximum leverage ratio and a minimum net income requirement. The agreement also places certain restrictions on capital expenditures, incurrence of indebtedness and liens, dividends and the repurchase of the Company s common stock. The revolving credit facility is secured by substantially all of the assets of the Company and its subsidiary, including the Company s accounts receivable, inventories, equipment and real property. The Company was in compliance with its covenants at April 30, 2011.

Management believes that the carrying value of debt approximated fair value at April 30, 2011 and 2010, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

The descriptions set forth herein of the Agreement and Amendments are qualified in their entirety by the terms of such agreements, each of which has been filed with the Securities and Exchange Commission.

Note 6. Income Taxes

The Company recognizes deferred income taxes under the asset and liability method of accounting for income taxes in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Deferred income taxes are recognized for differences between the financial statement and tax basis of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, the Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. Based on this consideration, the Company determined the realization of a majority of the net deferred tax assets no longer met the more likely than not criteria and a valuation allowance was recorded against the majority of the net deferred tax assets at April 30, 2011 and January 31, 2011. The effective tax rate of 21.8 percent in the first quarter ended April 30, 2010 was impacted by the forecasted profit levels for the respective years and discrete items associated with non-taxable permanent differences.

The Internal Revenue Service (the IRS) has completed the examination of all federal income tax returns through 2008 with no issues pending or unresolved. The years 2009 and 2010 remain open for examination by the IRS. The years 2006 through 2010 remain open for examination by state tax authorities. The Company is not currently under state examination.

The specific timing of when the resolution of each tax position will be reached is uncertain. As of January 31, 2011, we do not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

Note 7. Net Loss per Share

	Three Months Ended	
	4/30/2011	4/30/2010
	(In thousands, except per share data)	
Numerators:		
Numerator for both basic and diluted net loss per share	$ (5,400)	$ (5,081)
Denominators:		
Denominator for basic net loss per share weighted-average common shares outstanding	14,205	14,157
Potentially dilutive shares from stock option plans		
Denominator for diluted net loss per share	14,205	14,157
Net loss per share basic and diluted	$ (0.38)	$ (0.36)

Certain exercisable and non-exercisable stock options were not included in the computation of diluted net loss per share at April 30, 2011 and 2010, because their inclusion would have been anti-dilutive. The number of stock options outstanding, which met this anti-dilutive criterion for the three months ended April 30, 2011 and 2010, was 140,000 and 127,000, respectively.

Note 8. Stock Based Compensation

Stock Incentive Plans

The Company s two stock plans are the 2007 Stock Incentive Plan (the 2007 Plan) and the 1997 Stock Incentive Plan (the 1997 Plan). Under the 2007 Plan, the Company may grant an aggregate of 1,000,000 shares to its employees and non-employee directors in the form of stock options or awards. Restricted stock or stock units awarded under the 2007 Plan are expensed ratably over the vesting period of the awards. The Company determines the fair value of its restricted stock unit awards and related compensation expense as the difference between the market value of the awards on the date of grant less the exercise price of the awards granted. The Company did not issue any grants during the quarter ended April 30, 2011. As of April 30, 2011, there were approximately 200,160 shares available for future issuance under the 2007 Plan.

The 1997 Plan expired in 2007 and had 12,100 unexercised options outstanding at April 30, 2011. Stock options awarded to employees under the 1997 Plan had to be at exercise prices equal to the fair market value of the Company s common stock on the date of grant. Stock options generally have a maximum term of 10 years and generally become exercisable ratably over a five-year period.

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Restricted Stock and Stock Unit Awards

Accounting for the Plans

The following table presents a summary of restricted stock and stock unit awards at April 30, 2011 and 2010:

	Expense for 3 months ended		Unrecognized Compensation Cost at
	4/30/2011	4/30/2010	4/30/2011
2007 Plan			
56,455 Grants of Restricted Stock, issued 6/8/2010, vesting over 1 year	$ 43,000	$	$ 15,000
382,500 Restricted Stock Units, issued 6/16/2009, vesting over 5 years	67,000	67,000	826,000
49,854 Restricted Stock Units, issued 6/16/2009, vesting over 1 year		44,000	
262,500 Restricted Stock Units, issued 6/19/2007, vesting over 5 years	89,000	89,000	386,000
Totals for the period	$ 199,000	$ 200,000	$ 1,227,000

Stockholders Rights

On October 15, 1996, the Board of Directors declared a dividend of one preferred stock purchase right (the Rights) for each outstanding share of the Company s common stock. Each of the Rights entitles a stockholder to purchase for an exercise price of $50.00 ($20.70, as adjusted for stock splits and stock dividends), subject to adjustment, one one-hundredth of a share of Series A Junior Participating Cumulative Preferred Stock of the Company, or under certain circumstances, shares of common stock of the Company or a successor company with a market value equal to two times the exercise price. The Rights are not exercisable, and would only become exercisable for all other persons when any person has acquired or commences to acquire a beneficial interest of at least 20% of the Company s outstanding common stock. The Rights have no voting privileges, and may be redeemed by the Board of Directors at a price of $.001 per Right at any time prior to the acquisition of a beneficial ownership of 20% of the outstanding common stock. There are 200,000 shares (483,153 shares as adjusted by stock splits and stock dividends) of Series A Junior Participating Cumulative Preferred Stock reserved for issuance upon exercise of the Rights. On July 31, 2007, the Company and Mellon Investor Services LLC entered into an amendment to the Rights Agreement governing the Rights. The amendment, among other things, extended the term of the Rights issued under the Rights Agreement to October 25, 2016, removed the dead-hand provisions from the Rights Agreement, and formally replaced the former Rights Agent, The Chase Manhattan Bank, with its successor-in-interest, Mellon Investor Services LLC.

Note 9. Comprehensive Loss and Stockholders Equity

Comprehensive loss for the three months ended April 30, 2011 and 2010 was the same as net loss reported on the Statements of Operations. Accumulated other comprehensive loss at April 30, 2011 and 2010 and January 31, 2011 is composed of minimum pension liability adjustments.

During the three months ended April 30, 2011, the Company did not repurchase any shares of its common stock. As of April 30, 2011, $1.1 million remained available for repurchases of the Company s common stock pursuant to the Company s repurchase program approved by the Board of Directors.

Note 10. Retirement Plans

The Company and its subsidiaries cover all employees under a noncontributory defined benefit retirement plan, entitled the Virco Employees Retirement Plan (the Employees Retirement Plan). Benefits under the Employees Retirement Plan are based on years of service and career average earnings. As more fully described in the Form 10-K, benefit accruals under the Employees Retirement Plan were frozen effective December 31, 2003.

The Company also provides a supplementary retirement plan for certain key employees, the VIP Retirement Plan (the VIP Plan). The VIP Plan provides a benefit of up to 50% of average compensation for the last five years in the VIP Plan, offset by benefits earned under the Employees Retirement Plan. As more fully described in the Form 10-K, benefit accruals under this plan were frozen effective December 31, 2003.

The Company also provides a non-qualified plan for non-employee directors of the Company (the Non-Employee Directors Retirement Plan). The Non-Employee Directors Retirement Plan provides a lifetime annual retirement benefit equal to the director s annual retainer fee for the fiscal year in which the director terminates his or her position with the Board, subject to the director providing 10 years of service to the Company. As more fully described in the Form 10-K, benefit accruals under this plan were frozen effective December 31, 2003.

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The net periodic pension costs for the Employees Retirement Plan, the VIP Plan, and the Non-Employee Directors Retirement Plan for the three months each ended April 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended April 30,					
	Employees Retirement Plan		VIP Retirement Plan		Non-Employee Directors Retirement Plan	
	2011	2010	2011	2010	2011	2010
Service cost	$	$	$	$	$	$
Interest cost	360	352	95	87	6	6
Expected return on plan assets	(289)	(262)				
Amortization of prior service cost			13	( )		
Recognized net actuarial (gain) or loss	262	243			(10)	(7)
Net periodic pension cost	$ 333	$ 333	$ 108	$ 87	$ (4)	$ (1)

Note 11. Warranty

The Company accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. The majority of the Company s products sold through January 31, 2005, carry a five-year warranty. Effective February 1, 2005, the Company extended its standard warranty period to 10 years. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The warranty liability is included in accrued liabilities in the accompanying consolidated balance sheets.

The following is a summary of the Company s warranty claim activity for the three months ended April 30, 2011 and 2010 (in thousands):

	April 30,	
	2011	2010
Beginning balance	$ 2,300	$ 1,675
Provision	82	192
Costs incurred	(232)	(192)
Ending balance	$ 2,150	$ 1,675

Note 12. Subsequent Events

We have evaluated subsequent events to assess the need for potential recognition or disclosure in this Quarterly Report on Form 10-Q. Such events were evaluated through the date these financial statements were issued. Based upon this evaluation, it was determined that, except for the amendment to the revolving line of credit in Note 5, no subsequent events occurred that required recognition or disclosure in the financial statements.

VIRCO MFG. CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

For the three months ended April 30, 2011, the Company incurred a pre-tax loss of $5,372,000 on net sales of $24,256,000 compared to a pre-tax loss of $6,494,000 on net sales of $24,860,000 in the same period last year.

Net sales for the three months ended April 30, 2011 decreased by $604,000, a 2.4% decrease, compared to the same period last year. This decrease was the result of a modest increase in selling prices, combined with a reduction in unit volume. Unit volume declined largely as a result of general economic conditions, which negatively impacted tax receipts and the funded status of public schools. Incoming orders for the same period decreased by approximately 21.7% compared to the prior year. Backlog at April 30, 2011 decreased by approximately 14.7% compared to the prior year.

Gross margin as a percentage of sales increased to 27.9% for the three months ended April 30, 2011 compared to 25.2% in the same period last year. The improvement in gross margin was attributable to a modest increase in selling prices, a 3.5% increase in production hours combined with cost reductions which favorably affected overhead absorption, and a reduction in factory spending.

Selling, general and administrative expenses for the three months ended April 30, 2011, decreased by approximately $596,000 compared to the same period last year, and decreased as a percentage of sales by 1.2%. The decrease in selling, general and administrative expenses was attributable to a reduction in variable selling and service costs due to the reduced volume of shipments in addition to the impact of cost reduction initiatives implemented in the fourth quarter of 2010.

In the first quarter of 2011 the Company did not record an income tax benefit. During the fourth quarter of 2010 the Company established a valuation allowance on the majority of deferred tax assets. Because of this valuation allowance the effective income tax expense / (benefit) is expected to be relatively low, with income tax expense / (benefit) being primarily attributable to alternative minimum taxes combined with income and franchise taxes required by various states.

During the fourth quarter of 2010, the Company initiated a variety of cost controls which enabled improved operating results in the first quarter despite a modest reduction in revenue. The cost controls initiated in the prior year will not be adequate if order rates continue at the current rate. The Company continues to aggressively pursue all profitable business in our market, and we continue to bring new products to market in an effort to gain market share. In response to the reduction in orders, the Company is evaluating different methods to reduce our cost structure and control spending. The seasonal nature of our business will allow us to control our inventory levels this summer, and we have already taken measures to establish production levels appropriate to this summer s anticipated business activity.

Liquidity and Capital Resources

Interest expense decreased by approximately $19,000 for the three months ended April 30, 2011, compared to the same period last year. The decrease was primarily due to lower loan balances under the Company s credit facility with Wells Fargo Bank.

Accounts receivable was lower at April 30, 2011 than at April 30, 2010, due to decreased days sales outstanding. The Company traditionally builds large quantities of inventory during the first quarter of each fiscal year in anticipation of seasonally high summer shipments. The Company started the current fiscal year with $8,200,000 less inventory than in the prior year. For the current fiscal quarter, the Company increased inventory by approximately $16,130,000 compared to January 31, 2011. This increase was slightly more than the $14,163,000 increase in 2010, but because the Company started the year with substantially less inventory, at the end of the first quarter inventory decreased by approximately $6,250,000 compared to April 30, 2010. The increase in inventory during the first quarter of 2011 compared to the January 31, 2011, was financed through the Company s credit facility with Wells Fargo Bank. Borrowings under the Company s revolving line of credit with Wells Fargo Bank at April 30, 2011 decreased by approximately $3,000,000 compared to April 30, 2010, primarily due to decreased levels of inventory and receivables. The Company established a goal of limiting capital spending to less than $3,000,000 for fiscal year 2011, which is less than the Company s anticipated depreciation expense. Capital spending for the three months ended April 30, 2011 was $803,000 compared to $679,000 for the same period last year. Capital expenditures are being financed through the

Company s credit facility with Wells Fargo Bank and operating cash flow.

Net cash used in operating activities for the three months ended April 30, 2011, was $12,243,000 compared to $14,132,000 for the same period last year. The decrease in cash used was primarily attributable to a decrease in the pre-tax loss for the quarter and an increase in accounts payable and accrued liabilities offset slightly by an increase in the amount of inventory acquired during the quarter.

The Company believes that cash flows from operations, together with the Company s unused borrowing capacity with Wells Fargo will be sufficient to fund the Company s debt service requirements, capital expenditures and working capital needs for the next twelve months. Approximately $9,528,000 was available for borrowing as of April 30, 2011.

Off Balance Sheet Arrangements

During the three months ended April 30, 2011, there were no material changes in the Company s off balance sheet arrangements or contractual obligations and commercial commitments from those disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2011 (Form 10-K).

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Critical Accounting Policies and Estimates

The Company s critical accounting policies are outlined in its Form 10-K. There have been no changes in the quarter ended April 30, 2011.

Forward-Looking Statements

From time to time, including in this Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2011, the Company or its representatives have made and may make forward-looking statements, orally or in writing, including those contained herein. Such forward-looking statements may be included in, without limitation, reports to stockholders, press releases, oral statements made with the approval of an authorized executive officer of the Company and filings with the Securities and Exchange Commission. The words or phrases anticipates, expects, will continue, believes, estimates, projects, or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The results contemplated by the Company s forward-looking statements are subject to certain risks and uncertainties that could cause actual results to vary materially from anticipated results, including without limitation, availability of funding for educational institutions, material availability and cost of materials, especially steel, availability and cost of labor, demand for the Company s products, competitive conditions affecting selling prices and margins, capital costs and general economic conditions. Such risks and uncertainties are discussed in more detail in the Company s Form 10-K.

The Company s forward-looking statements represent its judgment only on the dates such statements were made. By making any forward-looking statements, the Company assumes no duty to update them to reflect new, changed or unanticipated events or circumstances.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is party to that certain Second Amended and Restated Credit Agreement (as amended, the Agreement), dated as of March 12, 2008, with Wells Fargo Bank, National Association (the Lender). The Credit Agreement has been amended from time to time to modify covenants or other terms and conditions. Subsequent to the first quarter of 2011, effective May 31, 2011, the Company entered into Amendment No. 8, which extended the maturity date of the loan to June 30, 2012.

The Agreement provides the Company with a secured revolving line of credit (the Revolving Credit) of up to $45,000,000, with seasonal adjustments to the credit limit and subject to borrowing base limitations. The Revolving Credit includes a letter of credit sub-facility with a sub-limit of up to $2,500,000 and is secured by a first priority security interest in substantially all of the personal and real property of the Company and its subsidiaries in favor of the Lender. The Revolving Credit is an asset-based line of credit that is subject to a borrowing base limitation and generally provides for advances of up to 80% on eligible accounts receivable and up to 20-55% of eligible inventory, with exceptions and modifications as provided in the Agreement. The Agreement is also subject to an annual clean down provision requiring a 30-day period each fiscal year during which advances and letter of credit usage may not exceed $7,500,000 in the aggregate.

The Revolving Credit will mature on March 1, 2012, with interest payable monthly at a fluctuating rate equal to the Lender s prime rate plus 1.25%. The Agreement provides for an unused commitment fee of 0.375%. At April 30, 2011, availability under the Revolving Credit line was $9,528,000.

The Revolving Credit is subject to various financial covenants including a maximum leverage amount and a minimum net income requirement. The Agreement also provides for certain additional negative covenants, including restrictions on capital expenditures, new operating leases, dividends and the repurchase of the Company s common stock. The Company was in compliance with its covenants at April 30, 2011. Management believes that the carrying value of debt approximated fair value at April 30, 2011 and 2010, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

The descriptions set forth herein of the Agreement and amendments are qualified in their entirety by the terms of such agreements, each of which has been filed with the Commission.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed with the Securities and Exchange Commission (the Commission) pursuant to the Securities

Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Assessing the costs and benefits of such controls and procedures necessarily involves the exercise of judgment by management, and such controls and procedures, by their nature, can provide only reasonable assurance that management s objectives in establishing them will be achieved.

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including its Principal Executive Officer along with its Principal Financial Officer**,** of the effectiveness of the design and operation of disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, pursuant to Exchange Act Rule 13a-15. Based upon the foregoing, the Company s Principal Executive Officer along with the Company s Principal Financial Officer concluded that, subject to the limitations noted in this Part I, Item 4, the Company s disclosure controls and procedures are effective in ensuring that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s

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management, including its Principal Executive and Principal Financial Officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

There was no change in the Company s internal control over financial reporting during the first fiscal quarter of 2011 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION
VIRCO MFG. CORPORATION

Item 1. Legal Proceedings

The Company has various legal actions pending against it arising in the ordinary course of business, which in the opinion of the Company, are not material in that management either expects that the Company will be successful on the merits of the pending cases or that any liabilities resulting from such cases will be substantially covered by insurance. While it is impossible to estimate with certainty the ultimate legal and financial liability with respect to these suits and claims, management believes that the aggregate amount of such liabilities will not be material to the results of operations, financial position, or cash flows of the Company.

Item 1A. Risk Factors

There have been no material changes from the risk factors as disclosed in the Company s Form 10-K for the period ended January 31, 2011.

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

The following table provides information with respect to the purchases made by the Company of its Common Stock during the first quarter of 2011:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (1)	Maximum Number of $ that May Yet Be Expended Under the Program (1)
February 1, 2011 through February 28, 2011			591,386	1,053,000
March 1, 2011 through March 31, 2011			591,386	1,053,000
April 1, 2011 through April 30, 2011			591,386	1,053,000

(1) On June 6, 2008, the Board of Directors approved a $3,000,000 share repurchase program.

Item 6. Exhibits

Exhibit 10.1 Amendment No. 8 to Second Amended and Restated Credit Agreement, dated as of May 31, 2011, between Virco Mfg. Corporation and Wells Fargo Bank, National Association.

Exhibit 10. 2 Separation Agreement and General Release of Claims between Virco Mfg. Corporation and Larry O. Wonder, dated May 24, 2011.

Exhibit 31.1 Certification of Robert A. Virtue, President, pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Robert E. Dose, Vice President, Finance, pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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VIRCO MFG. CORPORATION
SIGNATURES

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

VIRCO MFG. CORPORATION

Date: June 9, 2011

By: /s/ Robert E. Dose
Robert E. Dose
Vice President Finance

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