VIRCO MFG CORPORATION
Form 10-Q
June 12, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 30, 2013

OR

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File number 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 ý No ¨
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 ý No ¨
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 ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ý

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
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 — 14,550,371 shares as of May 31, 2013.

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VIRCO MFG. CORPORATION

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements
VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	4/30/2013	1/31/2013	4/30/2012
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Assets			
Current assets:			
Cash	$1,174	$853	$ 1,958
Trade accounts receivable, net	7,966	8,835	9,108
Other receivables	76	108	76
Income tax receivable	272	259	316
Inventories:			
Finished goods, net	10,365	4,968	11,492
Work in process, net	18,105	11,041	18,548
Raw materials and supplies, net	10,450	9,308	9,871
	38,920	25,317	39,911
Prepaid expenses and other current assets	1,998	1,665	2,612
Total current assets	50,406	37,037	53,981
Property, plant and equipment:			
Land	1,671	1,671	1,671
Land improvements	1,213	1,213	1,213
Buildings and building improvements	47,399	47,703	47,797
Machinery and equipment	117,766	119,407	120,479
Leasehold improvements	2,452	2,452	2,549
	170,501	172,446	173,709
Less accumulated depreciation and amortization	133,832	135,564	135,370
Net property, plant and equipment	36,669	36,882	38,339
Deferred tax assets, net	1,477	1,484	2,195
Other assets	6,784	6,835	6,982
Total assets	$95,336	$82,238	$ 101,497

See Notes to Unaudited Condensed Consolidated Financial Statements

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VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	4/30/2013	1/31/2013	4/30/2012
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Liabilities			
Current liabilities:			
Accounts payable	$13,087	$11,864	$ 15,345
Accrued compensation and employee benefits	3,636	3,426	3,616
Current portion of long-term debt	12,932	4,053	12,276
Deferred tax liability	572	572	1,221
Other accrued liabilities	5,162	4,596	5,643
Total current liabilities	35,389	24,511	38,101
Non-current liabilities:			
Accrued self-insurance retention	3,122	2,585	2,508
Accrued pension expenses	26,476	26,385	25,169
Income tax payable	105	142	496
Long-term debt, less current portion	6,000	—	6,008
Other accrued liabilities	1,529	1,595	2,924
Total non-current liabilities	37,232	30,707	37,105
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 14,550,371 shares at 4/30/2013 and at 1/31/2013; and 14,377,393 shares at 4/30/2012	146	146	144
Additional paid-in capital	115,812	115,670	115,288
Accumulated deficit	(77,257)	(72,810)	(73,813)
Accumulated comprehensive loss	(15,986)	(15,986)	(15,328)
Total stockholders' equity	22,715	27,020	26,291
Total liabilities and stockholders' equity	$95,336	$82,238	$ 101,497

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended	
	4/30/2013	4/30/2012
	(In thousands, except per share data)	
Net sales	$19,890	$23,668
Costs of goods sold	13,481	16,701
Gross profit	6,409	6,967
Selling, general and administrative expenses	10,565	11,529
Interest expense	328	255
Income (loss) before income taxes	(4,484)	(4,817)
Income tax expense (benefits)	(37)	16
Net income (loss)	$(4,447)	$(4,833)
Net income (loss) per common share (a) :		
Basic	$(0.31)	$(0.34)
Diluted	$(0.31)	$(0.34)
Weighted average shares outstanding:		
Basic	14,441	14,296
Diluted	14,441	14,296

(a) Net loss per common share for the three months ended April 30, 2013 and April 30, 2012 was calculated based on the 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. CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Unaudited (Note 1)

	Three Months Ended	
	4/30/2013	4/30/2012
	(In thousands)	
Net income (loss)	$(4,447)	$(4,833)
Other comprehensive income (loss)	—	—
Comprehensive income (loss)	$(4,447)	$(4,833)

See Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended	
	4/30/2013	4/30/2012
	(In thousands)	
Operating activities		
Net income (loss)	$(4,447)	$(4,833)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,016	1,195
Provision for doubtful accounts	15	(35)
(Gain) loss on sale of property, plant and equipment	(5)	—
Deferred income taxes	(37)	5
Stock based compensation	142	260
Changes in operating assets and liabilities:		
Trade accounts receivable	853	3,670
Other receivables	32	325
Inventories	(13,603)	(12,120)
Income taxes	(13)	16
Prepaid expenses and other current assets	(275)	(961)
Accounts payable and accrued liabilities	2,553	5,084
Net cash provided by (used in) operating activities	(13,769)	(7,394)
Investing activities		
Capital expenditures	(800)	(325)
Proceeds from sale of property, plant and equipment	11	—
Net cash provided by (used in) investing activities	(789)	(325)
Financing activities		
Proceeds from long-term debt	18,932	18,276
Repayment of long-term debt	(4,053)	(11,496)
Common stock issued	—	—
Cash dividend paid	—	—
Net cash provided by (used in) financing activities	14,879	6,780
Net increase (decrease) in cash	321	(939)
Cash at beginning of period	853	2,897
Cash at end of period	$1,174	$1,958

See Notes to Unaudited Condensed Consolidated Financial Statements.

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VIRCO MFG. CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2013

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, 2013, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2014. The balance sheet at January 31, 2013, 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, 2013 ("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 ongoing basis, management evaluates its estimates, including those related to market demand, labor costs, and stocking inventory.

Note 3. New Accounting Standards

In January 2013, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (loss) by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income (loss) by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The Company adopted this guidance effective February 1, 2013, but had no such reclassifications to report for the three months ended April 30, 2013.

Note 4. Inventories

Inventories primarily consist of raw materials, work in progress, and finished goods of manufactured products. In addition, the Company maintains an inventory of finished goods purchased for resale. 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 interim inventories are fairly stated.

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Note 5. Debt

On December 22, 2011, the Company and Virco Inc., a wholly owned subsidiary of the Company ("Virco" and, together with the Company, the "Borrowers") entered into a Revolving Credit and Security Agreement (the "Credit Agreement") with PNC Bank, National Association, as administrative agent and lender ("PNC"). On June 15, 2012, the Borrowers entered into Amendment No. 1 ("Amendment No. 1") to the Credit Agreement which, among other things, increased the borrowing availability thereunder by $3,000,000 for the period from May 1 through July 14 of each year. On July 27, 2012, the Borrowers entered into Amendment No. 2 ("Amendment No. 2") to the Credit Agreement which, among other things, reduced the minimum EBITDA financial covenant contained therein for the five consecutive months ending June 2012 from $1,600,000 to $300,000. On September 12, 2012, the Borrowers entered into Amendment No. 3 ("Amendment No. 3") to the Credit Agreement which, among other things, modified the minimum EBITDA covenant for the balance of the fiscal year. On December 6, 2012, the Borrowers entered into Amendment No. 4 ("Amendment No. 4") to the Credit Agreement which, among other things, waived the violation of the minimum EBITDA and minimum tangible net worth covenants at October 31, 2012 and eliminated the minimum EBITDA covenant at November 30, 2012. On March 1, 2013, the Borrowers entered into Amendment No. 5 ("Amendment No. 5") to the Credit Agreement, which among other things modified the minimum tangible net worth covenant for the periods from January 31, 2013 to January 31, 2014, modified the minimum EBIDTA covenant for certain periods to January 31, 2014 and waived the violation of the minimum EBITDA covenant for the eleven consecutive fiscal month period ending December 31, 2012.

The Credit Agreement provides the Borrowers with a secured revolving line of credit (the "Revolving Credit Facility") of up to $60,000,000, with seasonal adjustments to the credit limit and subject to borrowing base limitations, and includes a sub-limit of up to $3,000,000 for issuances of letters of credit. The Revolving Credit Facility is an asset-based line of credit that is subject to a borrowing base limitation and generally provides for advances of up to 85% of eligible accounts receivable, plus a percentage equal to the lesser of 60% of the value of eligible inventory or 85% of the liquidation value of eligible inventory, plus an amount ranging from $4,000,000 to $14,000,000 from February 15 through August 15 of each year, minus undrawn amounts of letters of credit and reserves as per Amendment No. 5. The Revolving Credit Facility is secured by substantially all of the Borrowers' personal property and certain of the Borrowers' real property. The principal amount outstanding under the Credit Agreement and any accrued and unpaid interest is due no later than December 22, 2014, and the Revolving Credit Facility is subject to certain prepayment penalties upon earlier termination of the Revolving Credit Facility. Prior to the maturity date, principal amounts outstanding under the Credit Agreement may be repaid and reborrowed at the option of the Borrowers without premium or penalty, subject to borrowing base limitations, seasonal adjustments and certain other conditions.

The Revolving Credit Facility bears interest, at the Borrowers' option, at either the Alternate Base Rate (as defined in the Credit Agreement) or the Eurodollar Currency Rate (as defined in the Credit Agreement), in each case plus an applicable margin. The applicable margin for Alternate Base Rate loans is a percentage within a range of 0.75% to 1.75%, and the applicable margin for Eurodollar Currency Rate loans is a percentage within a range of 1.75% to 2.75%, in each case based on the EBITDA of the Borrowers at the end of each fiscal quarter, and may be increased at PNC's option by 2.0% during the continuance of an event of default. Accrued interest with respect to principal amounts outstanding under the Credit Agreement is payable in arrears on a monthly basis for Alternative Base Rate loans, and at the end of the applicable interest period but at most every three months for Eurodollar Currency Rate loans.

The Credit Agreement contains a covenant that forbids the Company from issuing dividends or making payments with respect to the Company's capital stock, and contains numerous other covenants that limit under certain circumstances the ability of the Borrowers and their subsidiaries to, among other things, merge with or acquire other entities, incur new liens, incur additional indebtedness, repurchase stock, sell assets outside of the ordinary course of business, enter into transactions with affiliates, or substantially change the general nature of the business of the Borrowers, taken as a whole. The Credit Agreement also requires the Company to maintain the following financial maintenance covenants: (1) a minimum tangible net worth amount, (2) a minimum fixed charge coverage ratio, and (3) a minimum EBITDA amount, in each case as of the end of the relevant monthly, quarterly or annual measurement period.

In addition, the Credit Agreement contains a clean down provision that requires the Company to reduce borrowings under the line to less than $6,000,000 for a period of 60 consecutive days each fiscal year. The Company believes that normal operating cash flow will allow it to meet the clean down requirement with no adverse impact on the Company's liquidity. The Company was in compliance with its covenants at April 30, 2013.

Events of default (subject to certain cure periods and other limitations) under the Credit Agreement include, but are not limited to, (i) non-payment of principal, interest or other amounts due under the Credit Agreement, (ii) the violation of terms, covenants, representations or warranties in the Credit Agreement or related loan documents, (iii) any event of default under agreements governing certain indebtedness of the Borrowers and certain defaults by the Borrowers under other agreements that would materially adversely affect the Borrowers, (iv) certain events of bankruptcy, insolvency or liquidation involving the Borrowers, (v) judgments or judicial actions against the Borrowers in excess of $250,000, subject to certain conditions, (vi) the failure of the Company to comply with Pension Benefit Plans (as defined in the Credit Agreement), (vii) the invalidity of loan documents pertaining to the Credit Agreement, (viii) a change of control of the Borrowers and (ix) the interruption of operations of any of the Borrowers' manufacturing facilities for five consecutive days during the peak season or fifteen consecutive days during any other time, subject to certain conditions.

Pursuant to the Credit Agreement, substantially all of the Borrowers' accounts receivable are automatically and promptly swept to repay amounts outstanding under the Revolving Credit Facility upon receipt by the Borrowers. Due to this automatic liquidating nature of the Revolving Credit Facility, if the Borrowers breach any covenant, violate any representation or warranty or suffer a deterioration in their ability to borrow pursuant to the borrowing base calculation, the Borrowers may not have access to cash liquidity unless provided by PNC at its discretion. In addition, certain of the covenants and representations and warranties set forth in the Credit Agreement contain limited or no materiality thresholds, and many of the representations and warranties must be true and correct in all material respects upon each borrowing, which the Borrowers expect to occur on an ongoing basis. There can be no assurance that the Borrowers will be able to comply with all such covenants and be able to continue to make such representations and warranties on an ongoing basis.

The Company's line of credit with PNC is structured to provide seasonal credit availability during the Company's peak summer season. The Company believes that the Revolving Credit Facility will provide sufficient liquidity to meet its capital requirements in the next 12 months. Approximately $8,342,000 was available for borrowing as of April 30, 2013.

The descriptions set forth herein of the Credit Agreement, Amendment No. 1, Amendment No. 2, Amendment No. 3, Amendment No. 4 and Amendment No. 5 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 ASC No. 740, “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, 2013. The effective tax rate for the quarter ended April 30, 2013 was impacted by the valuation allowance recognized against state deferred tax assets and discrete items associated with non-taxable permanent differences.

The years ended January 31, 2010, January 31, 2012 and January 31, 2013 remain open for examination by the IRS. The Company is not currently under IRS examination. The years ended January 31, 2009 through January 31, 2013 remain open for examination by state tax authorities. The Company is currently under examination by Texas for the year ended January 31, 2009. The Company is not currently under any other state examinations.

The specific timing of when the resolution of each tax position will be reached is uncertain. As of April 30, 2013, 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.

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Note 7. Net Income (Loss) per Share

	Three Months Ended	
	4/30/2013	4/30/2012
	(In thousands, except per share data)	
Net income (loss)	$(4,447)	$(4,833)
Average shares outstanding	14,441	14,296
Net effect of dilutive stock options based on the treasury stock method using average market price	—	—
Totals	14,441	14,296
Net income (loss) per share - basic	$(0.31)	$(0.34)
Net income (loss) per share - diluted	$(0.31)	$(0.34)

Certain exercisable and non-exercisable stock options were not included in the computation of diluted net loss per share at April 30, 2013 and 2012, 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, 2013 and 2012, was 203,000 and 39,000 respectively.

Note 8. Stock Based Compensation

Stock Incentive Plans

The Company’s two stock plans are the 2011 Stock Incentive Plan (the “2011 Plan”) and the 2007 Stock Incentive Plan (the “2007 Plan”). Under the 2011 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. The 2007 Plan similarly allows for the issuance of up to 1,000,000 shares. As of April 30, 2013, only 448,750 and 13,075 shares remained available for issuance under the 2011 Plan and 2007 Plan, respectively. Restricted stock or stock units awarded under both Plans 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.

There were no unexercised options outstanding under the 2011 Plan or the 2007 Plan at April 30, 2013. Stock options awarded to employees under the both Plans have 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.

The shares of common stock issued upon exercise of a previously granted stock option are considered new issuances from shares reserved for issuance upon adoption of the various plans. While the Company does not have a formal written policy detailing such issuance, it requires that the option holders provide a written notice of exercise to the stock plan administrator and payment for the shares prior to issuance of the shares.

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, 2013 and 2012:

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Date of Grants	Units Granted	Terms of Vesting	Expense for 3 months ended 4/30/2013	4/30/2012	Unamortized Compensation Cost at 4/30/2013
2011 Stock Incentive Plan					
6/19/2012	31,250	1 year	$13,000	—	4,000
6/19/2012	520,000	5 year	42,000	—	679,000
2007 Stock Incentive Plan					
6/19/2012	78,125	1 year	30,000	—	11,000
3/21/2012	40,000	Immediate	—	80,000	—
6/21/2011	68,960	1 year	—	50,000	—
6/8/2010	56,455	1 year	—	—	—
6/16/2009	382,500	5 year	56,000	56,000	245,000
6/19/2007	262,500	5 year	—	74,000	—
			141,000	260,000	939,000

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. Stockholders' Equity

During the three months ended April 30, 2013, the Company did not repurchase any shares of its common stock. As of April 30, 2013, $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. Pursuant to the Company's Credit Agreement with PNC, however, the Company is prohibited from repurchasing any shares of its stock except in cases where a repurchase is financed by a substantially concurrent issuance of new shares of the Company's common stock.

Note 10. Retirement Plans

The Company and its subsidiaries cover employees under a noncontributory defined benefit retirement plan, entitled the Virco Employees' Retirement Plan (the "Pension 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 Pension 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 cost (income) for the Pension Plan, the VIP Plan, and the Non-Employee Directors Retirement Plan for the three months ended April 30, 2013 and 2012 were as follows (in thousands):

	Three Months Ended April 30,					
	Pension Plan		VIP Retirement Plan		Non-Employee Directors Retirement Plan	
	2013	2012	2013	2012	2013	2012
Service cost	$—	$—	$—	$—	$—	$—
Interest cost	322	325	83	88	4	5
Expected return on plan assets	(276)	(245)	—	—	—	—
Amortization of prior service cost	—	—	—	—	—	—
Settlement cost	—	—	—	—	—	—
Recognized net actuarial loss or (gain)	350	360	55	51	4	—
Net periodic pension cost (income)	$396	$440	$138	$139	$8	$5

Note 11. Warranty Accrual

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 Company’s products carry a 10-year warranty. 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, 2013 and 2012 (in thousands):

	Three Months Ended	
	4/30/2013	4/30/2012
	(In thousands)	
Beginning accrued warranty balance	$1,000	$1,400
Provision	141	111
Costs incurred	(141)	(111)
Ending accrued warranty balance	$1,000	$1,400

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, no subsequent events occurred that required recognition or disclosure in the financial statements.

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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, 2013, the Company incurred a pre-tax loss of $4,484,000 on net sales of $19,890,000 compared to a pre-tax loss of $4,817,000 on net sales of $23,668,000 in the same period last year.
Net sales for the three months ended April 30, 2013 decreased by $3,778,000, a 16% decrease, compared to the same period last year. This decrease was the result of a reduction in unit volume, offset by a modest increase in selling prices. The Company began the quarter ended April 30, 2013 with a backlog that was approximately $2.9 million more than at the start of the first quarter last year. Unit volume continues to be adversely impacted by the funded status of public schools. Incoming orders for the quarter decreased by approximately 24.1% compared to the comparable quarter of the prior year. Backlog at April 30, 2013 decreased by approximately 9.5% compared to April 30, 2012.

As discussed more fully in the Form 10-K for the fiscal year ended January 31, 2013 ("Form 10-K"), the Company implemented a voluntary early retirement program in the third quarter of 2011 in an effort to bring its cost structure in line with decreased revenues. As a result of this program and normal attrition, the Company began the first quarter of 2013 with approximately 8% fewer employees than at the beginning of the first quarter of 2012 and with 28% fewer employees than at the beginning of the first quarter of 2011. This reduced cost structure has enabled the Company to reduce operating losses during the seasonally slow first quarter despite a reduction in revenue during that same period. The reduction in headcount was concentrated in manufacturing, and included both direct labor and indirect positions. It is the intent of the Company to meet the seasonal demand for production and distribution through more aggressive use of temporary seasonal workers.

Order rates for the first quarter of 2013 were approximately 24.1% less than the first quarter of the prior year. While this reduction is significant, the month by month trends have been even more volatile. Order rates for February and March were significantly below last year, with year-to-date orders for the first two months reflecting a 44% reduction. April order rates were 5% greater than last year, and the month of May was 15% greater than the prior year. In response to the initial reduction in order rates and increased volatility in order rates, the Company reduced its headcount of full time employees by 38 in the first week of May 2013. Severance payments related to this reduction of approximately $400,000 will be reflected in the second quarter results of operations. This will allow the Company to more aggressively utilize temporary seasonal employees to match production levels to order rates. If order rates continue at the pace experienced in April and May of the current year compared to the prior year, the Company will be required to hire additional temporary workers and increase production levels during the second and third quarters of 2013. If order rates return to levels of February and March of the current year, the Company will be able to rapidly reduce production levels by releasing temporary workers as necessary.

Gross margin as a percentage of sales increased to 32.2% for the three months ended April 30, 2013 compared to 29.4% in the same period last year. The improvement in gross margin was attributable to the modest increase in selling prices, and a reduction in factory spending as discussed above.

Selling, general and administrative expenses for the three months ended April 30, 2013, decreased by approximately $1 million compared to the same period last year, and increased as a percentage of sales by 4.0%. The decrease in selling, general and administrative expenses was attributable to reduced variable distribution and selling expenses.

In the first quarter of 2013 the Company did not record a significant income tax benefit. During the fourth quarter of 2011 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.

Interest expense increased by approximately $73,000 for the three months ended April 30, 2013, compared to the same period last year. The increase was primarily due to higher average loan balances under the Company's credit facility with PNC Bank, National Association (“PNC”).

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Liquidity and Capital Resources

Accounts receivable were lower at April 30, 2013 than at April 30, 2012, due to a reduction in sales. 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 nearly $2,500,000 less inventory than in the prior year. During the quarter, the Company increased inventory by approximately $13,603,000 compared to January 31, 2013. This increase was more than the $12,120,000 increase in 2012. The increase in inventory during the first quarter of 2013 was financed through the Company's credit facility with PNC.

Borrowings under the Company's revolving line of credit with PNC at April 30, 2013, increased by approximately $650,000 compared to borrowings under the line of credit at April 30, 2012. The Company established a goal of limiting capital spending to less than $3,000,000 for fiscal year 2013, which is less than the Company's anticipated depreciation expense. Capital spending for the three months ended April 30, 2013 was $800,000 compared to $325,000 for the same period last year. Capital expenditures are being financed through the Company's credit facility with PNC and operating cash flow.

Net cash used in operating activities for the three months ended April 30, 2013, was $13,769,000 compared to $7,394,000 for the same period last year. The increase in cash used was primarily attributable to an increase in the amount of inventory produced, a decrease in the collection of receivables, and a decrease in the growth in accounts payable and accrued liabilities.

The Company believes that cash flows from operations, together with the Company's unused borrowing capacity under its revolving line of credit with PNC will be sufficient to fund the Company's debt service requirements, capital expenditures and working capital needs for the next twelve months. Approximately $8,342,000 was available for borrowing as of April 30, 2013.

Off Balance Sheet Arrangements

During the three months ended April 30, 2013, 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 Form 10-K for the fiscal year ended January 31, 2013.

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, 2013.

Forward-Looking Statements

From time to time, including in this Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2013, 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, 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

On December 22, 2011, the Company and Virco Inc., a wholly owned subsidiary of the Company ("Virco" and, together with the Company, the "Borrowers") entered into a Revolving Credit and Security Agreement (the "Credit Agreement") with PNC Bank, National Association, as administrative agent and lender ("PNC"). On June 15, 2012, the Borrowers entered into Amendment No. 1 ("Amendment No. 1") to the Credit Agreement which, among other things, increased the borrowing availability thereunder by $3,000,000 for the period from May 1 through July 14 of each year. On July 27, 2012, the Borrowers entered into Amendment No. 2 ("Amendment No. 2") to the Credit Agreement which, among other things, reduced the minimum EBITDA financial covenant contained therein for the five consecutive months ending June 2012 from $1,600,000 to $300,000. On September 12, 2012, the Borrowers entered into Amendment No. 3 ("Amendment No. 3") to the Credit Agreement which, among other things, modified the minimum EBITDA covenant for the balance of the fiscal year. On

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December 6, 2012, the Borrowers entered into Amendment No. 4 ("Amendment No. 4") to the Credit Agreement which, among other things, waived the violation of the minimum EBITDA and minimum tangible net worth covenants at October 31, 2012 and eliminated the minimum EBITDA covenant at November 30, 2012. On March 1, 2013, the Borrowers entered into Amendment No. 5 ("Amendment No. 5") to the Credit Agreement, which among other things modified the minimum tangible net worth covenant for the periods from January 31, 2013 to January 31, 2014, modified the minimum EBIDTA covenant for certain periods to January 31, 2014 and waived the violation of the minimum EBITDA covenant for the eleven consecutive fiscal month period ending December 31, 2012.

The Credit Agreement provides the Borrowers with a secured revolving line of credit ("the Revolving Credit Facility") of up to $60,000,000, with seasonal adjustments to the credit limit and subject to borrowing base limitations, and includes a sub-limit of up to $3,000,000 for issuances of letters of credit. The Revolving Credit Facility is an asset-based line of credit that is subject to a borrowing base limitation and generally provides for advances of up to 85% of eligible accounts receivable, plus a percentage equal to the lesser of 60% of the value of eligible inventory or 85% of the liquidation value of eligible inventory, plus an amount ranging from $4,000,000 to $14,000,000 from February 15 through August 15 of each year, minus undrawn amounts of letters of credit and reserves as per Amendment No.5. The Revolving Credit Facility is secured by substantially all of the Borrowers' personal property and certain of the Borrowers' real property. The principal amount outstanding under the Credit Agreement and any accrued and unpaid interest is due no later than December 22, 2014, and the Revolving Credit Facility is subject to certain prepayment penalties upon earlier termination of the Revolving Credit Facility. Prior to the maturity date, principal amounts outstanding under the Credit Agreement may be repaid and reborrowed at the option of the Borrowers without premium or penalty, subject to borrowing base limitations, seasonal adjustments and certain other conditions.

The Revolving Credit Facility bears interest, at the Borrowers' option, at either the Alternate Base Rate (as defined in the Credit Agreement) or the Eurodollar Currency Rate (as defined in the Credit Agreement), in each case plus an applicable margin. The applicable margin for Alternate Base Rate loans is a percentage within a range of 0.75% to 1.75%, and the applicable margin for Eurodollar Currency Rate loans is a percentage within a range of 1.75% to 2.75%, in each case based on the EBITDA of the Borrowers at the end of each fiscal quarter, and may be increased at PNC's option by 2.0% during the continuance of an event of default. Accrued interest with respect to principal amounts outstanding under the Credit Agreement is payable in arrears on a monthly basis for Alternative Base Rate loans, and at the end of the applicable interest period but at most every three months for Eurodollar Currency Rate loans.

The Credit Agreement contains a covenant that forbids the Company from issuing dividends or making payments with respect to the Company's capital stock, and contains numerous other covenants that limit under certain circumstances the ability of the Borrowers and their subsidiaries to, among other things, merge with or acquire other entities, incur new liens, incur additional indebtedness, repurchase stock, sell assets outside of the ordinary course of business, enter into transactions with affiliates, or substantially change the general nature of the business of the Borrowers, taken as a whole. The Credit Agreement also requires the Company to maintain the following financial maintenance covenants: (1) a minimum tangible net worth amount, (2) a minimum fixed charge coverage ratio, and (3) a minimum EBITDA amount, in each case as of the end of the relevant monthly, quarterly or annual measurement period.

In addition, the Credit Agreement contains a clean down provision that requires the Company to reduce borrowings under the line to less than $6,000,000 for a period of 60 consecutive days each fiscal year. The Company believes that normal operating cash flow will allow it to meet the clean down requirement with no adverse impact on the Company's liquidity. The Company was in compliance with its covenants at April 30, 2013.

Events of default (subject to certain cure periods and other limitations) under the Credit Agreement include, but are not limited to, (i) non-payment of principal, interest or other amounts due under the Credit Agreement, (ii) the violation of terms, covenants, representations or warranties in the Credit Agreement or related loan documents, (iii) any event of default under agreements governing certain indebtedness of the Borrowers and certain defaults by the Borrowers under other agreements that would materially adversely affect the Borrowers, (iv) certain events of bankruptcy, insolvency or liquidation involving the Borrowers, (v) judgments or judicial actions against the Borrowers in excess of $250,000, subject to certain conditions, (vi) the failure of the Company to comply with Pension Benefit Plans (as defined in the Credit Agreement), (vii) the invalidity of loan documents pertaining to the Credit Agreement, (viii) a change of control of the Borrowers and (ix) the interruption of operations of any of the Borrowers' manufacturing facilities for five consecutive days during the peak season or fifteen consecutive days during any other time, subject to certain conditions.

Pursuant to the Credit Agreement, substantially all of the Borrowers' accounts receivable are automatically and promptly swept to repay amounts outstanding under the Revolving Credit Facility upon receipt by the Borrowers. Due to this automatic liquidating nature of the Revolving Credit Facility, if the Borrowers breach any covenant, violate any representation or

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warranty or suffer a deterioration in their ability to borrow pursuant to the borrowing base calculation, the Borrowers may not have access to cash liquidity unless provided by PNC at its discretion. In addition, certain of the covenants and representations and warranties set forth in the Credit Agreement contain limited or no materiality thresholds, and many of the representations and warranties must be true and correct in all material respects upon each borrowing, which the Borrowers expect to occur on an ongoing basis. There can be no assurance that the Borrowers will be able to comply with all such covenants and be able to continue to make such representations and warranties on an ongoing basis.

The Company's line of credit with PNC is structured to provide seasonal credit availability during the Company's peak summer season. The Company believes that the Revolving Credit Facility will provide sufficient liquidity to meet its capital requirements in the next 12 months. Approximately $8,342,000 was available for borrowing as of April 30, 2013.

The descriptions set forth herein of the Credit Agreement, Amendment No. 1, Amendment No. 2, Amendment No. 3, Amendment No. 4 and Amendment No. 5 are qualified in their entirety by the terms of such agreements, each of which has been filed with the Securities and Exchange 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 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 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 2013 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

In our Form 10-K for the year ended January 31, 2013, we described material risk factors facing our business. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations. As of the date of this report, there have been no material changes to the risk factors described in our Form 10-K.

Item 2. Unregistered Sales of Equity Securities; Use of Proceeds and Issuer Purchases of Equity Securities
On June 6, 2008, the Board of Directors approved a $3,000,000 share repurchase program. As of April 30, 2013, $1,053,000 remained available for repurchase under this program. The Company did not repurchase any shares of its stock during the first quarter of 2013. Pursuant to the Company's Credit Agreement with PNC, the Company is prohibited from repurchasing any shares of its stock except in cases where a repurchase is financed by a substantially concurrent issuance of new shares of the Company's common stock.
In addition, pursuant to the terms of the Company's Credit Agreement with PNC, the Company is prohibited from paying dividends. Consequently, for at least as long as this covenant is included in the Company's Credit Agreement, no dividends will be paid by the Company to its stockholders.

Item 5. Other Information

None.

Item 6. Exhibits
Exhibit 10.1 — Fifth Amendment to Revolving Credit and Security Agreement, dated as of March 1, 2013, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 1, 2013).
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.
Exhibit 101.INS — XBRL Instance Document.
Exhibit 101.SCH — XBRL Taxonomy Extension Schema Document.
Exhibit 101.CAL — XBRL Taxonomy Extension Calculation Linkbase Document.

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

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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 12, 2013	By: /s/ Robert E. Dose
	Robert E. Dose
	Vice President — Finance