

VIRCO MFG CORPORATION

Form 10-Q

September 14, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended July 31, 2011**

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 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 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

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

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 14,354,046 shares as of September 1, 2011.

VIRCO MFG. CORPORATION
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CONDENSED CONSOLIDATED BALANCE SHEETS**

	7/31/2011	1/31/2011	7/31/2010
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Assets			
Current assets:			
Cash	\$ 1,521	\$ 1,529	\$ 2,956
Trade accounts receivable, net	34,781	10,462	40,808
Other receivables	33	168	79
Income tax receivable	351	367	339
Inventories:			
Finished goods, net	14,510	9,617	19,258
Work in process, net	15,287	13,773	15,230
Raw materials and supplies, net	13,712	11,980	13,513
	43,509	35,370	48,001
Deferred tax assets, net			637
Prepaid expenses and other current assets	1,829	1,619	1,599
Total current assets	82,024	49,515	94,419
Property, plant and equipment:			
Land	1,671	1,671	1,671
Land improvements	1,214	1,437	1,658
Buildings and building improvements	47,796	47,797	47,796
Machinery and equipment	119,432	118,799	117,316
Leasehold improvements	2,533	2,699	2,712
	172,646	172,403	171,153
Less accumulated depreciation and amortization	131,825	130,342	128,208
Net property, plant and equipment	40,821	42,061	42,945
Deferred tax assets, net	2,573	2,605	10,916
Other assets	6,408	6,407	6,310
Total assets	\$ 131,826	\$ 100,588	\$ 154,590

See Notes Unaudited Condensed Consolidated Financial Statements

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VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	7/31/2011	1/31/2011	7/31/2010
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Liabilities			
Current liabilities:			
Accounts payable	\$ 18,565	\$ 9,536	\$ 20,220
Accrued compensation and employee benefits	4,018	3,946	4,345
Current portion of long-term debt	28,304	12	22,467
Deferred tax liability	1,398	1,398	
Other accrued liabilities	8,077	5,125	7,978
Total current liabilities	60,362	20,017	55,010
Non-current liabilities:			
Accrued self-insurance retention	2,619	1,770	2,538
Accrued pension expenses	17,902	18,027	17,633
Deferred income taxes	740	722	1,149
Long-term debt, less current portion		6,496	7,529
Other accrued liabilities	2,941	3,154	3,294
Total non-current liabilities	24,202	30,169	32,143
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 14,354,046 shares at 7/31/2011; 14,204,998 shares at 1/31/11; and 14,217,198 shares at 7/31/2010	143	142	142
Additional paid-in capital	114,706	114,467	114,068
Accumulated deficit	(57,845)	(54,465)	(37,202)
Accumulated comprehensive loss	(9,742)	(9,742)	(9,571)
Total stockholders' equity	47,262	50,402	67,437
Total liabilities and stockholders' equity	\$ 131,826	\$ 100,588	\$ 154,590

See Notes Unaudited Condensed Consolidated Financial Statements

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

	Three months ended	
	7/31/2011	7/31/2010
	(In thousands, except share data)	
Net sales	\$ 62,817	\$ 72,363
Costs of goods sold	42,935	49,391
Gross profit	19,882	22,972
Selling, general and administrative expenses	16,714	17,599
Interest expense	393	395
Income before income taxes	2,775	4,978
Income tax provision	43	941
Net income	\$ 2,732	\$ 4,037
Net income per common share:		
Basic	\$ 0.19	\$ 0.28
Diluted	\$ 0.19	\$ 0.28
Weighted average shares outstanding:		
Basic	14,274	14,168
Diluted	14,292	14,174

See Notes Unaudited Condensed Consolidated Financial Statements

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

	Six months ended	
	7/31/2011	7/31/2010
	(In thousands, except per share data)	
Net sales	\$ 87,073	\$ 97,223
Costs of goods sold	60,413	67,980
Gross profit	26,660	29,243
Selling, general and administrative expenses	28,650	30,131
Interest expense	607	628
Loss before income taxes	(2,597)	(1,516)
Provision for (benefit from) income taxes	71	(472)
Net loss	\$ (2,668)	\$ (1,044)
Dividend declared		
Cash	\$ 0.05	\$ 0.05
Net loss per common share (a) :		
Basic	\$ (0.19)	\$ (0.07)
Diluted	\$ (0.19)	\$ (0.07)
Weighted average shares outstanding:		
Basic	14,240	14,162
Diluted	14,240	14,162

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

	Six months ended	
	7/31/2011	7/31/2010
	(In thousands)	
Operating activities		
Net loss	\$ (2,668)	\$ (1,044)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	2,583	2,713
Provision for doubtful accounts	30	15
Gain (loss) on sale of property, plant and equipment		(2)
Deferred income taxes	49	(459)
Stock based compensation	381	399
Changes in operating assets and liabilities:		
Trade accounts receivable	(24,349)	(26,696)
Other receivables	135	62
Inventories	(8,139)	(4,412)
Income taxes	16	(80)
Prepaid expenses and other current assets	(210)	(138)
Accounts payable and accrued liabilities	12,423	10,754
Net cash used in operating activities	(19,749)	(18,888)
Investing activities		
Capital expenditures	(1,340)	(1,254)
Proceeds from sale of property, plant and equipment	1	33
Net cash used in investing activities	(1,339)	(1,221)
Financing activities		
Proceeds from long-term debt	21,796	23,078
Repayment of long-term debt	(6)	(6)
Purchase of treasury stock		(344)
Cash dividend paid	(710)	(708)
Net cash provided by financing activities	21,080	22,020
Net (decrease) increase in cash	(8)	1,911
Cash at beginning of period	1,529	1,045
Cash at end of period	\$ 1,521	\$ 2,956

See Notes to Unaudited Condensed Consolidated Financial Statements.

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VIRCO MFG. CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
July 31, 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 and six months ended July 31, 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 second quarter of 2011.

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.

Note 5. Debt

At July 31, 2011, the Company had outstanding borrowings pursuant to its revolving line of credit with Wells Fargo Bank, National Association (the Lender) of \$28,292,000. The revolving line generally provides 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 fluctuate 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 facility had an unused commitment fee of 0.375% as of July 31, 2011. Availability under the line was \$16,996,000 at July 31, 2011.

The terms of the revolving line of credit are set forth in the Second Amended and Restated Credit Agreement (as amended, the Credit Agreement), dated as of March 12, 2008, between the Company and the Lender. The Credit Agreement has been amended from time to time to modify covenants or other terms and conditions. The most recent amendment, Amendment No.8, was entered into effective May 31, 2011. Amendment No. 8 extended the maturity date of the loan to June 30, 2012. No other terms were modified in the Credit Agreement as a result of Amendment No. 8.

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The revolving credit facility with the Lender is subject to financial covenants that include a maximum leverage ratio and a minimum net income requirement. The Credit 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 not in compliance with the minimum net income covenant requirement and leverage covenant under its revolving credit facility for the period ended July 31, 2011. While the Company is currently in discussions with the Lender to obtain a waiver in order to remedy this noncompliance, there is no guarantee that such a waiver will be provided. If it is not, the Lender, at its option, could declare all amounts owing under the revolving credit facility to be immediately due and payable, and undertake remedies available under the security documents and applicable law in respect of its security interest in substantially all of the assets pledged by the Company under the revolving credit facility. Management believes that the carrying value of debt approximated fair value at July 31, 2011 and 2010, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

The description set forth herein of the Credit Agreement is qualified in its entirety by the terms of the Credit Agreement, which, together with each amendment thereto, 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 July 31, 2011 and January 31, 2011. The second quarter 2011 effective tax rate of 1.53% was impacted by the full valuation allowance recognized against the federal and combined states deferred tax and discrete items associated with non-taxable permanent differences. The second quarter 2010 effective tax rate of 18.93% was impacted by the forecasted profit levels resulted in a larger rate impact of state taxes 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 July 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 Income (Loss) per Share

	Three Months Ended		Six Months Ended	
	7/31/2011	7/31/2010	7/31/2011	7/31/2010
	(In thousands, except per share data)			
Net income (loss)	\$ 2,732	\$ 4,037	\$ (2,668)	\$ (1,044)
Average shares outstanding	14,274	14,168	14,240	14,162

Net effect of dilutive stock options
based on the treasury stock method using average
market price

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Totals	14,292	14,174	14,240	14,162
Net income (loss) per share basic	\$ 0.19	\$ 0.28	\$ (0.19)	\$ (0.07)
Net income (loss) per share diluted	\$ 0.19	\$ 0.28	\$ (0.19)	\$ (0.07)

Certain exercisable and non-exercisable stock options were not included in the computation of diluted net loss per share at July 31, 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 six months ended July 31, 2011 and 2010, was 22,000 and 10,000, respectively.

Note 8. Stock Based Compensation

Stock Incentive Plans

The Company had three stock option plans at July 31, 2011. The 2011 Stock Incentive Plan (the 2011 Plan), the 2007 Stock Incentive Plan (the 2007 Plan), and the 1997 Stock Incentive Plan (the 1997 Plan). The 2011 Plan was approved at the June 21, 2011 Annual Stockholder Meeting. Under the 2011 Plan, the Company may grant an aggregate of 1,000,000 shares to its employees and non-employee

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directors in the form of stock options or awards. As of July 31, 2011, no awards have been made under the 2011 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 and will be under the 2011 Plan 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 issued 68,960 shares of restricted stock under the 2007 Plan to the non-employee members of the Board of Directors on June 21, 2011. These shares of restricted stock vest over a one year period. As of July 31, 2011, there were approximately 131,200 shares available for future issuance under the 2007 Plan.

The 1997 Plan expired in 2007 and had 12,100 unexercised options outstanding at July 31, 2011. Stock options awarded 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 the grant. These options expired on August 21, 2011. Stock options generally have a maximum term of 10 years and generally become exercisable ratably over a five-year period.

Restricted Stock and Stock Unit Awards**Accounting for the Plans**

The following table presents a summary of restricted stock and stock unit awards at July 31, 2011 and 2010:

	Expense for 3 months ended		Expense for 6 months ended		Unamortized Compensation Cost at
	7/31/2011	7/31/2010	7/31/2011	7/31/2010	7/31/2011
2007 Stock Incentive Plan					
Grants of 68,960 Shares of Restricted Stock, issued 6/21/2011, vesting over 1 year	\$ 33,000		\$ 33,000		\$ 166,000
Grants of 56,455 Shares of Restricted Stock, issued 6/8/2010, vesting over 1 year	15,000	\$ 29,000	58,000	29,000	
Grants of 49,854 Shares of Restricted Stock, issued 6/16/2009, vesting over 1 year		14,000		58,000	
Grants of 382,500 Shares of Restricted Stock, issued 6/16/2009, vesting over 5 years	58,000	67,000	125,000	134,000	679,000
Grants of 262,500 Restricted Stock Units, issued 6/19/2007, vesting over 5 years	75,000	89,000	165,000	178,000	263,000
Totals for the period	\$ 181,000	\$ 199,000	\$ 381,000	\$ 399,000	\$ 1,108,000

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

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

During the six months ended July 31, 2011, the Company did not repurchase any shares of its common stock. As of July 31, 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.

The net periodic pension costs (income) for the Employees Retirement Plan, the VIP Plan, and the Non-Employee Directors Retirement Plan for the three and six months each ended July 31, 2011 and 2010 were as follows (in thousands):

	Three Months Ended					
	Pension 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 loss or (gain)	262	243			(10)	(7)
Net periodic pension cost (income)	\$ 333	\$ 333	\$ 108	\$ 87	\$ (4)	\$ (1)

Six Months Ended

	Pension Plan	VIP Retirement Plan	Non-Employee Directors Retirement Plan
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	2011	2010	2011	2010	2011	2010
Service cost	\$	\$	\$	\$	\$	\$
Interest cost	720	704	190	174	12	12
Expected return on plan assets	(578)	(524)				
Amortization of prior service cost			26			
Recognized net actuarial loss or (gain)	524	486			(20)	(14)
Net periodic pension cost (income)	\$ 666	\$ 666	\$ 216	\$ 174	\$ (8)	\$ (2)

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 Company's products carry a ten-year warranty. The Company periodically assesses the adequacy of its recorded

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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 and six months ended July 31, 2011 and 2010 (in thousands):

	Three Months Ended		Six Months Ended	
	7/31/2011	7/31/2010	7/31/2011	7/31/2010
	(In thousands)			
Beginning accrued warranty balance	\$ 2,150	\$ 1,675	\$ 2,300	\$ 1,675
Provision	276	261	348	453
Costs incurred	(626)	(261)	(848)	(453)
Ending accrued warranty balance	\$ 1,800	\$ 1,675	\$ 1,800	\$ 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 disclosure set forth below, no subsequent events occurred that required recognition or disclosure in the financial statements.

On September 1, 2011, the Company initiated a voluntary early retirement / severance program and scheduled additional furlough weeks to occur during the non-peak season. The Company will be taking further actions to reduce costs by consolidating and reorganizing departments. The financial effect of our early retirement / severance program and further actions to reduce costs cannot be estimated at this time.

Table of Contents**VIRCO MFG. CORPORATION****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
Results of Operations

The Company's order rates and results of operations for the first six months of 2011 continue to be adversely impacted by economic conditions and the related impact on tax receipts and budgeted expenditures for public schools. Order rates have been volatile during the first six months of 2011, with order rates for the first two months of the year having been comparable to 2010, order rates for the second two months having been significantly below 2010, and order rates for the most recent two months having been slightly below 2010. This volatility caused the Company to significantly moderate production levels in the second quarter, in turn causing unfavorable manufacturing variances that adversely affected gross margin and operating results. Operating results have also been impacted by significant increases in the cost of certain raw materials, particularly steel and plastic. At the beginning of the fiscal year, in an effort to improve gross margin and operating results compared to prior year, the Company increased selling prices. The anticipated benefit of these price increases were substantially offset by the impact of increased raw material costs.

For the three months ended July 31, 2011, the Company earned a pre-tax profit of \$2,775,000 on net sales of \$62,817,000 compared to a pre-tax profit of \$4,978,000 on net sales of \$72,363,000 in the same period last year. Net sales for the three months ended July 31, 2011 decreased by \$9,546,000, a 13.2% 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 8.9% compared to the prior year. Backlog at July 31, 2011 decreased by approximately 7.1% compared to the prior year.

Gross margin as a percentage of sales was 31.7% for the three months ended July 31, 2011 compared to 31.7% in the same period last year. The gross margin was affected by a 23% reduction in production hours and increased commodity costs, substantially offset by a modest price increase and reduced levels of factory spending.

Selling, general and administrative expenses for the three months ended July 31, 2011, decreased by approximately \$885,000 compared to the same period last year, but increased as a percentage of sales by 2.3%. 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. The increase as a percentage of sales was attributable to non-variable costs that did not decline with the reduction in sales volume.

For the six months ended July 31, 2011, the Company incurred a pre-tax loss of \$2,597,000 on net sales of \$87,073,000 compared to a pre-tax loss of \$1,516,000 on net sales of \$97,223,000 in the same period last year. Net sales for the six months ended July 31, 2011 decreased by \$10,150,000, a 10.4% 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 14.2% compared to the prior year. Backlog at July 31, 2011 decreased by approximately 7.1% compared to the prior year.

Gross margin as a percentage of sales improved slightly to 30.6% for the six months ended July 31, 2011 compared to 30.1% in the same period last year. The improvement in gross margin was attributable to an increase in selling prices and reduced factory spending, offset by an 11.1% reduction in production hours and increased commodity costs.

Selling, general and administrative expenses for the six months ended July 31, 2011, decreased by approximately \$1,481,000 compared to the same period last year, but increased as a percentage of sales by 1.9%. 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. The increase as a percentage of sales was attributable to non-variable costs that did not decline with the reduction in sales volume.

In the first six months 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, but were not adequate to compensate for the reduction in second quarter volume. Subsequent to the quarter ended July 31, 2011 and after the completion of the peak summer shipping season, the Company has initiated additional restructuring programs designed to reduce costs. The Company has initiated a voluntary early retirement / severance program and scheduled additional furlough weeks to occur during the non-peak season. The Company will be taking further actions to reduce costs by consolidating and reorganizing departments, and depending upon the response to the voluntary early retirement program may implement a non-voluntary reduction in force. 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.

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Liquidity and Capital Resources

Interest expense decreased by approximately \$21,000 for the six months ended July 31, 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, National Association (Wells Fargo Bank).

Accounts receivable was lower at July 31, 2011 than at July 31, 2010, due to decreased 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 \$8,218,000 less inventory than in the prior year. For the first six months, the Company increased inventory by approximately \$8,139,000 compared to January 31, 2011. This increase was more than the \$4,412,000 increase in 2010, but because the Company started the year with substantially less inventory, at the end of the second quarter inventory decreased by approximately \$4,492,000 compared to July 31, 2010. The increase in inventory at July 31, 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 July 31, 2011 decreased by approximately \$1,692,000 compared to July 31, 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 six months ended July 31, 2011 was \$1,340,000 compared to \$1,254,000 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 six months ended July 31, 2011, was \$19,749,000 compared to \$18,888,000 for the same period last year. The increase in cash used was primarily attributable to an increase in the pre-tax loss for the first six months, and an increase in cash used for inventory, offset by a decrease in cash used for accounts receivable and an increase in accounts payable and accrued liabilities.

The Company has historically relied upon its cash flows from operations and unused borrowing capacity with Wells Fargo Bank (which was \$16,996,000 as of July 31, 2011) to fund the Company's debt service requirements, capital expenditures and working capital needs. For the period ended July 31, 2011, however, the Company was not in compliance with the minimum net income covenant requirement and leverage covenant under its revolving credit facility. As a result, pursuant to the terms of the Company's revolving credit facility, Wells Fargo Bank, at its option, may declare all amounts owing under the revolving credit facility to be immediately due and payable. While the Company is currently in discussions with Wells Fargo Bank to obtain a waiver of this noncompliance, there is no guarantee that such a waiver will be obtained. See Item 1A.

Off Balance Sheet Arrangements

During the three months ended July 31, 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).

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 July 31, 2011.

Forward-Looking Statements

From time to time, including in this Quarterly Report on Form 10-Q for the quarterly period ended July 31, 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 and plastic, available financing sources, 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 the Second Amended and Restated Credit Agreement (as amended, the Credit Agreement), dated as of March 12, 2008, with Wells Fargo Bank. The Credit Agreement has been amended from time to time to modify covenants or other terms and conditions. Effective May 31, 2011, the Company entered into Amendment No. 8, which extended the maturity date of the loan to June 30, 2012.

The Credit Agreement provides the Company with a secured revolving line of credit (the Revolving Credit Facility) of up to \$45,000,000, with seasonal adjustments to the credit limit and subject to borrowing base limitations. The Revolving Credit Facility 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 Wells Fargo Bank. 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 80% on eligible accounts receivable and up to 20-55% of eligible inventory, with exceptions and modifications as provided in the Credit Agreement. The Credit 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.

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The Revolving Credit Facility will mature on June 30, 2012, with interest payable monthly at a fluctuating rate equal to Wells Fargo Bank's prime rate plus 1.25%. The Credit Agreement provides for an unused commitment fee of 0.375%. At July 31, 2011, availability under the Revolving Credit line was \$16,996,000.

The Revolving Credit Facility is subject to various financial covenants including a maximum leverage amount and a minimum net income requirement. The Credit 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 not in compliance with the minimum net income covenant requirement and leverage covenant for the period ended July 31, 2011. While we are currently in discussions with Wells Fargo Bank to obtain a waiver in order to remedy this noncompliance, there is no guarantee that Wells Fargo Bank will provide such a waiver. See Item 1A. Management believes that the carrying value of debt approximated fair value at July 31, 2011 and 2010, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

The description set forth herein of the Credit Agreement is qualified in its entirety by the terms of the Credit Agreement and the amendments thereto, 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 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 second 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

Other than as set forth below, 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.

We are in breach of the minimum net income covenant requirement and leverage covenant under our Revolving Credit Facility; Wells Fargo Bank as a result may declare all amounts owing under our Revolving Credit Facility to be immediately due and payable and take other actions that would have a material adverse impact on us.

We were not in compliance with the minimum net income covenant requirement and leverage covenant under our Revolving Credit Facility for the period ended July 31, 2011. As a result, pursuant to the terms of our Credit Agreement, Wells Fargo Bank, at its option, may declare all amounts owing under our Revolving Credit Facility to be immediately due and payable. While we are currently in discussions with Wells Fargo Bank to obtain a waiver in order to remedy our noncompliance, there is no guarantee that such a waiver will be provided. If it is not, Wells Fargo Bank could undertake available remedies under the security documents and applicable law in respect of its security interest in substantially all of our assets pledged under our Revolving Credit Agreement, and could also terminate all commitments to extend further credit. If Wells Fargo Bank were to terminate its commitments under our Revolving Credit Facility, we cannot guarantee that we would be able to secure alternative financing on favorable terms or at all. Because we have historically relied on third-party bank financing to meet our seasonal cash flow requirements, if we were not able to secure alternative financing on favorable terms or at all, our ability to fund our operations would be impaired, which would have a material adverse effect on our operations and our ability to operate our business.

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 second 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)
May 1, 2011 through May 31, 2011			591,386	1,053,000
June 1, 2011 through June 30, 2011			591,386	1,053,000
July 1, 2011 through July 31, 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 Virco Mfg. Corporation 2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 the Company's Current Report on Form 8-K, filed with the Commission on June 27, 2011).

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Exhibit 10.2 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 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on June 9, 2011).

Exhibit 10.3 Separation Agreement and General Release of Claims between Virco Mfg. Corporation and Larry O. Wonder, dated May 24, 2011 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on June 9, 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.

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: September 14, 2011

By: /s/ Robert E. Dose

Robert E. Dose

Vice President Finance