VIRCO MFG CORPORATION
Form 10-Q
December 07, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**Quarterly Report under Section 13 or 15(d)**
**of the Securities Exchange Act of 1934**
**FORM 10-Q**
**For Quarter Ended October 31, 2007**
**Commission File Number 1-8777**
**VIRCO MFG. CORPORATION**
(Exact Name of Registrant as Specified in its Charter)

| Delaware | 95-1613718 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 2027 Harpers Way, Torrance, CA | 90501 |
| (Address of principal executive offices) | (Zip Code) |

Registrant s telephone number, including area code: (310) 533-0474
No change
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):

Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o

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

The number of shares outstanding for each of the registrant s classes of common stock, as of the latest practicable date: Common Stock, $.01 par value 14,428,667 shares as of November 30, 2007.

VIRCO MFG. CORPORATION
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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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**PART I**

Item 1. Financial Statements

VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | 10/31/2007 | 1/31/2007 | 10/31/2006 |
|---|---|---|---|
| | (In thousands, except share data) | | |
| | Unaudited (Note 1) | | Unaudited (Note 1) |
| Assets | | | |
| Current assets: | | | |
| Cash | $ 4,382 | $ 1,892 | $ 2,158 |
| Trade accounts receivable | 24,032 | 18,796 | 28,994 |
| Less allowance for doubtful accounts | 209 | 200 | 234 |
| Net trade accounts receivable | 23,823 | 18,596 | 28,760 |
| Other receivables | 102 | 228 | 160 |
| Inventories: | | | |
| Finished goods, net | 10,063 | 11,651 | 7,786 |
| Work in process, net | 11,881 | 19,690 | 10,257 |
| Raw materials and supplies, net | 6,801 | 6,496 | 7,118 |
| | 28,745 | 37,837 | 25,161 |
| Deferred tax assets, net | 3,809 | | |
| Prepaid expenses and other current assets | 1,034 | 1,479 | 802 |
| Total current assets | 61,895 | 60,032 | 57,041 |
| Property, plant and equipment: | | | |
| Land and land improvements | 3,596 | 3,596 | 3,596 |
| Buildings and building improvements | 49,555 | 49,555 | 49,555 |
| Machinery and equipment | 112,917 | 109,730 | 108,385 |
| Leasehold improvements | 1,475 | 1,323 | 1,323 |
| | 167,543 | 164,204 | 162,859 |
| Less accumulated depreciation and amortization | 121,004 | 116,116 | 114,417 |
| Net property, plant and equipment | 46,539 | 48,088 | 48,442 |
| Goodwill and other intangible assets, net | 2,301 | 2,311 | 2,314 |
| Deferred tax assets, net | 6,612 | | |
| Other assets | 6,046 | 5,846 | 8,728 |

| | | | |
|---|---|---|---|
| Total assets | $123,393 | $116,277 | $ 116,525 |

See Notes to Condensed Consolidated Financial Statements.

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VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

| | 10/31/2007 | 1/31/2007 | 10/31/2006 |
|---|---|---|---|
| | (In thousands, except share and per share data) | | |
| | Unaudited (Note 1) | | Unaudited (Note 1) |
| Liabilities | | | |
| Current liabilities | | | |
| Checks released but not yet cleared bank | $ 2,662 | $ 2,563 | $ 2,222 |
| Accounts payable | 11,205 | 14,463 | 11,856 |
| Accrued compensation and employee benefits | 8,796 | 8,094 | 6,435 |
| Current portion of long-term debt | 74 | 5,074 | 5,012 |
| Other accrued liabilities | 7,357 | 6,844 | 5,587 |
| Total current liabilities | 30,094 | 37,038 | 31,112 |
| Non-current liabilities | | | |
| Accrued self-insurance retention and other | 4,359 | 3,962 | 3,815 |
| Accrued pension expenses | 14,175 | 15,949 | 15,671 |
| Long-term debt, less current portion | 135 | 10,190 | 10,877 |
| Total non-current liabilities | 18,669 | 30,101 | 30,363 |
| Deferred income taxes | | 260 | |
| 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 14,428,667 shares at 10/31/2007, 14,379,506 shares at 1/31/2007; and 10/31/2006 | 144 | 143 | 144 |
| Additional paid-in capital | 114,119 | 113,737 | 113,683 |
| Retained deficit | (32,067) | (57,436) | (54,583) |
| Accumulated comprehensive loss | (7,566) | (7,566) | (4,194) |
| Total stockholders equity | 74,630 | 48,878 | 55,050 |

| | | | |
|---|---|---|---|
| Total liabilities and stockholders equity | $123,393 | $116,277 | $ 116,525 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Three months ended | |
| --- | --- | --- |
| | 10/31/2007 | 10/31/2006 |
| | (In thousands, except per share data) | |
| Net sales | $ 76,977 | $ 73,678 |
| Costs of goods sold | 49,037 | 46,586 |
| Gross profit | 27,940 | 27,092 |
| Selling, general and administrative expenses | 20,814 | 20,125 |
| Interest expense | 509 | 1,014 |
| Income before income taxes | 6,617 | 5,953 |
| (Benefit) Provision for income taxes | (10,122) | 120 |
| Net income | $ 16,739 | $ 5,833 |
| Net income per common share | | |
| Basic | $ 1.16 | $ 0.41 |
| Diluted | $ 1.15 | $ 0.41 |
| Weighted average shares outstanding | | |
| Basic | 14,416 | 14,362 |
| Diluted | 14,535 | 14,364 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Nine months ended | |
|---|---|---|
| | 10/31/2007 | 10/31/2006 |
| | (In thousands, except per share data) | |
| Net sales | $ 197,030 | $ 186,788 |
| Costs of goods sold | 123,825 | 119,819 |
| Gross profit | 73,205 | 66,969 |
| Selling, general and administrative expenses | 55,625 | 53,134 |
| Interest expense | 1,953 | 3,197 |
| Income before income taxes | 15,627 | 10,638 |
| (Benefit) Provision for income taxes | (9,742) | 240 |
| Net income | $ 25,369 | $ 10,398 |
| Net income per common share | | |
| Basic | $ 1.76 | $ 0.77 |
| Diluted | $ 1.75 | $ 0.77 |
| Weighted average shares outstanding | | |
| Basic | 14,388 | 13,475 |
| Diluted | 14,503 | 13,499 |

See Notes to Condensed Consolidated Financial Statements.

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

| | Nine months ended | |
|---|---|---|
| | 10/31/2007 | 10/31/2006 |
| | (In thousands) | |
| Operating activities | | |
| Net income | $ 25,369 | $ 10,398 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 5,035 | 5,486 |
| Deferred income taxes | (10,681) | |
| Provision for doubtful accounts | 40 | 25 |
| (Gain) Loss on sale of property, plant and equipment | (17) | 1 |
| Stock based compensation | 479 | 645 |
| Changes in operating assets and liabilities | | |
| Trade accounts receivable | (5,266) | (11,515) |
| Other receivables | 126 | 217 |
| Inventories | 9,092 | 6,456 |
| Income taxes | 636 | 203 |
| Prepaid expenses and other current assets | 445 | 691 |
| Accounts payable and accrued liabilities | (4,086) | (3,702) |
| Net cash provided by operating activities | 21,172 | 8,905 |
| Investing activities | | |
| Capital expenditures | (3,444) | (2,463) |
| Proceeds from sale of property, plant and equipment | 17 | |
| Net investment in life insurance | (200) | |
| Net cash used in investing activities | (3,627) | (2,463) |
| Financing activities | | |
| Repayment of long-term debt | (15,055) | (10,580) |
| Proceeds from issuance of common stock | | 4,807 |
| Net cash used in financing activities | (15,055) | (5,773) |
| Net increase in cash | 2,490 | 669 |
| Cash at beginning of period | 1,892 | 1,489 |
| Cash at end of period | $ 4,382 | $ 2,158 |

See Notes to Condensed Consolidated Financial Statements.

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VIRCO MFG. CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
October 31, 2007

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 and nine months ended October 31, 2007, are not necessarily indicative of the results that may be expected for the year ending January 31, 2008. The balance sheet at January 31, 2007, 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 year ended January 31, 2007.

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. In 2007, the seasonal nature was more pronounced, with nearly 50% of estimated annual revenues shipping in the months of June, July, and August. 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, and to finance freight and field service expenses during the peak season.

In addition, the Company typically is faced with a large balance of accounts receivable during the peak season. This occurs for several 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. Third, many summer shipments involve project management services for new schools or major refurbishments, and may require approvals of architects, government auditors, or school boards prior to payment.

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 September 2006, the FASB issued SFAS No. 157 Fair Value Measurements ( SFAS 157 ) which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 also expands the amount of disclosure regarding the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not anticipate any material impact to its financial statements from the adoption of this standard.

In October 2006, the FASB ratified EITF 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements . This statement is effective for years beginning after December 15, 2007. This statement clarifies that FASB 106, Employers Accounting for Post-Retirement Benefits

other than Pensions , applies to endorsement split-dollar life insurance arrangements. The Company estimates that adoption of this statement will increase the Company s recorded liabilities by approximately $2,000,000 with no impact to the statement of operations or cash flows of the Company. The Company has purchased life insurance policies that are designed to pay a death benefit that is greater than the promised retirement benefit.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ) which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of any fiscal year beginning after November 15, 2007. The Company does not anticipate any material impact to its financial statements from the adoption of this standard.

Note 4. Inventories

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Fiscal year end financial statements at January 31, 2007, reflect inventories verified by physical counts with the material content valued by the LIFO method. At October 31, 2007 and 2006, 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 periods ended October 31, 2007 and 2006. LIFO reserves at October 31, 2007, January 31, 2007 and October 31, 2006 were $7,357,000, $7,357,000 and $6,423,000, respectively. Management continually monitors production costs, material costs and inventory levels to determine that interim inventories are fairly stated.

Note 5. Debt

The Company has entered into a revolving credit facility with Wells Fargo Bank, which was amended in March and April 2007, and which provided a term loan of $20,000,000 and a secured revolving line of credit that varies as a percentage of inventory and receivables, up to a maximum of $40,000,000, with the maximum increasing to $50,000,000 during certain months of the year. The amended agreement, which became effective March 2007, extended the maturity date from February 15, 2008 to February 15, 2009. The term note was a two-year loan, amortizing at $10,000,000 per year with interest payable monthly at a fluctuating rate equal to the Wells Fargo Bank s prime rate (7.5% at October 31, 2007) plus a 0.5% margin. The credit facility with Wells Fargo Bank is subject to various financial covenants including minimum revenues and required levels of EBITDA. The agreement also places certain restrictions on capital expenditures, new operating leases, dividends and the repurchase of the Company s common stock. The revolving credit facility is secured by the Company s accounts receivable, inventories, equipment and property. The credit facility was subsequently amended in October at a fluctuating rate equal to the bank s prime rate (7.5% at October 31, 2007).

During the quarter ended October 31, 2007, the Company made the first scheduled $10 million amortization payment on the term note and prepaid the remaining $10 million. Effective October 26, 2007, the credit agreement was amended to allow the Company to pay up to $1,750,000 per year in cash dividends. In addition, the interest rate was reduced to the prime rate and the Company was provided an option to borrow at a LIBOR based rate plus 2.5 percent. The revolving line typically provides for advances of 80% on eligible accounts receivable and 20%  60% on eligible inventory. The advance rates fluctuate depending on the time of the year and the types of assets. The agreement has an unused commitment fee of 0.375%. At October 31, 2007, the Company had paid off its term note and had no borrowings against the revolving credit facility. Approximately $38,948,000 was available for borrowing as of October 31, 2007. The Company was in compliance with its covenants at October 31, 2007.

Note 6. Income Taxes

On February 1, 2007, the Company adopted the provisions of FIN No. 48. As a result of the implementation of FIN No. 48, the Company recognized no material adjustment to the liability for unrecognized income tax benefits. At the adoption date of February 1, 2007, the Company had approximately $760,000 of unrecognized tax benefits. At October 31, 2007, the Company had approximately $760,000 of unrecognized tax benefits all of which would impact the effective tax rate if recognized. The Company estimates that no unrecognized tax benefits will decrease in the next 12 months due to the expiration of the statute of limitations or completion of audits in progress. The Company records interest and penalties on uncertain tax positions to income tax expense. As of February 1, 2007 and October 31, 2007, the Company has accrued $164,000 of interest and $134,000 of penalties related to uncertain tax positions. The tax years 2004 to 2006 remain open to examination by the IRS for federal income taxes. The tax years 2003 to 2006 remain open for major state taxing jurisdictions. The Company was not being audited by a major taxing jurisdiction at October 31, 2007.

At January 31, 2007, the Company had net operating losses that can potentially be carried forward for federal and state income tax purposes, expiring at various dates through 2027 if not utilized. Federal net operating losses that can potentially be carried forward total approximately $15,409,000 at January 31, 2007. State net operating losses that can potentially be carried forward totaled approximately $32,791,000 at January 31, 2007. Net operating losses carried forward was utilized to offset taxable income realized for the nine months ended October 31, 2007.

As disclosed in Footnote 6 in the Company s Form 10K for the period ended January 31, 2007, a valuation allowance was recorded as of January 31, 2007, against the Company s net deferred tax asset. This valuation allowance was also recorded at July 31, 2007, as disclosed in Footnote 6 in the Company s Form 10-Q for the quarter ended July 31, 2007.

The Company reviews the required valuation allowance on a quarterly basis. As the result of its most recent analysis, the Company has determined that its current trend of producing taxable income consistent with or greater than management s projections and its projections of adequate future taxable income makes the realization of the Company s deferred tax assets more likely than not. Accordingly, a valuation allowance is no longer necessary on certain of the Company s deferred tax assets. The benefit for income taxes for the three months ended October 31, 2007, includes the reversal of approximately $10.7 million in valuation allowance that had been recorded against the Company s deferred tax assets as of the previous quarter and at January 31, 2007. This adjustment to the valuation allowance is a non-cash benefit that has no impact on the Company s pre-tax income. The adjustment to the valuation allowance impacted the earnings per share by approximately $0.74 per share for both the three month and nine month periods ended October 31, 2007.

Certain of the Company s deferred tax assets will not be realized unless sufficient taxable income is generated in specific state taxing jurisdictions. Thus, consistent with its evaluation in the first and second quarters of the current fiscal year and at January 31, 2007, the Company believes that it is more likely than not that these deferred tax assets will not be realized and a valuation allowance totaling $700,000 has been maintained.

Note 7. Net Income per Share

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| | Three Months Ended | | Nine months ended | |
|---|---|---|---|---|
| | 10/31/2007 | 10/31/2006 | 10/31/2007 | 10/31/2006 |
| | (In thousands, except per share data) | | | |
| Net income | $16,739 | $ 5,833 | $25,369 | $10,398 |
| Average shares outstanding | 14,416 | 14,362 | 14,388 | 13,475 |
| Net effect of dilutive stock options based on the treasury stock method using average market price | 111 | 2 | 112 | 24 |
| Totals | 14,527 | 14,364 | 14,500 | 13,499 |
| Net income per share basic | $ 1.16 | $ 0.41 | $ 1.76 | $ 0.77 |
| Net income per share diluted | $ 1.15 | $ 0.41 | $ 1.75 | $ 0.77 |

Note 8. Stock Based Compensation

The Company s two stock plans are the 2007 Employee Incentive Plan (the 2007 Plan) and the 1997 Employee Incentive Stock Plan (the 1997 Plan). Under the 2007 Plan, the Company is permitted to grant an aggregate of 1,000,000 shares to its employees and directors in the form of stock options or awards. As of October 31, 2007, 12,887 stock awards, 262,500 stock units have been issued under the 2007 Plan and 724,613 shares remain available for future grant. The Company s 1997 Plan expired in 2007 and had 161,433 unexercised options which were cancelled. Stock options granted under the plans have an exercise price equal to the market price at the date of grant and have a maximum term of 10 years.

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.

Accounting for the Plans

Effective February 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment , using the modified prospective-transition method. The modified prospective-transition method was applied to those unvested options issued prior to the Company s adoption that have historically been accounted for under the Intrinsic Value Method. All outstanding options were 100% vested prior to the adoption and no options were granted or modified since the adoption of FASB Statement No. 123(R). Accordingly, no compensation expense was recorded on the Company s options during the three or nine months ended October 31, 2007 or October 31, 2006.

The Company has granted restricted stock and restricted stock units to members of management and non-management directors. Compensation expense is recognized based on the estimated fair value of restricted stock units at the date of grant and amortized over the vesting period.

As the compensation cost for restricted stock units was measured using the estimated fair value on the date of grant and recognized over the vesting period, there was no effect on the statements of operations, due to the adoption of FASB Statement No. 123(R). At February 1, 2006, the Company recorded a transitional reclassification of $247,000 from current liabilities to additional paid-in capital.

Restricted Stock and Stock Unit Awards

On June 19, 2007, the Company granted a total of 262,500 restricted stock units, with an estimated fair value of $6.79 per unit and exercise price of $0.01 per unit, to eligible employees under the 2007 Plan. Interests in such restricted stock units vest ratably over five years, with such units vesting 20% at each anniversary date.

On June 19, 2007, the Company granted 12,887 shares of restricted stock, with an estimated fair value of $6.79 per share and exercise price of $0.01 per share, to non-employee directors under the 2007 Plan. Interests in such restricted stocks vest 100% at June 18, 2008.

On June 30, 2004, the Company granted a total of 270,000 restricted stock units, with an estimated fair value of $6.92 per unit and exercise price of $0.01 per unit, to eligible employees under the 1997 Plan. Interests in such restricted stock units vest ratably over five years, with such units vesting 20% at each anniversary date.

On June 20, 2006, the Company granted 17,640 shares of restricted stock, with an estimated fair value of $4.96 per share and exercise price of $0.01 per share, to non-employee directors under the 1997 Plan. Interests in such restricted stocks vested 100% on June 19, 2007.

On January 13, 2006, the Company granted a total of 73,881 restricted stock units, with an estimated fair value of $5.21 per unit and exercise price of $0.01 per unit, to non-employee directors under the 1997 Plan. Participants vest their interest in notional stock units ratably over the vesting period, with such units being 100% vested at July 5, 2006.

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The outstanding awards can be summarized as follows:

| | Expense for 3 months ended | | Expense for 9 months ended | | Unrecognized Compensation Cost at |
|---|---|---|---|---|---|
| | 10/31/2007 | 10/31/2006 | 10/31/2007 | 10/31/2006 | 10/31/2007 |
| **2007 Incentive Stock Plan** | | | | | |
| 262,500 Restricted Stock Units issued 6/19/2007, vesting over 5 years | $ 91,000 | | $149,000 | | $1,631,000 |
| 12,887 Grants of Restricted Stock issued 6/19/2007, vesting over 1 year | 21,000 | | 36,000 | | 51,000 |
| **1997 Incentive Stock Plan** | | | | | |
| 270,000 Restricted Stock Units issued 6/30/2004, vesting over 5 years | 118,000 | 89,000 | 265,000 | 267,000 | 588,000 |
| 17,640 Grants of Restricted Stock issued 6/20/2006, vesting over 1 year | | 21,000 | 29,000 | 36,000 | |
| 73,881 Restricted Stock Units issued 1/13/2006, vesting over 5 months | | | | 342,000 | |
| Totals for the period | $230,000 | $110,000 | $479,000 | $645,000 | $2,270,000 |

Stockholders Rights

On October 15, 1996, the Board of Directors declared a dividend of one preferred stock purchase right ( the Rights ) for each outstanding share of the Company s common stock. Each of the Rights entitles a stockholder to purchase for an exercise price of $50.00 ($20.70, as adjusted for stock splits and stock dividends), subject to adjustment, one one-hundredth of a share of Series A Junior Participating Cumulative Preferred Stock of the Company, or under certain circumstances, shares of common stock of the Company or a successor company with a market value equal to two times the exercise price. The Rights are not exercisable, and would only become exercisable for all other persons when any person has acquired or commences to acquire a beneficial interest of at least 20% of the Company s outstanding common stock. The Rights have no voting privileges, and may be redeemed by the Board of Directors at a price of $.001 per Right at any time prior to the acquisition of a beneficial ownership of 20% of the outstanding common shares. 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 Income

Comprehensive income for the three months and nine months ended October 31, 2007 and 2006, was the same as net income reported on the statements of operations. Accumulated comprehensive income (loss) at October 31, 2007 and 2006 and January 31, 2007, is composed of minimum pension liability adjustments.

Note 10. Retirement Plans

The Company and its subsidiaries cover all employees under a non-contributory defined benefit retirement plan, entitled the Virco Employees Retirement Plan (the Plan ). Benefits under the Plan are based on years of service and career average earnings. As more fully described in the Form 10-K for the period ended January 31, 2007, benefit accruals under this plan were frozen effective December 31, 2003. The Company contributed approximately $2.8 million to the pension trust fund during the third quarter ended October 31, 2007.

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 Plan. As more fully described in the Form 10-K for the period ended January 31, 2007, 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 for the period ended January 31, 2007, benefit accruals under this plan were frozen effective December 31, 2003.

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The net periodic pension costs for the Plan, the VIP Plan, and the Non-Employee Directors Retirement Plan for the three months and nine months each ended October 31, 2007 and 2006, were as follows below (in thousands):

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Pension Plan | | VIP Retirement Plan | | Non-Employee Directors Retirement Plan | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Service cost | $ 41 | $ 43 | $ 50 | $ 53 | $ 6 | $ 6 |
| Interest cost | 345 | 352 | 90 | 85 | 7 | 6 |
| Expected return on plan assets | (224) | (246) | | | | |
| Amortization of transition amount | (9) | (9) | | | | |
| Amortization of prior service cost | 117 | 117 | (134) | (134) | 6 | 22 |
| Recognized net actuarial (Gain) or loss | 49 | 41 | 30 | 34 | (7) | (7) |
| Settlement and curtailment | | | | | | |
| Net periodic pension cost | $ 319 | $ 298 | $ 36 | $ 38 | $12 | $27 |

| | Nine Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Pension Plan | | VIP Retirement Plan | | Non-Employee Directors Retirement Plan | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Service cost | $ 123 | $ 129 | $ 150 | $ 159 | $ 18 | $ 18 |
| Interest cost | 1,035 | 1,056 | 270 | 255 | 21 | 18 |
| Expected return on plan assets | (672) | (738) | 0 | 0 | 0 | 0 |
| Amortization of transition amount | (27) | (27) | 0 | 0 | 0 | 0 |
| Amortization of prior service cost | 351 | 351 | (402) | (402) | 18 | 66 |
| Recognized net actuarial (Gain) or loss | 147 | 123 | 90 | 102 | (21) | (21) |
| Settlement and curtailment | 0 | 0 | 0 | 0 | 0 | 0 |
| Net periodic pension cost | $ 957 | $ 894 | $ 108 | $ 114 | $ 36 | $ 81 |

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 does not sell extended warranties, and no revenue has been deferred relating to product warranty. The

Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The warranty liability is included in accrued liabilities in the accompanying consolidated balance sheet.
The following is a summary of the Company s warranty claim activity for the three month and nine month periods each ended October 31, 2007 and 2006 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | 10/31/2007 | 10/31/2006 | 10/31/2007 | 10/31/2006 |
| | (In thousands) | | | |
| Beginning accrued warranty balance | $1,800 | $1,500 | $1,800 | $1,500 |
| Provision | 564 | 258 | 1,050 | 660 |
| Costs incurred | (464) | (258) | (950) | (660) |
| Ending accrued warranty balance | $1,900 | $1,500 | $1,900 | $1,500 |

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Note 12. Other Financing Activities

On June 6, 2006, WEDBUSH, Inc. and Wedbush Morgan Securities, Inc. (together with WEDBUSH, Inc., the Purchasers ), entered into a stock purchase agreement (the Agreement ) with the Company. Pursuant to the Agreement, (a) the Purchasers purchased from the Company shares (the Shares ) of the Company s common stock yielding gross proceeds to the Company of $5,000,000 at a purchase price per share of $4.66 (the Per Share Purchase Price ) and (b) the Company issued warrants to the Purchasers exercisable for 268,010 shares of common stock pursuant to which the Purchasers will have the right to acquire the 268,010 shares at an exercise price of 120% of the Per Share Purchase Price during the first three years following the closing of the transaction and at 130% of the Per Share Purchase Price during the fourth and fifth years following the closing of the transaction. The Company filed a Registration Statement on Form S-3 registering the resale of the Shares on October 6, 2006, and amended that registration statement on August 17, 2006. The Registration Statement became effective on September 18, 2006. Wedbush Morgan holds the securities purchased pursuant to the Agreement as nominee on behalf of those of its clients which purchased the securities.

On June 26, 2006, certain members of management and certain Directors (the Follow-on Purchasers ) entered into a stock purchase agreement with the Company to purchase shares of common stock and warrants. On August 29, 2006, this agreement was rescinded and replaced with a similar agreement for the purchase of 57,455 shares at a purchase price per share of $5.02 (the Follow-on Per Share Purchase Price ) yielding gross proceeds to the Company of approximately $288,000. Additionally the Company issued warrants to the Follow-on Purchasers exercisable for 14,364 shares of common stock pursuant to which the Follow-on Purchasers will have the right to acquire the 14,364 shares at an exercise price of 120% of the Follow-on Per Share Purchase Price during the first three years following the closing of the transaction and at 130% of the Follow-on Per Share Purchase Price during the fourth and fifth years following the closing of the transaction. The transaction closed during the third quarter ended October 31, 2006.

The securities sold to the Purchasers and Follow-on Purchasers were issued pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the Securities Act ), afforded by Section 4(2) of the Securities Act and Rule 506 of Regulation D thereunder, as a transaction to accredited and sophisticated investors not involving a public offering. The proceeds from the sale of the Shares were used for general corporate purposes, and the proceeds, if any, received from the exercise of the warrant agreements will be used to reduce outstanding indebtedness and for general corporate purposes. At January 31, 2007, the Company incurred $537,000 in closing costs, which were netted against the proceeds received.

Note: 13. Subsequent Event

On November 6, 2007, the Company announced the declaration of a quarterly cash dividend payable on December 5, 2007, to shareholders of record on November 16, 2007. The Company intends to pay future dividends, on a quarterly basis, following review and approval by the Company s Board of Directors.

VIRCO MFG. CORPORATION

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

Results of Operations

The results for the first nine months of 2007 reflect the success of the Company s Equipment for Educators integrated market development program, an increase in the seasonal nature of education furniture and equipment sales, and an improvement in the Company s ability to service the seasonal peak. The Company s ability to service the seasonal sales peak has benefited from increased financial strength, which allows the Company to build inventory earlier in the year utilizing longer efficient production runs, and new products that have been designed to take advantage of the assemble-to-ship (ATS) production and distribution model.

The effective income tax rate for the three and nine months periods ended October 31, 2007, reflects the impact of Net Operating Loss (NOL) carry-forwards and an adjustment to valuation allowance for net deferred tax assets. The net income reported in the third quarter ended October 31, 2007, was significantly impacted by a $10.7 million favorable adjustment in the valuation allowance. Due to the adjustment in valuation allowance, the effective tax rate for the third quarter and for the nine months ended October 31, 2007 was at 6% and is not comparable to the effective tax rate for the comparable periods in 2006, when the effective tax rate reflected the impact of NOL carry-forwards, but there was no adjustment to the valuation allowance for net deferred tax assets. It is anticipated that by the fiscal year ended January 31, 2008, the Company will have utilized the majority of NOL carry-forwards for federal income taxes, and that any required valuation allowance will be less than $1 million. As such, the effective tax rate in effect for subsequent fiscal years will be more closely aligned with statutory tax rates and significantly higher than the rates in 2007 or 2006. Certain sections of the remainder of Management s Discussion and Analysis will include a discussion of pre-tax income as well as after-tax income, as pre-tax income is a better measure of the operating performance of the Company for comparison to prior years, or subsequent periods.

Three Months Ended October 31, 2007 and 2006

For the third quarter of 2007, the Company earned pre-tax income of approximately $6,617,000 on sales of $76,977,000 compared to pre-tax income of $5,953,000 on sales of $73,678,000 in the same period last year. The Company earned net income of $16,739,000 compared to net income of $5,833,000 in the same period last year.

Sales for the third quarter ended October 31, 2007 increased by $3,299,000, a 4.5% increase, compared to the same period last year. This increase in sales for the third quarter is attributable to increases in selling prices, slightly offset by a decrease in unit volume. Orders for the same period increased by approximately 0.5%. Backlog at October 31, 2007 is approximately 6.7% higher than at the same date last year. Sales for the third quarter reflect the increasing seasonal trend in shipments of educational furniture. The Company has traditionally shipped more than 50% of its annual sales volume in the months of June, July, August, and September. In the current year, the shipments concentrated more heavily in the months of June, July and August.

Gross profit for the third quarter, as a percentage of sales, decreased by 0.5% compared to the same period last year. The slight decrease in gross margin was attributable to a modest reduction in production hours during the third quarter compared to the prior year.

Selling, general and administrative expenses for the quarter ended October 31, 2007 increased by approximately 3.4% compared to the same period last year, but decreased as a percentage of sales by approximately 0.3%. The decrease as a percentage of sales was primarily attributable to the price increase, offset by increased service related costs which include warehousing and installation.

Interest expense for the quarter ended October 31, 2007 decreased by approximately $505,000 compared to the same period last year. The increase was due to lower interest rates combined with reduced levels of borrowing.

Income tax benefit for the quarter reflected the $10,681,000 adjustment to the valuation allowance, offset in part by a provision for alternative minimum taxes that cannot be reduced by net operating loss carryforwards.

Nine Months Ended October 31, 2007 and 2006

For the nine months ended October 31, 2007, the Company earned pre-tax income of $15,627,000 on sales of $197,030,000 compared to pre-tax income of $10,638,000 on sales of $186,788,000 in the same period last year. For the nine months ended October 31, 2007, the Company earned net income of $25,369,000 compared to net income of $10,398,000 in the same period last year.

Sales for the nine months ended October 31, 2007 increased by $10,242,000, a 5.5% increase, compared to the same period last year. The increase in sales for the first nine months is attributable to increases in selling prices. Incoming orders for the first nine months increased by approximately 5.6%.

Gross profit for the first nine months increased as a percent of sales by 1.3%. The improvement in margin was attributable to increased prices, efficient levels of production, increased sales including service related charges such as installation, and relatively stable material costs.

Selling, general and administrative expenses for the nine months ended October 31, 2007 increased by approximately $2.5 million compared to the same period last year, but decreased as a percentage of sales by approximately 0.2%. The decrease as a percentage of sales was primarily attributable to the price increase, offset by increased service related costs which include warehousing and installation.

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Interest expense for the nine months ended October 31, 2007 decreased by approximately $1,244,000 compared to the same period last year. The decrease is primarily due to lower interest rates combined with a decrease in average borrowings during the period.

Financial Condition

As a result of seasonally higher deliveries in the third quarter, accounts and notes receivable increased compared to January 31, 2007. Receivables decreased compared to the third quarter of 2006, primarily due to an increased portion of the third quarter sales shipping earlier in the quarter and partially due to decreased day s sales outstanding. The Company traditionally builds large quantities of inventory during the first six months in anticipation of seasonally high summer shipments. Due to the improved financial condition, the Company has been able to achieve improved production efficiencies and improved order fulfillment by building inventory more ratably over the year and carrying slightly larger balances of inventory purchased for resale. The seasonal increase in inventory and receivables was financed through the Company s credit facility with Wells Fargo Bank. At the end of the third quarter, borrowings under the Company s lines with Wells Fargo Bank had been paid off compared to over $15 million in borrowings outstanding at October 31, 2006.

The Company has established a goal of limiting capital spending to less than $5,000,000 for 2007, which is approximately two thirds of anticipated depreciation expense. Capital spending for the nine months ended October 31, 2007, was $3,444,000 compared to $2,463,000 for the same period last year. The current year capital expenditures include expenditures relating to an upgrade of the Company s Enterprise Resource Planning system to a more recent version of SAP. Capital expenditures are being financed through the Company s credit facility with Wells Fargo Bank and operating cash flow.

Net cash generated in operating activities for the nine months ended October 31, 2007 was $21,172,000 compared to $8,905,000 for the same period last year. The increase in operating cash was attributable to the improvement in pre-tax income and reduction in cash used in net receivables offset by increased cash used for inventory.

The Company believes that cash flows from operations and the Company s unused borrowing capacity under the Company s credit facility will be sufficient to fund the Company s debt service requirements, capital expenditures and working capital needs. Approximately $38,498,000 was available for borrowing as of October 31, 2007 when calculated using the asset based advance formula. In order to comply with debt covenants, the Company must meet a clean down requirement of less than $30 million for 90 days. The Company anticipates that it will meet this requirement.

Off Balance Sheet Arrangements

During the three and nine month periods ended October 31, 2007, there were no material changes in the Company s off balance sheet arrangements or contractual obligations and commercial commitments from those disclosed in the Form 10-K for the fiscal year ended January 31, 2007.

Critical Accounting Policies and Estimates

The Company s critical accounting policies are outlined in its Form 10-K for fiscal year ended January 31, 2007.

Forward-Looking Statements

From time to time, including in this quarterly report, 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 i 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 Annual Report on Form 10-K for the fiscal year ended January 31, 2007.

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 has entered into a revolving credit facility with Wells Fargo Bank, which was amended in March and April 2007, and which provided a term loan of $20,000,000 and a secured revolving line of credit that varies as a percentage of inventory and receivables, up to a maximum of $40,000,000, with the maximum increasing to $50,000,000 during certain months of the year. The amended agreement, which became effective March 2007, extended the maturity date from February 15, 2008 to February 15, 2009. The term note was a two-year loan, amortizing at $10,000,000 per year with interest payable monthly at a fluctuating rate equal to the Wells Fargo Bank s prime rate (7.5% at October 31, 2007) plus a 0.5% margin. The credit facility with Wells Fargo Bank is subject to various financial covenants including minimum revenues and required levels of EBITDA. The agreement also places certain restrictions on capital expenditures, new operating leases, dividends and the repurchase of the Company s common stock. The revolving credit facility is secured by the Company s accounts receivable, inventories, equipment and property.

During the quarter ended October 31, 2007, the Company made the first scheduled $10 million amortization payment on the term note and prepaid the remaining $10 million. Effective October 26, 2007, the credit agreement was amended to allow the Company to pay up to

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$1,750,000 per year in cash dividends. In addition, the interest rate was reduced to the prime rate and the Company was provided an option to borrow at a LIBOR based rate plus 2.5 percent.

The revolving line typically provides for advances of 80% on eligible accounts receivable and 20% 60% on eligible inventory. The advance rates fluctuate depending on the time of the year and the types of assets. The agreement has an unused commitment fee of 0.375%. At October 31, 2007, the Company had paid off its term note and had no borrowings against the revolving credit facility. Approximately $38,498,000 was available for borrowing as of October 31, 2007. The Company was in compliance with its covenants at October 31, 2007.

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 President and Chief Executive Officer and Chief 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 President and Chief Executive Officer along with its Chief 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 Annual Report pursuant to Exchange Act Rule 13a-15. Based upon the foregoing, the Company s President and Chief Executive Officer along with the Company s Chief Financial Officer concluded that, subject to the limitations noted in this Part I, Item 4, Virco 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 SEC 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 fiscal quarter ended October 31, 2007 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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**PART II**
VIRCO MFG. CORPORATION
OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes in risk factors as disclosed in the Form 10-K for the period ended January 31, 2007.

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 6. Exhibits

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

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: December 7, 2007

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