VIRCO MFG CORPORATION
Form 10-Q
June 13, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ýQuarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 30, 2016

OR
¨Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File number 1-8777

VIRCO MFG. CORPORATION
(Exact Name of Registrant as Specified in its Charter)

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

Registrant's Telephone Number, Including Area Code: (310) 533-0474
No change
Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer¨ | Accelerated filer ¨ |
| Non-accelerated filer ¨(Do not check if a smaller reporting company) | Smaller reporting company ý |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The number of shares outstanding for each of the registrant's classes of common stock, as of the latest practicable date:

Common Stock, $.01 par value — 14,998,187 shares as of June 10, 2016.

---

TABLE OF CONTENTS

| | |
|---|---|
| Part I. Financial Information | 3 |
| Item 1. Financial Statements | 3 |
| Unaudited condensed consolidated balance sheets - April 30, 2016, January 31, 2016 and April 30, 2015 | 3 |
| Unaudited condensed consolidated statements of operations - Three months ended April 30, 2016 and 2015 | 5 |
| Unaudited condensed consolidated statements of comprehensive income (loss) - Three months ended April 30, 2016 and 2015 | 6 |
| Unaudited condensed consolidated statements of cash flows - Three months ended April 30, 2016 and 2015 | 7 |
| Notes to unaudited condensed consolidated financial statements - April 30, 2016 | 8 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 13 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 14 |
| Item 4. Controls and Procedures | 14 |
| Part II. Other Information | 16 |
| Item 1. Legal Proceedings | 16 |
| Item 1A. Risk Factors | 16 |
| Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities | 16 |
| Item 3. Defaults Upon Senior Securities | 16 |
| Item 4. Mine Safety Disclosures | 16 |
| Item 5. Other Information | 16 |
| Item 6. Exhibits | 16 |
| EX-31.1 | |
| EX-31.2 | |
| EX-32.1 | |
| EX-101 INSTANCE DOCUMENT | |
| EX-101 SCHEMA DOCUMENT | |
| EX-101 CALCULATION LINKBASE DOCUMENT | |
| EX-101 LABELS LINKBASE DOCUMENT | |
| EX-101 PRESENTATION LINKBASE DOCUMENT | |

PART I. Financial Information
Item 1. Financial Statements

Virco Mfg. Corporation
Condensed Consolidated Balance Sheets

| | 4/30/2016 | 1/31/2016 | 4/30/2015 |
|---|---|---|---|
| | (In thousands, except share data) | | |
| | Unaudited (Note 1) | | Unaudited (Note 1) |
| Assets | | | |
| Current assets | | | |
| Cash | $ 1,033 | $ 815 | $ 580 |
| Trade accounts receivables, net | 8,882 | 9,929 | 9,798 |
| Other receivables | 67 | 34 | 39 |
| Income tax receivable | 260 | 317 | 258 |
| Inventories, net | 53,924 | 34,603 | 42,250 |
| Prepaid expenses and other current assets | 1,904 | 990 | 1,513 |
| Total current assets | 66,070 | 46,688 | 54,438 |
| Property, plant and equipment | | | |
| Land | 1,671 | 1,671 | 1,671 |
| Land improvements | 674 | 675 | 851 |
| Buildings and building improvements | 46,106 | 45,860 | 46,443 |
| Machinery and equipment | 102,800 | 103,969 | 108,533 |
| Leasehold improvements | 684 | 1,636 | 1,909 |
| | 151,935 | 153,811 | 159,407 |
| Less accumulated depreciation and amortization | 117,593 | 118,991 | 124,114 |
| Net property, plant and equipment | 34,342 | 34,820 | 35,293 |
| Deferred tax assets, net | 698 | 703 | 757 |
| Other assets | 7,071 | 7,071 | 6,843 |
| Total assets | $ 108,181 | $ 89,282 | $ 97,331 |

See accompanying notes.

Virco Mfg. Corporation
Condensed Consolidated Balance Sheets

| | 4/30/2016 | 1/31/2016 | 4/30/2015 |
|---|---|---|---|
| | (In thousands, except share and par value data) | | |
| | Unaudited (Note 1) | | Unaudited (Note 1) |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | $16,894 | $12,982 | $15,931 |
| Accrued compensation and employee benefits | 4,355 | 5,608 | 4,054 |
| Current portion of long-term debt | 18,416 | 579 | 14,607 |
| Other accrued liabilities | 4,652 | 3,525 | 4,793 |
| Total current liabilities | 44,317 | 22,694 | 39,385 |
| Non-current liabilities | | | |
| Accrued self-insurance retention | 1,869 | 1,650 | 2,503 |
| Accrued pension expenses | 22,968 | 23,330 | 28,447 |
| Income tax payable | 39 | 38 | 45 |
| Long-term debt, less current portion | 5,804 | 6,028 | 6,015 |
| Other accrued liabilities | 2,556 | 2,229 | 924 |
| Total non-current liabilities | 33,236 | 33,275 | 37,934 |
| 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 and outstanding 14,998,187 shares at 04/30/2016 and at 1/31/2016 and 14,852,640 at 04/30/2015 | 150 | 150 | 149 |
| Additional paid-in capital | 116,757 | 116,633 | 116,470 |
| Accumulated deficit | (72,279) | (69,140) | (76,868) |
| Accumulated other comprehensive loss | (14,000) | (14,330) | (19,739) |
| Total stockholders’ equity | 30,628 | 33,313 | 20,012 |
| Total liabilities and stockholders’ equity | $108,181 | $89,282 | $97,331 |

See accompanying notes.

Virco Mfg. Corporation
Condensed Consolidated Statements of Operations
Unaudited (Note 1)

| | Three months ended | |
|---|---|---|
| | 4/30/2016 | 4/30/2015 |
| | (In thousands, except per share data) | |
| Net sales | $20,827 | $23,048 |
| Costs of goods sold | 12,764 | 14,854 |
| Gross profit | 8,063 | 8,194 |
| Selling, general and administrative expenses | 10,909 | 11,043 |
| Gain on sale of property, plant & equipment | (1) | (8) |
| Operating loss | (2,845) | (2,841) |
| Interest expense, net | 264 | 298 |
| Loss before income taxes | (3,109) | (3,139) |
| Income tax expense | 29 | 39 |
| Net loss | $(3,138) | $(3,178) |
| | | |
| Net loss per common share (a): | | |
| Basic | $(0.21) | $(0.21) |
| Diluted | $(0.21) | $(0.21) |
| Weighted average shares outstanding (a): | | |
| : | | |
| Basic | 14,971 | 14,824 |
| Diluted | 14,971 | 14,824 |

(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 accompanying notes.

Virco Mfg. Corporation
Condensed Consolidated Statements of Comprehensive Loss
Unaudited (Note 1)

| | Three months ended | |
|---|---|---|
| | 4/30/2016 | 4/30/2015 |
| | (In thousands) | |
| Net loss | $(3,138) | $(3,178) |
| Other comprehensive loss | | |
| Pension adjustments | 330 | 495 |
| Comprehensive loss | $(2,808) | $(2,683) |

See accompanying notes.

Virco Mfg. Corporation
Condensed Consolidated Statements of Cash Flows
Unaudited (Note 1)

| | Three months ended | |
|---|---|---|
| | 4/30/2016 | 4/30/2015 |
| | (In thousands) | |
| Operating activities | | |
| Net loss | $ (3,138 ) | $ (3,178 ) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,305 | 1,130 |
| Provision for doubtful accounts | 16 | 15 |
| Gain on sale of property, plant and equipment | (1 ) | (8 ) |
| Deferred income taxes | 5 | 23 |
| Stock-based compensation | 124 | 122 |
| Amortization of net actuarial loss for pension plans, net of tax | 330 | 495 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | 1,032 | 801 |
| Other receivables | (35 ) | 4 |
| Inventories | (19,320 ) | (15,572 ) |
| Income taxes | 58 | 12 |
| Prepaid expenses and other current assets | (893 ) | (840 ) |
| Accounts payable and accrued liabilities | 3,991 | 6,973 |
| Net cash used in operating activities | (16,526 ) | (10,023 ) |
| Investing activities | | |
| Capital expenditures | (1,097 ) | (1,200 ) |
| Proceeds from sale of property, plant and equipment | 1 | 8 |
| Net cash used in investing activities | (1,096 ) | (1,192 ) |
| Financing activities | | |
| Proceeds from long-term debt | 24,600 | 22,300 |
| Repayment of long-term debt | (6,760 ) | (10,975 ) |
| Common stock repurchased | — | — |
| Net cash provided by financing activities | 17,840 | 11,325 |
| | | |
| Net increase in cash | 218 | 110 |
| Cash at beginning of period | 815 | 470 |
| Cash at end of period | $ 1,033 | $ 580 |

See accompanying notes.

VIRCO MFG. CORPORATION
Notes to unaudited Condensed Consolidated Financial Statements
April 30, 2016
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 pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended April 30, 2016, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2017. The balance sheet at January 31, 2016, 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, 2016 ("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 approximately 50% of the Company's total sales typically occurring from June to August each year, 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 generally relied on third-party bank financing to meet cash flow requirements during the build-up period immediately preceding the peak season. In addition, the Company typically is faced with a large balance of accounts receivable during the peak season. This occurs for two primary reasons. First, accounts receivable balances typically increase during the peak season as shipments of products increase. Second, many customers during this period are government institutions, which tend to pay accounts receivable more slowly than commercial customers. The Company's working capital requirements during and in anticipation of the peak summer season require management to make estimates and judgments that affect assets, liabilities, revenues and expenses, and related contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to market demand, labor costs, and stocking inventory.
Note 3. New Accounting Standards

In April 2015, the FASB amended its existing accounting standards for the presentation of debt issuance costs in the statement of financial position. The amendments generally require that the issuance costs related to a recognized debt obligation be presented as a deduction from the carrying amount of the debt obligation, with the associated amortization recognized as a component of interest expense. The amendments were effective for beginning February 1, 2016 on a retrospective basis; the Company adopted the standard for issuance costs incurred related to its revolving line of credit. The adoption resulted in the reclassification of $84,000 from prepaid expenses and other current assets and $69,000 from other assets to current portion of long-term debt and long-term debt, respectively, as of January 31, 2016. The adoption resulted in the reclassification of $84,000 from prepaid expenses and other current assets and $138,000 from other assets to current portion of long-term debt and long-term debt, respectively, as of April 30, 2015.

Note 4. Inventories
Inventory is valued at the lower of cost or Net Realizable Value (determined on a first-in, first-out basis) and includes material, labor, and factory overhead. The Company maintains allowances for estimated slow moving and obsolete inventory to reflect the difference between the cost of inventory and the estimated market value. Allowances for slow moving and obsolete inventory are determined through a physical inspection of the product in connection with a physical inventory, a review of slow-moving product, and consideration of active marketing programs. The market for

education furniture is traditionally driven by value, not style, and the Company has not typically incurred significant obsolescence expenses. If market conditions are less favorable than those anticipated by management, additional allowances may be required. Due to reductions in sales

volume in the past years, the Company's manufacturing facilities are operating at reduced levels of capacity. The Company records the cost of excess capacity as a period expense, not as a component of capitalized inventory valuation.

The following table presents an updated breakdown of the Company's net inventory (in thousands) as of April 30, 2016, January 31, 2016 and April 30, 2015:

| | 4/30/2016 | 1/31/2016 | 4/30/2015 |
|---|---|---|---|
| Finished goods | $ 21,984 | $ 10,233 | $ 14,917 |
| WIP | 21,086 | 13,443 | 17,776 |
| Raw materials | 10,854 | 10,927 | 9,557 |
| Inventories, net | $ 53,924 | $ 34,603 | $ 42,250 |

In connection with the preparation of the consolidated financial statements, the Company determined that its reserve for excess and obsolete inventory had previously been applied exclusively to the Finished goods portion of inventory, when it should have been applied against Finished goods, Work in process, and Raw materials and supplies, based on the identification of the specific parts determined to be held in excess or obsolete. The Company evaluated the impact of this error on prior year financial statements and concluded that it was immaterial for the quarter ended April 30, 2015, and for all interim periods within the fiscal year ending January 31, 2016. While the amounts included in the prior year disclosure were considered to be immaterial, the Company elected to revise the disclosure of previously reported amounts to be consistent with the presentation as of April 30, 2016 and January 31, 2016. The changes resulted in no change to Inventories, net. The changes resulted in an increase to Finished goods of $2,237,000, a decrease to Work in process of $1,360,000, and a decrease to Raw materials and supplies of $877,000 as of April 30, 2015.
Management continually monitors production costs, material costs and inventory levels to determine that interim inventories are fairly stated.
Note 5. Debt
Outstanding balances (in thousands) for the Company's long-term debt were as follows:

| | 4/30/2016 | 1/31/2016 | 4/30/2015 |
|---|---|---|---|
| | (in thousands) | | |
| Revolving credit line | $24,140 | $ 6,510 | $ 20,469 |
| Other | 80 | 97 | 153 |
| Total debt | 24,220 | 6,607 | 20,622 |
| Less current portion | 18,416 | 579 | 14,607 |
| Non-current portion | $5,804 | $ 6,028 | $ 6,015 |

On December 22, 2011, the Company entered into a Revolving Credit and Security Agreement (the "Credit Agreement") with PNC Bank, National Association ("PNC"). The credit agreement currently matures on December 22, 2017 and has a maximum availability of $49,750,000, including sub-lines for letters of credit and equipment financing. Borrowings under the Credit Agreement bear interest at either the Alternate Base Rate (as defined in the Credit Agreement) plus 0.50% to 1.50% or the Eurodollar Currency Rate (as defined in the Credit Agreement) plus 1.50% to 2.50%. The interest rate at April 30, 2016 was 4%. Approximately $8,860,000 was available for borrowing as of April 30, 2016.
The Credit Agreement restricts the Company from issuing dividends or making payments with respect to the Company's capital stock to an annual limit of $1.3 million, and contains numerous other covenants, including these financial covenants: (1) minimum tangible net worth, (2) fixed charge coverage ratio, and (3) minimum EBITDA amount, in each case as of the end of the relevant monthly, quarterly or annual measurement period. The Company was in compliance with its covenants during the first quarter of fiscal 2017. Pursuant to the Credit Agreement, substantially all of the Company's accounts receivable are automatically and promptly swept to repay amounts outstanding under the Revolving Credit Facility upon receipt by the Company. In addition, the Credit Agreement

contains a clean down provision that requires the Company to reduce borrowings under the line to less than $6,000,000 for a period of 60 consecutive days each fiscal year. On April 4, 2016, the Company entered into Amendment No. 12 to the Credit Agreement which, among other things, increased the borrowing availability for the period from June 1, 2016 through August 15, 2016.

9

The Company believes that the Revolving Credit Facility will provide sufficient liquidity to meet its capital requirements for at least in the next 12 months. Management believes that the carrying value of debt approximated fair value at April 30, 2016 and 2015, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

Note 6. Income Taxes

The Company recognizes deferred income taxes under the asset and liability method of accounting for income taxes in accordance with the provisions of ASC No. 740, Accounting for Income Taxes. Deferred income taxes are recognized for differences between the financial statement and tax basis of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, the Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. Based on this consideration, the Company determined the realization of a majority of the net deferred tax assets do not meet the more likely than not criteria and a valuation allowance was recorded against the majority of the net deferred tax assets at April 30, 2016.

The years ended January 31, 2012, January 31, 2014 and subsequent years remain open for examination by the IRS. The fiscal years ended January 31, 2012 and subsequent years remain open for examination by state tax authorities. The Company is not currently under IRS or state examination.

We do not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

Note 7. Net Loss per Share

| | Three Months Ended | |
|---|---|---|
| | 4/30/2016 | 4/30/2015 |
| | (In thousands, except per share data) | |
| Net loss | $(3,138) | $(3,178) |
| Weighted average shares outstanding (a) | 14,971 | 14,824 |
| Net effect of dilutive share-based on the treasury stock method using average market price | — | — |
| Totals | 14,971 | 14,824 |
| | | |
| Net income per share - basic | $(0.21) | $(0.21) |
| Net income per share - diluted | $(0.21) | $(0.21) |

(a) All exercisable and non-exercisable stock options were not included in the computation of diluted net loss per share at April 30, 2016 and 2015, because their inclusion would have been anti-dilutive. The number of stock options outstanding, which met this anti-dilutive criterion for the three months ended April 30, 2016 and 2015, was 270,000 and 233,000, respectively.

Note 8. Stock-Based Compensation and Stockholders' Rights

Stock Incentive Plans

The Company's two stock plans are the 2011 Employee Stock Incentive Plan (the "2011 Plan") and the 2007 Employee Incentive Stock Plan (the "2007 Plan"). Under the 2011 Plan, the Company may grant an aggregate of 2,000,000 shares to its employees and non-employee directors in the form of stock options or awards. Restricted stock or stock units awarded under the 2011 Plan are expensed ratably over the vesting period of the awards. The Company determines the fair value of its restricted stock unit awards and related compensation expense as the difference between the market value of the awards on the date of grant less the exercise price of the awards granted. The Company granted 0 awards under the 2011 Plan during the quarter ended April 30, 2016. As of April 30, 2016, there were approximately 803,520 shares available for future issuance 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 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 granted 0 awards under the 2007 Plan during the quarter ended April 30, 2016. As of April 30, 2016, there were approximately 13,075 shares available for future issuance under the 2007 Plan.

Accounting for the Plans

Restricted Stock Unit Awards

The following table presents a summary of restricted stock and stock unit awards at April 30, 2016 and 2015:

| | | | Expense for 3 months ended | | Unrecognized Compensation Cost at |
|---|---|---|---|---|---|
| Date of Grants | Units Granted | Terms of Vesting | 4/30/2016 | 4/30/2015 | 4/30/2016 |
| 2011 Stock Incentive Plan | | | | | |
| 06/22/2015 | 48,000 | 4 years | $8,000 | $— | $ 102,000 |
| 06/22/2015 | 27,174 | 1 year | 19,000 | 19,000 | 6,000 |
| 06/24/2014 | 490,000 | 5 years | 60,000 | 64,000 | 740,000 |
| 06/19/2012 | 520,000 | 5 years | 37,000 | 39,000 | 160,000 |
| Totals for the period | | | $124,000 | $122,000 | $ 1,008,000 |

Note 9. Stockholders' Equity

In June 2015, the Board of Directors terminated the Company's common stock repurchase plan. Pursuant to the Company's Credit Agreement with PNC, the Company is generally prohibited from repurchasing any shares of its stock except in cases where a repurchase is financed by a substantially concurrent issuance of new shares of the Company's common stock. On April 4, 2016, the Company entered into Amendment No. 12 to the Credit Agreement with PNC which, among other things, amended the restrictions on share repurchases to allow repurchases under certain circumstances and within certain dollar limitations.

Note 10. Retirement Plans

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

The Company also provides a supplementary retirement plan for certain key employees, the VIP Retirement Plan (the "VIP Plan"). The VIP Plan provides a benefit of up to 50% of average compensation for the last 5 years in the VIP Plan, offset by benefits earned under the Pension Plan. As more fully described in the Form 10-K, benefit accruals under this plan were frozen effective December 31, 2003.

The Company also provides a non-qualified plan for certain former 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 terminated his or her position with the Board, subject to the director having provided 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 cost (income) for the Pension Plan, the VIP Plan, and the Non-Employee Directors Retirement Plan for the three months ended April 30, 2016 and 2015 were as follows (in thousands):

| | Three Months Ended | | | |
|---|---|---|---|---|
| | Pension Plan | | VIP Plan | |
| | 4/30/2016 | 4/30/2015 | 4/30/2016 | 4/30/2015 |
| Service cost | $— | $ — | $— | $ — |
| Interest cost | 296 | 324 | 90 | 105 |
| Expected return on plan assets | (284 ) | (324 ) | — | — |
| Amortization of transition amount | — | — | — | — |
| Recognized (gain) loss due to curtailments | — | — | — | — |
| Amortization of prior service cost | — | — | — | — |
| Recognized net actuarial (gain) loss | 291 | 375 | 77 | 120 |
| Benefit cost | $303 | $ 375 | $167 | $ 225 |

Note 11. Warranty Accrual

The Company provides a warranty against all substantial defects in material and workmanship. In 2005 the Company extended its standard warranty from five years to 10 years. Effective February 1, 2014 the Company modified its warranty to a limited lifetime warranty. The new warranty effective February 1, 2014 is not anticipated to have a significant effect on warranty expense. The Company accrues an estimate of its exposure to warranty claims based upon both product sales data and an analysis of actual warranty claims incurred.
The following is a summary of the Company's warranty-claim activity for the three months ended April 30, 2016 and 2015.

| | Three Months Ended | |
|---|---|---|
| | 4/30/2016 | 4/30/2015 |
| | (In thousands) | |
| Beginning balance | $1,000 | $ 950 |
| Provision | 129 | 83 |
| Costs incurred | (129 ) | (83 ) |
| Ending balance | $1,000 | $ 950 |

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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Results of Operations
For the three months ended April 30, 2016, the Company incurred a pre-tax loss of $3,109,000 on net sales of $20,827,000 compared to a pre-tax loss of $3,139,000 on net sales of $23,048,000 in the same period last year.
Net sales for the three months ended April 30, 2016 decreased by $2,221,000, a 9.6% decrease, compared to the same period last year. This decrease was primarily due to reduction in unit volume, attributable primarily to changes in the timing of customer shipments rather than reduced business activity. Order rates for the quarter increased by approximately 15% compared to the prior year period, driven by increased project business, which is more likely to be delivered in the summer months when school is not in session. The Company began the quarter ended April 30, 2016 with a backlog that was approximately $0.4 million more than at the start of the first quarter last year. Backlog at April 30, 2016 increased by nearly 33.0% to $31,843,000 compared to $23,855,000 at April 30, 2015.
Order rates for the first quarter ended April 30, 2016 were 15.0% higher than the first fiscal quarter of last year. While this increase is welcome, the month by month trends continue to be volatile. Order rates for February 2016, which is traditionally a fairly slow month, were 40% higher than the prior year because severe weather conditions closed schools in many parts of the country in February 2015. Order rates in March and April of 2016 were moderately higher than last year, resulting in a 15% improvement for the quarter. The increase in project business contributes to the monthly volatility in orders as well as contributes to heightened seasonality for sales, as projects are likely to be delivered in the summer when school is out of session.
As discussed more fully in the Company's Form 10-K for the fiscal year ended January 31, 2016 filed on April 26, 2016 (the “Form 10-K”), the Company implemented a variety of cost saving initiatives in prior years that have reduced the number of full time employees. The reduction in headcount was concentrated in manufacturing. This reduced cost structure has helped the Company reduce operating losses during the seasonally slow first and fourth fiscal quarters. In recent years the Company aggressively utilized temporary workers to meet the seasonal demand for production and distribution. As there are practical limits to the use of temporary labor relating to both efficiency and quality, in the current quarter the Company has produced more inventory in the slow winter months in preparation for the summer 2016 delivery season. While the Company still plans to use significant temporary resources during the summer months, depending upon actual sales volume the use of temporary labor may decline. In addition, the Company has expanded the selection of “quick ship” stocked items and has promised more rapid delivery for items in the quick ship program. Both of these marketing programs increase the need for finished goods and component inventory. Production levels for the first quarter were nearly 10% greater than in the prior year. This contributed to improved manufacturing efficiencies and increased overhead absorption for the quarter.
Gross margin in the three months ended April 30, 2016 decreased on lower revenues to $8,063,000 from $8,194,000 in the prior year. Gross margin as a percentage of sales increased to 38.7% for the three months ended April 30, 2016 compared to 35.6% in the same period last year. The improvement in gross margin was primarily attributable to the manufacturing efficiencies discussed above. The Company incurred a slight increase in raw material costs during the same period. In the prior year the Company benefitted from favorable commodity costs. For the current year, we are seeing noticeable increases in the cost of some commodities, particularly steel.
Selling, general and administrative expenses for the three months ended April 30, 2016, decreased by approximately $134,000 compared to the same period last year, but increased as a percentage of sales due to reduced sales volume.
In the three months ended April 30, 2016, the Company did not record a significant income tax expense / (benefit). During the fourth quarter of 2012 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 relatively low, with income tax expense / (benefit) being primarily attributable to alternative minimum taxes combined with income and franchise taxes required by various states.
It is reasonably possible that, within the next twelve months, a review of the objective evidence may indicate that a portion or all of our valuation allowance related to deferred tax assets will no longer be appropriate. If such a determination is made, release of the valuation allowance related to deferred tax assets would be recognized as an income tax benefit to continuing operations in the period in which such assessment is made.

Interest expense was slightly less for the three months ended April 30, 2016 compared to the same period last year as a result of lower interest rates.

Liquidity and Capital Resources

Accounts receivable were lower at April 30, 2016 than at April 30, 2015 due to reduced sales during the quarter. The Company traditionally builds large quantities of inventory during the first quarter of each fiscal year in anticipation of seasonally high summer shipments. As discussed above, the Company is intentionally building additional inventory during the slow season in

13

an effort to improve efficiency and improve the level of on time delivery. The Company started the current fiscal year with nearly $8,000,000 more inventory than in the prior year. During the first quarter, the Company increased inventory by approximately $19,320,000 compared to January 31, 2016. This increase was approximately $3,750,000 greater than the increase during the comparable fiscal quarter last year, in anticipation of more timely deliveries and a compressed peak season delivery cycle. The increase in inventory during the first quarter of this year was financed through the Company's credit facility with PNC Bank, National Association ("PNC").

Borrowing under the Company's revolving line of credit with PNC at April 30, 2016 increased by approximately $3,671,000 compared to last year, primarily due to the increase in inventory. The Company established a goal of limiting capital spending to less than the Company's anticipated depreciation expense. Capital spending for the three months ended April 30, 2016 was $1,097,000 compared to $1,200,000 for the same period last year. Capital expenditures are being financed through the Company's credit facility with PNC and operating cash flow.

Net cash used in operating activities for the three months ended April 30, 2016, was $16,526,000 compared to $10,023,000 for the same period last year. The increase in cash used was primarily attributable to increased production of inventory and a smaller increase in vendor credit and accrued liabilities.

The Company believes that cash flows from operations, together with the Company's unused borrowing capacity under its revolving line of credit with PNC will be sufficient to fund the Company's debt service requirements, capital expenditures and working capital needs for at least the next twelve months. Approximately $8,860,000 was available for borrowing as of April 30, 2016.

Off Balance Sheet Arrangements

None.

Critical Accounting Policies and Estimates

The Company's critical accounting policies are outlined in its Form 10-K. There have been no changes in the quarter ended April 30, 2016.

Forward-Looking Statements

From time to time, including in this Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2016, the Company or its representatives have made and may make forward-looking statements, orally or in writing. 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 ("SEC"). The words or phrases “anticipates,” “expects,” “will continue,” “believes,” “estimates,” “projects,” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The results contemplated by the Company's forward-looking statements are subject to certain risks and uncertainties that could cause actual results to vary materially from anticipated results, including without limitation, availability of funding for educational institutions, availability and cost of materials, especially steel, availability and cost of labor, demand for the Company's products, competitive conditions affecting selling prices and margins, capital costs and general economic conditions. Such risks and uncertainties are discussed in more detail in the Company's Form 10-K under "Risk Factors".

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

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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 our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”) as of April 30, 2016. Based upon the foregoing, the Company's Principal Executive Officer along with the Company's Principal Financial Officer concluded that the Company's disclosure controls and procedures as of such date were effective to ensure that the information required to be disclosed in the Company’s Exchange Act reports is recorded, processed, summarized and reported within the time

periods specified in the SEC's rules and forms, and that such information is



---

accumulated and communicated to Company management, including its Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, Company management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control Over Financial Reporting
There was no change in the Company's internal control over financial reporting during the fiscal quarter ending April 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — Other Information

Virco Mfg. Corporation

Item 1. Legal Proceedings

The Company is a party to various legal actions 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 actions, 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

You should carefully consider and evaluate the information in this Quarterly Report and the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended January 31, 2016, which was filed with the SEC on April 26, 2016. The risk factors associated with our business have not materially changed compared to the risk factors disclosed in the Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 10.23 — Twelfth Amendment to Revolving Credit and Security Agreement, dated as of April 4, 2016, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed with the Commission on April 26, 2016).

Exhibit 31.1 — Certification of Robert A. Virtue, Chief 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, 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.

SIGNATURES

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

| | VIRCO MFG. CORPORATION | |
|---|---|---|
| Date: June 13, 2016 | By: | /s/ Robert E. Dose |
| | | Robert E. Dose |
| | | Vice President — Finance |
| | | (Principal Financial Officer) |

17