

VIRCO MFG CORPORATION

Form 10-Q

September 10, 2010

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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, 2010**

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

Smaller reporting
company

(Do not check if a 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 14,204,998 shares as of August 31, 2010.

VIRCO MFG. CORPORATION
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| Exhibit 10.1 Amendment No. 5 to Second Amended and Restated Credit Agreement, dated as of July 31, 2010, between Virco Mfg. Corporation and Wells Fargo Bank, National Association. | |
| Exhibit 31.1 Certification of Robert A. Virtue, Principal Executive Officer, 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, Principal; Financial Officer, pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002. | |
| Exhibit 32.1 Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | |
| <u>EX-10.1</u> | |
| <u>EX-31.1</u> | |
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| <u>EX-32.1</u> | |

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS**

| | 7/31/2010 | 1/31/2010 | 7/31/2009 |
|------------------------------------------------|-----------------------------------|------------|-----------------------|
| | (In thousands, except share data) | | |
| | Unaudited (Note 1) | | Unaudited (Note 1) |
| Assets | | | |
| Current assets: | | | |
| Cash | \$ 2,956 | \$ 1,045 | \$ 1,614 |
| Trade accounts receivable, net | 40,808 | 14,127 | 41,511 |
| Other receivables | 79 | 141 | 473 |
| Income tax receivable | 339 | 259 | |
| Inventories: | | | |
| Finished goods, net | 18,801 | 10,683 | 23,903 |
| Work in process, net | 11,655 | 18,653 | 8,542 |
| Raw materials and supplies, net | 10,626 | 7,334 | 8,732 |
| | 41,082 | 36,670 | 41,177 |
| Deferred tax assets, net | 3,150 | 3,150 | 2,867 |
| Prepaid expenses and other current assets | 1,599 | 1,514 | 1,917 |
| Total current assets | 90,013 | 56,906 | 89,559 |
| Property, plant and equipment: | | | |
| Land and land improvements | 3,329 | 3,329 | 3,336 |
| Buildings and building improvements | 47,796 | 47,796 | 47,888 |
| Machinery and equipment | 117,316 | 116,425 | 115,184 |
| Leasehold improvements | 2,712 | 2,688 | 1,902 |
| | 171,153 | 170,238 | 168,310 |
| Less accumulated depreciation and amortization | 128,208 | 125,804 | 124,242 |
| Net property, plant and equipment | 42,945 | 44,434 | 44,068 |
| Deferred tax assets, net | 10,990 | 10,502 | 9,257 |
| Other assets | 6,310 | 6,258 | 6,289 |
| Total assets | \$ 150,258 | \$ 118,100 | \$ 149,173 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | 7/31/2010 | 1/31/2010 | 7/31/2009 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-------------------|-----------------------|
| | (In thousands, except share data) | | |
| | Unaudited (Note 1) | | Unaudited (Note 1) |
| Liabilities | | | |
| Current liabilities: | | | |
| Checks released but not yet cleared bank | \$ 4,527 | \$ 2,360 | \$ 2,717 |
| Accounts payable | 15,693 | 11,641 | 15,247 |
| Accrued compensation and employee benefits | 4,345 | 4,396 | 4,687 |
| Current portion of long-term debt | 22,467 | 12 | 17,080 |
| Other accrued liabilities | 7,978 | 4,517 | 7,940 |
| Total current liabilities | 55,010 | 22,926 | 47,671 |
| Non-current liabilities: | | | |
| Accrued self-insurance retention and other | 5,832 | 4,918 | 4,579 |
| Accrued pension expenses | 17,633 | 17,286 | 19,273 |
| Deferred income taxes | 1,149 | 1,120 | 1,161 |
| Long-term debt, less current portion | 7,529 | 6,912 | 10,036 |
| Total non-current liabilities | 32,143 | 30,236 | 35,049 |
| Commitments and Contingencies | | | |
| Stockholders' equity: | | | |
| Preferred stock: | | | |
| Authorized 3,000,000 shares, \$.01 par value; none issued or outstanding | | | |
| Common stock: | | | |
| Authorized 25,000,000 shares, \$.01 par value; issued 14,204,998 shares at 7/31/2010; 14,163,044 shares at 1/31/10; and 14,240,531 shares at 7/31/2009 | | | |
| | 142 | 142 | 142 |
| Additional paid-in capital | 114,068 | 114,152 | 114,007 |
| Accumulated deficit | (41,534) | (39,785) | (38,314) |
| Accumulated comprehensive loss | (9,571) | (9,571) | (9,382) |
| Total stockholders' equity | 63,105 | 64,938 | 66,453 |
| Total liabilities and stockholders' equity | \$ 150,258 | \$ 118,100 | \$ 149,173 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Three months ended | |
|---------------------------------------------------------------------|-----------------------------------|--------------|
| | 7/31/2010 | 7/31/2009 |
| | (In thousands, except share data) | |
| Net sales | \$ 72,363 | \$ 74,623 |
| Costs of goods sold | 49,391 | 48,847 |
| Gross profit | 22,972 | 25,776 |
| Selling, general, administrative & other expenses | 17,599 | 18,242 |
| Interest expense | 395 | 441 |
| Income before income taxes | 4,978 | 7,093 |
| Income tax provision | 941 | 3,047 |
| Net income | \$ 4,037 | \$ 4,046 |
| Net income per common share: | | |
| Basic | \$ 0.28 | \$ 0.29 |
| Diluted | \$ 0.28 | \$ 0.29 |
| Weighted average shares outstanding: | | |
| Basic | 14,168 | 14,151 |
| Diluted | 14,174 | 14,154 |
| See Notes to Unaudited Condensed Consolidated Financial Statements. | | |

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

| | Six months ended | |
|---------------------------------------------------|---------------------------------------|------------|
| | 7/31/2010 | 7/31/2009 |
| | (In thousands, except per share data) | |
| Net sales | \$ 97,223 | \$ 101,672 |
| Costs of goods sold | 67,980 | 67,596 |
| Gross profit | 29,243 | 34,076 |
| Selling, general, administrative & other expenses | 30,131 | 31,254 |
| Interest expense | 628 | 616 |
| (Loss) income before income taxes | (1,516) | 2,206 |
| (Benefit) provision for income taxes | (472) | 1,147 |
| Net (loss) income | \$ (1,044) | \$ 1,059 |
| Dividend declared | | |
| Cash | \$ 0.05 | \$ 0.05 |
| Net (loss) income per common share: | | |
| Basic | \$ (0.07) | \$ 0.07 |
| Diluted | \$ (0.07) | \$ 0.07 |
| Weighted average shares outstanding: | | |
| Basic | 14,162 | 14,170 |
| Diluted | 14,162 | 14,170 |

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

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Six months ended | |
|-------------------------------------------------------------------------------------|------------------|-----------|
| | 7/31/2010 | 7/31/2009 |
| | (In thousands) | |
| Operating activities | | |
| Net (loss) income | \$ (1,044) | \$ 1,059 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities | | |
| Depreciation and amortization | 2,713 | 2,652 |
| Provision for doubtful accounts | 15 | 100 |
| Gain on sale of property, plant and equipment | (2) | (5) |
| Deferred income taxes | (459) | 941 |
| Stock based compensation | 399 | 457 |
| Changes in operating assets and liabilities | | |
| Trade accounts receivable | (26,696) | (27,418) |
| Other receivables | 62 | 461 |
| Inventories | (4,412) | (8,192) |
| Income tax receivable | (80) | (51) |
| Prepaid expenses and other current assets | (138) | (259) |
| Accounts payable and accrued liabilities | 10,754 | 3,683 |
| Net cash used in operating activities | (18,888) | (26,572) |
| Investing activities | | |
| Capital expenditures | (1,254) | (2,110) |
| Proceeds from sale of property, plant and equipment | 33 | 10 |
| Net cash used in investing activities | (1,221) | (2,100) |
| Financing activities | | |
| Proceeds from long-term debt | 23,078 | 27,042 |
| Repayment of long-term debt | (6) | (37) |
| Purchase of treasury stock | (344) | (397) |
| Cash dividend paid | (708) | (709) |
| Net cash provided by financing activities | 22,020 | 25,899 |
| Net increase (decrease) in cash | 1,911 | (2,773) |
| Cash at beginning of period | 1,045 | 4,387 |
| Cash at end of period | \$ 2,956 | \$ 1,614 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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VIRCO MFG. CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2010

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 July 31, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2011. The balance sheet at January 31, 2010, 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, 2010 (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

In October 2009, the Financial Accounting Standards Board (FASB) issued ASU 2009-13, Revenue Recognition (ASC 605) Multiple Deliverable Arrangements , which modifies the requirements for determining whether a deliverable in a multiple element arrangement can be treated as a separate unit of accounting by removing the criteria that objective and reliable evidence of fair value exists for the undelivered elements. The new guidance requires consideration be allocated to all deliverables based on their relative selling price using vendor specific objective evidence (VSOE) of selling price, if it exists; otherwise selling price is determined based on third-party evidence (TPE) of selling price. If neither VSOE nor TPE exist, management must use its best estimate of selling price to allocate the arrangement consideration. The Company adopted this update effective February 1, 2010. The adoption of the amendments in ASU 2009-13 did not have a material impact on the consolidated financial position and the results of operations.

In April 2010, the FASB (Financial Accounting Standards Board) issued Accounting Standards Update 2010-12 (ASU 2010-12), Income Taxes (Topic 740): Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts. After consultation with the FASB, the SEC stated that it would not object to a registrant incorporating the effects of the Health Care and Education Reconciliation Act of 2010 when accounting for the Patient Protection and Affordable Care Act . The Company does not expect the provisions of ASU 2010-12 to have a material effect on the financial

position, results of operations or cash flows of the Company.

Note 4. Inventories

Fiscal year end financial statements at January 31, 2010, reflect inventories verified by physical counts with the material content valued under the LIFO method. At July 31, 2010 and 2009, there were no physical verifications of inventory quantities. Cost of sales is recorded at current cost. The effect of penetrating LIFO layers is not recorded at interim dates unless the reduction in inventory is expected to be permanent. No such adjustments have been made for the three months ended July 31, 2010 and 2009. LIFO reserves at July 31, 2010, January 31, 2010 and July 31, 2009 were \$8,316,000, \$8,316,000 and \$9,531,000, respectively. Management continually monitors production costs, material costs and inventory levels to determine that interim inventories are fairly stated.

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The Company is party to that certain Second Amended and Restated Credit Agreement (as amended, the Agreement), dated as of March 12, 2008, with Wells Fargo Bank, National Association (the Lender). On January 29, 2010, the Company entered into Amendment No. 3 (Amendment No. 3) to the Agreement and amended the related Revolving Line of Credit Note issued in favor of the Lender in connection therewith. Among other items, Amendment No. 3 provided for an extension of the maturity date of the Revolving Credit by one year, the amendment of certain covenants, and the consent to the merger of Virco MGMT Corporation, a subsidiary of the Company, into the Company. On April 28, 2010, the Company further amended the Agreement, entering into Amendment No. 4 thereto (Amendment No. 4). Among other items, Amendment No. 4 provided for further amendments to the covenants regarding dividends and distributions, the minimum fixed charge coverage ratio and the maximum leverage ratio. On July 30, 2010, the Company further amended the Agreement, entering into Amendment No. 5 thereto (Amendment No. 5). Among other items, Amendment No. 5 provided for amendments to the covenants regarding minimum net income, the minimum fixed charge coverage ratio, and the maximum leverage ratio as well as to the applicable margin used in setting the interest rate in effect pursuant to the Revolving Line of Credit Note related thereto.

The Agreement provides the Company with a secured revolving line of credit (the Revolving Credit) of up to \$50,000,000, with seasonal adjustments to the credit limit and subject to borrowing base limitations. The Revolving Credit includes a letter of credit sub-facility with a sub-limit of up to \$10,000,000 and is secured by a first priority security interest in substantially all of the personal and real property of the Company and its subsidiaries in favor of the Lender. The Revolving Credit is an asset-based line of credit that is subject to a borrowing base limitation and generally provides for advances of up to 80% on eligible accounts receivable and up to 20-60% of eligible inventory, with exceptions and modifications as provided in the Agreement. The Agreement is also subject to an annual clean down provision requiring a 30-day period each fiscal year during which advances and letter of credit usage may not exceed \$7,500,000 in the aggregate.

The Revolving Credit will mature on March 1, 2012, with interest payable monthly at a rate equal to the Lender's prime rate or LIBOR, in each case plus a margin. The Agreement provides for an unused commitment fee of 0.375%. At July 31, 2010, availability under the Revolving Credit line was \$24,094,000.

The Revolving Credit is subject to various financial covenants including a maximum leverage amount, a minimum current ratio requirement, a minimum fixed charge coverage ratio requirement and a minimum net income requirement. The Agreement also provides for certain additional negative covenants, including restrictions on capital expenditures, new operating leases, dividends and the repurchase of the Company's common stock. The Company was in compliance with its covenants at July 31, 2010. Management believes that the carrying value of debt approximated fair value at July 31, 2010 and 2009, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

The descriptions set forth herein of the Agreement, 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 provision for income taxes in the second quarter of 2010 reflects an effective tax rate of 18.93 percent, compared to an effective tax rate of 43.0 percent for the second quarter 2009. The second quarter 2010 and 2009 effective tax rates are impacted by the forecasted profit levels for the respective years which for the first quarter 2010 resulted in a larger rate impact of state taxes and discrete items associated with non-taxable permanent differences.

There were no significant increases or decreases in the unrecognized tax benefits during the three months ended July 31, 2010. As of July 31, 2010, the Company does not believe 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.

The Internal Revenue Service (the IRS) has completed the examination of all of the Company's federal income tax returns through 2004 with no issues pending or unresolved. The Company is under examination by the IRS for its 2006, 2007 and 2008 federal income tax returns.

At July 31, 2010, the Company had net operating loss carry forwards for federal and state income tax purposes, expiring at various dates through 2029. Federal net operating losses that can potentially be carried forward total approximately \$4,524,000 at July 31, 2010 and January 31, 2010. State net operating losses that can potentially be carried forward total approximately \$27,355,000 at July 31, 2010 and January 31, 2010. The Company has determined that it is more likely than not that some portion of the state net operating loss and credit carryforwards will not be realized and has provided a valuation allowance of \$490,000 and \$927,000 on the deferred tax assets at July 31, 2010 and January 31, 2010, respectively.

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| | Three Months Ended | | Six Months Ended | |
|----------------------------------------------------------------------------------------------------|---------------------------------------|-----------|------------------|-----------|
| | 7/31/2010 | 7/31/2009 | 7/31/2010 | 7/31/2009 |
| | (In thousands, except per share data) | | | |
| Net income (loss) | \$ 4,036 | \$ 4,046 | \$ (1,044) | \$ 1,059 |
| Average shares outstanding | 14,168 | 14,151 | 14,162 | 14,170 |
| Net effect of dilutive stock options based on the treasury stock method using average market price | 6 | 3 | 10 | |
| Totals | 14,174 | 14,154 | 14,172 | 14,170 |
| Net income (loss) per share basic | \$ 0.28 | \$ 0.29 | \$ (0.07) | \$ 0.07 |
| Net income (loss) per share diluted | \$ 0.28 | \$ 0.29 | \$ (0.07) | \$ 0.07 |

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

Note 8. Stock Based Compensation**Stock Incentive Plans**

The Company's two stock plans are the 2007 Employee Stock Incentive Plan (the 2007 Plan) and the 1997 Employee Stock Incentive Plan (the 1997 Plan). Under the 2007 Plan, the Company may grant an aggregate of 1,000,000 shares to its employees and non-employee directors in the form of stock options or awards. Restricted stock or stock units awarded under the 2007 Plan are expensed ratably over the vesting period of the awards. The Company has not issued stock options under the 2007 Plan. As of July 31, 2010, there were approximately 180,160 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, 2010. Stock options awarded to employees under the 1997 Plan must 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 July 31, 2010, January 31, 2010 and July 31, 2009:

| Expense for 3 months ended | | Expense for 6 months ended | | Unrecognized Compensation |
|----------------------------|-----------|----------------------------|-----------|---------------------------|
| 7/31/2010 | 7/31/2009 | 7/31/2010 | 7/31/2009 | Cost at 7/31/2010 |
| | | | | |

2007 Plan

| | | | | | |
|--------------------------------------------------------------------------------------|------------|------------|------------|------------|--------------|
| Grants of 56,455 Shares of Restricted Stock, issued 6/8/2010, vesting over 1 year | \$ 29,000 | \$ | \$ 29,000 | \$ | \$ 145,000 |
| Grants of 49,854 Shares of Restricted Stock, issued 6/16/2009, vesting over 1 year | 14,000 | 29,000 | 58,000 | 29,000 | |
| Grants of 382,500 Shares of Restricted Stock, issued 6/16/2009, vesting over 5 years | 67,000 | 45,000 | 134,000 | 45,000 | 1,026,000 |
| Grants of 262,500 Restricted Stock Units, issued 6/19/2007, vesting over 5 years | 89,000 | 89,000 | 178,000 | 178,000 | 654,000 |
| Grants of 35,644 Shares of Restricted Stock, issued 6/17/2008, vesting over 1 year | | 14,000 | | 58,000 | |
| 1997 Plan | | | | | |
| Grants of 270,000 Restricted Stock Units, issued 6/30/2004, vesting over 5 years | | 59,000 | | 147,000 | |
| Totals for the period | \$ 199,000 | \$ 236,000 | \$ 399,000 | \$ 457,000 | \$ 1,825,000 |

Table of Contents**Stockholders Rights**

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

Note 9. Comprehensive Loss and Stockholders Equity

Comprehensive loss for the three months ended July 31, 2010 and 2009 was the same as net loss reported on the Statements of Operations. Accumulated comprehensive loss at July 31, 2010 and 2009 and January 31, 2010 is composed of minimum pension liability adjustments.

During the three and six months ended July 31, 2010, the Company repurchased 58,000 and 100,000 shares of its common stock at a cost of approximately \$194,000 and \$344,000, respectively. As of July 31, 2010, approximately \$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 for the Employees Retirement Plan, the VIP Plan, and the Non-Employee Directors Retirement Plan for the three months each ended July 31, 2010 and 2009 were as follows (in thousands):

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Three Months Ended July 31,

| | Employees | | VIP Plan | | Non-Employee Directors | |
|-----------------------------------------|-----------------|--------|-----------------|-------|------------------------|---------|
| | Retirement Plan | | Retirement Plan | | Retirement Plan | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Service cost | \$ | \$ | \$ | \$ | \$ | \$ |
| Interest cost | 352 | 367 | 87 | 85 | 6 | 7 |
| Expected return on plan assets | (262) | (179) | | | | |
| Amortization of prior service cost | | 128 | | (79) | | |
| Recognized net actuarial (gain) or loss | 243 | 231 | | 24 | (7) | (46) |
| Net periodic pension cost | \$ 333 | \$ 547 | \$ 87 | \$ 30 | \$ (1) | \$ (39) |

Six Months Ended July 31,

| | Employees | | VIP Plan | | Non-Employee Directors | |
|-----------------------------------------|-----------------|----------|-----------------|-------|------------------------|---------|
| | Retirement Plan | | Retirement Plan | | Retirement Plan | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Service cost | \$ | \$ | \$ | \$ | \$ | \$ |
| Interest cost | 704 | 735 | 174 | 170 | 12 | 14 |
| Expected return on plan assets | (524) | (358) | | | | |
| Amortization of prior service cost | | 256 | | (158) | | |
| Recognized net actuarial (gain) or loss | 486 | 462 | | 48 | (14) | (92) |
| Net periodic pension cost | \$ 666 | \$ 1,094 | \$ 174 | \$ 60 | \$ (2) | \$ (78) |

Note 11. Warranty

The Company accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. The majority of the Company's products sold through January 31, 2005, carry a five-year warranty. Effective February 1, 2005, the Company extended its standard warranty period to 10 years. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The warranty liability is included in accrued liabilities in the accompanying consolidated balance sheets. The following is a summary of the Company's warranty claim activity for the three months and six months ended July 31, 2010 and 2009 (in thousands):

| Three Months Ended | | Six Months Ended | |
|--------------------|-----------|------------------|-----------|
| 7/31/2010 | 7/31/2009 | 7/31/2010 | 7/31/2009 |

| | (In thousands) | | | |
|------------------------------------|----------------|----------|----------|----------|
| Beginning Accrued Warranty Balance | \$ 1,675 | \$ 1,950 | \$ 1,675 | \$ 1,950 |
| Provision | 261 | 65 | 453 | 366 |
| Costs Incurred | (261) | (215) | (453) | (516) |
| | | | | |
| Ending Accrued Warranty Balance | \$ 1,675 | \$ 1,800 | \$ 1,675 | \$ 1,800 |

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.

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 fiscal 2010 continue to be adversely impacted by economic conditions in the United States, and the related impact on tax receipts that fund public school expenditures. During the first three months of the Company's 2010 fiscal year, order rates declined by 0.8% compared to the prior year, and during the second three months of the Company's 2010 fiscal year, order rates declined by approximately 2.8% compared to the prior year. For the first six months of fiscal 2010, orders declined by approximately 2.0% compared to the prior year. While order rates for the Company have not declined dramatically, the Company accomplished this in part by being more aggressive with pricing in certain competitive markets. For the first six months of the year, orders were not significantly impacted by money distributed to schools by the American Recovery and Reinvestment Act.

For the three months ended July 31, 2010, the Company earned a pre-tax profit of \$4,978,000 on sales of \$72,363,000 compared to a pre-tax profit of \$7,093,000 on sales of \$74,623,000 in the same period last year.

Sales for the three months ended July 31, 2010 decreased by \$2,260,000, a 3.0% decrease, compared to the same period last year. Incoming orders for the same period decreased by approximately 2.8% compared to the prior year. Backlog at July 31, 2010 decreased by approximately 3.2% compared to the prior year. The reduction in sales was partly attributable to reductions in unit volume and partly attributable to reductions in price. Sales related to bond funded project business increased, while non-project related business activity declined.

Gross margin for the three months ended July 31, 2010 as a percentage of sales decreased to 31.7% compared to 34.5% in the prior year. The decrease in gross margin was attributable to increased raw material costs compared to the prior year period, increased price competition, a 6.5% reduction in production hours, and changes in product mix. Selling, general and administrative expense for the three months ended July 31, 2010 decreased by approximately \$643,000 to \$17,599,000 compared to \$18,242,000 in the same period last year, and remained stable as a percentage of sales. The decrease in selling, general and administrative expense was primarily attributable to decreased variable expenses. Interest expense decreased by approximately \$46,000 compared to the same period last year as a result of reduced interest rates.

For the six months ended July 31, 2010 the Company incurred a pre-tax loss of \$1,516,000 on sales of \$97,223,000 compared to a pre-tax profit of \$2,206,000 on sales of \$101,672,000 in the same period last year.

Sales for the first six months decreased by \$4,449,000, or 4.4%, compared to the same period last year. The decrease was attributable to both a reduction in sales volume and a reduction in selling prices. Incoming orders for the same period decreased by approximately 2.0%. Sales of project related business increased, while non-project related business activity declined.

Gross margin as a percentage of sales decreased to 30.1% compared to 33.5% in the same period last year. The decrease in gross margin was attributable to an increase in raw material costs compared to the prior year period, a reduction in selling prices, an 11.8% reduction in production hours, and changes in product mix. Selling, general and administrative expense for the six months ended July 31, 2010 decreased by approximately \$1,123,000 compared to the same period last year, but increased as a percentage of sales by 0.3%. The decrease in selling, general and administrative expense was primarily attributable to decreased variable expenses. Interest expense increased by approximately \$12,000 compared to the same period last year as a result of increased levels of borrowing partially offset by reduced interest rates.

Liquidity and Capital Resources

Interest expense increased by approximately \$8,000 for the six months ended July 31, 2010, compared to the same period last year. The increase was due to higher loan balances under the Company's credit facility with Wells Fargo Bank, National Association (Wells Fargo) partially offset by lower interest rates.

As a result of seasonally high shipments in the three months ended July 31, 2010, accounts and notes receivable increased by approximately \$26.7 million at July 31, 2010 compared to January 31, 2010. When compared to receivables at July 31, 2009, receivables, however, decreased by approximately \$700,000. This decrease was due to the decline in sales in the three months ended July 31, 2010 compared to the same period last year. The Company

traditionally builds large quantities of component inventory during the first quarter in anticipation of seasonally high summer shipments. During the second and third quarters, the Company reduces levels of component production and assembles components to a finished goods state as customer orders are received. At July 31, 2010, inventories were comparable to the prior year.

The increase in receivables and inventory during the first six months of fiscal 2010 was financed through the Company's credit facility with Wells Fargo Bank. At July 31, 2010 borrowing under the line had increased by approximately \$2.9 million compared to July 31, 2009.

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The Company has established a goal of limiting capital spending to approximately \$5,000,000 for fiscal 2010, which is slightly less than anticipated depreciation expense. Capital spending for the six months ended July 31, 2010 was \$1,254,000 compared to \$2,110,000 for the same period last year. Capital expenditures are being financed through the Company's credit facility with Wells Fargo and operating cash flow. Approximately \$24,094,000 was available for borrowing under the Company's credit facility as of July 31, 2010.

Net cash used in operating activities for the six months ended July 31, 2010 was \$18,888,000 compared to \$26,572,000 for the same period last year. The decrease in cash used in operations for the six months ended July 31, 2010 compared to the same period last year was primarily due to an increase in accounts payable and accrued liabilities. The Company believes that cash flows from operations, together with the Company's unused borrowing capacity with Wells Fargo will be sufficient to fund the Company's debt service requirements, capital expenditures and working capital needs for the next twelve months.

During the first six months of fiscal 2010, the Company declared and paid two quarterly cash dividends of \$0.025 per share. Subsequent to the July 31, 2010, the Company declared a third quarterly cash dividend of \$0.025 per share to stockholders of record as of August 27, 2010, payable September 17, 2010. Payment of a quarterly dividend is predicated on (1) the strength of our balance sheet; (2) anticipated cash flows; (3) future cash requirements; and (4) compliance with the negative covenants related to dividend payments in our credit facility. Management anticipates that subsequent quarterly dividends will continue to be paid following a review of these factors and Board approval.

On June 5, 2008, the Company announced that its Board of Directors authorized a stock repurchase program under which the Company may acquire up to \$3 million of the Company's common stock. Such repurchases may be made pursuant to open market or privately negotiated transactions. This \$3 million common stock repurchase program includes any unused amounts previously authorized for repurchase by Company such that the maximum aggregate amount of common stock that the Company may repurchase is \$3 million of the Company's common stock. Actual repurchases will be made after due consideration of stock price, projected cash flows and alternative uses of capital. For the six months ended July 31, 2010, the Company repurchased 100,000 shares of stock for \$344,000.

Off Balance Sheet Arrangements

During the six months ended July 31, 2010, 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, 2010 (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 such policies in the three months ended July 31, 2010 except as noted in Note 3.

Forward-Looking Statements

From time to time, including in this Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2010, 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, material availability and cost of materials, especially steel, availability and cost of labor, demand for the Company's products, competitive conditions affecting selling prices and margins, capital costs and general economic conditions. Such risks and uncertainties are discussed in more detail in the Company's Form 10-K.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is party to that certain Second Amended and Restated Credit Agreement (as amended, the Agreement), dated as of March 12, 2008, with Wells Fargo Bank, National Association (the Lender). On January 29, 2010, the Company entered into Amendment No. 3 (Amendment No. 3) to the Agreement and amended the related Revolving Line of Credit Note issued in favor of the Lender in connection therewith. Among other items, Amendment No. 3 provided for an extension of the maturity date of the Revolving Credit by one year, the amendment of certain covenants, and the consent to the merger of Virco MGMT Corporation, a subsidiary of the Company, into the Company. On April 28, 2010, the Company further amended the Agreement, entering into Amendment No. 4 thereto (Amendment No. 4). Among other items, Amendment No. 4 provided for further amendments to the covenants regarding dividends and distributions, the minimum fixed charge coverage ratio and the maximum leverage ratio. On July

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30, 2010, the Company further amended the Agreement, entering into Amendment No. 5 thereto (Amendment No. 5). Among other items, Amendment No. 5 provided for amendments to the covenants regarding minimum net income, the minimum fixed charge coverage ratio, and the maximum leverage ratio as well as to the applicable margin used in setting the interest rate in effect pursuant to the Revolving Line of Credit Note related thereto.

The Agreement provides the Company with a secured revolving line of credit (the Revolving Credit) of up to \$50,000,000, with seasonal adjustments to the credit limit and subject to borrowing base limitations. The Revolving Credit includes a letter of credit sub-facility with a sub-limit of up to \$10,000,000 and is secured by a first priority security interest in substantially all of the personal and real property of the Company and its subsidiaries in favor of the Lender. The Revolving Credit is an asset-based line of credit that is subject to a borrowing base limitation and generally provides for advances of up to 80% on eligible accounts receivable and up to 20-60% of eligible inventory, with exceptions and modifications as provided in the Agreement. The Agreement is also subject to an annual clean down provision requiring a 30-day period each fiscal year during which advances and letter of credit usage may not exceed \$7,500,000 in the aggregate.

The Revolving Credit will mature on March 1, 2012, with interest payable monthly at a rate equal to the Lender's prime rate or LIBOR, in each case plus a margin. The Agreement provides for an unused commitment fee of 0.375%. At July 31, 2010, availability under the Revolving Credit line was \$24,094,000.

The Revolving Credit is subject to various financial covenants including a maximum leverage amount, a minimum current ratio requirement, a minimum fixed charge coverage ratio requirement and a minimum net income requirement. The Agreement also provides for certain additional negative covenants, including restrictions on capital expenditures, new operating leases, dividends and the repurchase of the Company's common stock. The Company was in compliance with its covenants at July 31, 2010. Management believes that the carrying value of debt approximated fair value at July 31, 2010 and 2009, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

The descriptions set forth herein of the Agreement, 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 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 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION
VIRCO MFG. CORPORATION****Item 1. Legal Proceedings**

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

Item 1A. Risk Factors

There have been no material changes from the risk factors as disclosed in the Company's Form 10-K for the period ended January 31, 2010.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table provides information with respect to the purchases made by the Company of its Common Stock during the three months ended July 31, 2010:

| | 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, 2010 through May 31, 2010 | | | 533,542 | 1,247,000 |
| June 1, 2010 through June 30, 2010 | 57,844 | 3.34 | 591,386 | 1,053,000 |
| July 1, 2010 through July 31, 2010 | | | 591,386 | 1,053,000 |

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

Item 6. Exhibits

Exhibit 10.1 Amendment No. 5 to Second Amended and Restated Credit Agreement, dated as of July 31, 2010, between Virco Mfg. Corporation and Wells Fargo Bank, National Association.

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

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

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

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**VIRCO MFG. CORPORATION
SIGNATURES**

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

VIRCO MFG. CORPORATION

Date: September 10, 2010

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

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