# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended April 30, 2012**

**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 x 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 x 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 | x |

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

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 14,377,393 shares as of May 15, 2012.

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**VIRCO MFG. CORPORATION**

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## PART I FINANCIAL INFORMATION

### Item 1. Financial Statements

### VIRCO MFG. CORPORATION

### CONDENSED CONSOLIDATED BALANCE SHEETS

| | 4/30/2012 | 1/31/2012 | 4/30/2011 |
|---|---|---|---|
| | (In thousands, except share data) | | |
| | Unaudited (Note 1) | | Unaudited (Note 1) |
| Assets | | | |
| Current assets | | | |
| Cash | $ 1,958 | $ 2,897 | $ 768 |
| Trade accounts receivables, net | 9,008 | 12,743 | 10,038 |
| Other receivables | 76 | 401 | 51 |
| Income tax receivable | 316 | 324 | 345 |
| Inventories | | | |
| Finished goods, net | 11,492 | 6,273 | 13,926 |
| Work in process, net | 18,548 | 10,623 | 24,796 |
| Raw materials and supplies, net | 9,871 | 10,895 | 12,778 |
| | 39,911 | 27,791 | 51,500 |
| Prepaid expenses and other current assets | 2,612 | 1,652 | 2,020 |
| Total current assets | 53,881 | 45,808 | 64,722 |
| Property, plant and equipment | | | |
| Land | 1,671 | 1,671 | 1,671 |
| Land improvements | 1,213 | 1,213 | 1,437 |
| Buildings and building improvements | 47,797 | 47,797 | 47,797 |
| Machinery and equipment | 120,479 | 120,181 | 119,598 |
| Leasehold improvements | 2,549 | 2,549 | 2,699 |
| | 173,709 | 173,411 | 173,202 |
| Less accumulated depreciation and amortization | 135,370 | 134,203 | 131,637 |
| Net property, plant and equipment | 38,339 | 39,208 | 41,565 |
| Deferred tax assets, net | 2,195 | 2,200 | 2,596 |
| Other assets | 6,982 | 7,009 | 6,407 |
| Total assets | $ 101,397 | $ 94,225 | $ 115,290 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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**VIRCO MFG. CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | 4/30/2012 | 1/31/2012 | 4/30/2011 |
|---|---|---|---|
| | (In thousands, except share data) | | |
| | Unaudited (Note 1) | | Unaudited (Note 1) |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable | $ 15,345 | $ 11,684 | $ 15,549 |
| Accrued compensation and employee benefits | 3,616 | 3,797 | 4,256 |
| Current portion of long-term debt | 12,276 | 5,497 | 11,652 |
| Deferred tax liability | 1,221 | 1,221 | 1,398 |
| Other accrued liabilities | 5,543 | 4,641 | 6,204 |
| Total current liabilities | 38,001 | 26,840 | 39,059 |
| Non-current liabilities | | | |
| Accrued self-insurance retention | 2,508 | 1,915 | 2,564 |
| Accrued pension expenses | 25,169 | 25,069 | 17,942 |
| Income tax payable | 496 | 488 | 731 |
| Long-term debt, less current portion | 6,008 | 6,011 | 7,500 |
| Other accrued liabilities | 2,924 | 3,006 | 3,004 |
| Total non-current liabilities | 37,105 | 36,489 | 31,741 |
| 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 14,377,393 at 04/30/2012, 14,354,046 shares at 01/31/2012 and 14,204,998 at 04/30/2011 | 144 | 144 | 142 |
| Additional paid-in capital | 115,288 | 115,060 | 114,109 |
| Accumulated deficit | (73,813) | (68,980) | (60,019) |
| Accumulated other comprehensive loss | (15,328) | (15,328) | (9,742) |
| Total stockholders equity | 26,291 | 30,896 | 44,490 |
| Total liabilities and stockholders equity | $ 101,397 | $ 94,225 | $ 115,290 |

See Notes to Unaudited Condensed Consolidated Financial Statements

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**VIRCO MFG. CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

Unaudited (Note 1)

| | Three months ended | |
|---|---|---|
| | 4/30/2012 | 4/30/2011 |
| | (In thousands, except share data) | |
| Net sales | $ 23,668 | $ 24,256 |
| Costs of goods sold | 16,701 | 17,478 |
| Gross profit | 6,967 | 6,778 |
| Selling, general, administrative & other expenses | 11,529 | 11,936 |
| Interest expense | 255 | 214 |
| Loss before income taxes | (4,817) | (5,372) |
| Income tax expense | 16 | 28 |
| Net loss | $ (4,833) | $ (5,400) |
| Net loss per common share Basic and diluted | $ (0.34) | $ (0.38) |
| Weighted average shares outstanding Basic and diluted | 14,296 | 14,205 |
| Dividend declared per common share | | |
| Cash | $ | $ 0.05 |

(a) Net loss per share for the three months ended April 30, 2012 and April 30, 2011 was calculated based on basic shares outstanding due to the anti-dilutive effect on the inclusion of common stock equivalent shares.

See Notes to Unaudited Condensed Consolidated Financial Statements

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**VIRCO MFG. CORPORATION**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

Unaudited (Note 1)

| | Three months ended | |
|---|---|---|
| | 4/30/2012 | 4/30/2011 |
| | (In thousands) | |
| Net loss | $ (4,833) | $ (5,400) |
| Other comprehensive loss | | |
| Comprehensive loss | $ (4,833) | $ (5,400) |

See Notes to Unaudited Condensed Consolidated Financial Statements

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**VIRCO MFG. CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Unaudited (Note 1)

| | Three months ended | |
|---|---|---|
| | 4/30/2012 | 4/30/2011 |
| | (In thousands) | |
| Operating activities | | |
| Net loss | $ (4,833) | $ (5,400) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,195 | 1,299 |
| Provision for doubtful accounts | (35) | 15 |
| Deferred income taxes | 5 | 18 |
| Stock based compensation | 260 | 199 |
| Changes in operating assets and liabilities | | |
| Trade accounts receivable | 3,770 | 409 |
| Other receivables | 325 | 117 |
| Inventories | (12,120) | (16,130) |
| Income taxes | 16 | 22 |
| Prepaid expenses and other assets | (961) | (401) |
| Accounts payable and accrued liabilities | 4,984 | 7,609 |
| Net cash used in operating activities | (7,394) | (12,243) |
| Investing activities | | |
| Capital expenditures | (325) | (803) |
| Net cash used in investing activities | (325) | (803) |
| Financing activities | | |
| Issuance of debt | 18,276 | 19,172 |
| Repayment of debt | (11,496) | (6,531) |
| Cash dividends paid | | (356) |
| Net cash provided by financing activities | 6,780 | 12,285 |
| Net decrease in cash | (939) | (761) |
| Cash at beginning of period | 2,897 | 1,529 |
| Cash at end of period | $ 1,958 | $ 768 |
| Non cash disclosures: | | |
| Cash dividends declared but not paid | $ | $ 355 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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**VIRCO MFG. CORPORATION**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**April 30, 2012**

**Note 1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended April 30, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2013. The balance sheet at January 31, 2012, 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, 2012 ( Form 10-K ). All references to the Company refer to Virco Mfg. Corporation and its subsidiaries.

**Note 2. Seasonality**

The market for educational furniture is marked by extreme seasonality, with over 50% of the Company s total sales typically occurring from June to September each year, which is the Company s peak season. Hence, the Company typically builds and carries significant amounts of inventory during and in anticipation of this peak summer season to facilitate the rapid delivery requirements of customers in the educational market. This requires a large up-front investment in inventory, labor, storage and related costs as inventory is built in anticipation of peak sales during the summer months. As the capital required for this build-up generally exceeds cash available from operations, the Company has historically relied on third-party bank financing to meet cash flow requirements during the build-up period immediately preceding the peak season. In addition, the Company typically is faced with a large balance of accounts receivable during the peak season. This occurs for two primary reasons. First, accounts receivable balances typically increase during the peak season as shipments of products increase. Second, many customers during this period are government institutions, which tend to pay accounts receivable more slowly than commercial customers.

The Company s working capital requirements during and in anticipation of the peak summer season require management to make estimates and judgments that affect assets, liabilities, revenues and expenses, and related contingent assets and liabilities. On an on-going basis, management evaluates its estimates, including those related to market demand, labor costs, and stocking inventory.

**Note 3. New Accounting Standards**

In January 2011, the FASB issued Accounting Standards Update (ASU), 2011-06, Improving Disclosures about Fair Value Measurements. ASU 2011-06 amends the Fair Value Measurements and Disclosures Topic to require additional disclosure and clarify existing disclosure requirements about fair value measurements. ASU 2011-06 requires entities to provide fair value disclosures by each class of assets and liabilities, which may be a subset of assets and liabilities within a line item in the statement of financial position. The additional requirements also include disclosure regarding the amounts and reasons for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and separate presentation of purchases, sales, issuances and settlements of items within Level 3 of the fair value hierarchy. ASU 2011-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements which are effective for fiscal years beginning after December 15, 2011, and for interim periods within those fiscal years. We adopted ASU 2011-06 on February 1, 2011, which only applies to our disclosures on the fair value of financial instruments held by the pension plans. The adoption of ASU 2011-06 did not have a material impact on our footnote disclosures.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS , which amends ASC 820 providing consistent guidance on fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 is effective for fiscal years beginning after December 15, 2011. We do not expect that the adoption of ASU 2011-04 will have a material impact on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 requires the components of net income and other comprehensive income to be either presented in one continuous statement, referred to as the statement of comprehensive income, or in two

separate, consecutive statements. While ASU 2011-05 changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for the Company beginning February 1, 2012 and requires retrospective application. As this guidance only amends the presentation of the components of comprehensive income, the adoption did not have an impact on the Company s consolidated financial position or results of operations.

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**Note 4. Inventories**

Inventories primarily consist of raw materials, work in progress, and finished goods of manufactured products. In addition, the Company maintains an inventory of finished goods purchased for resale. Inventories are stated at lower of cost or market and consist of materials, labor, and overhead. The Company determines the cost of inventory by the first-in, first-out method. The value of inventory includes any related production overhead costs incurred in bringing the inventory to its present location and condition. The Company records the cost of excess capacity as a period expense, not as a component of capitalized inventory valuation.

Management continually monitors production costs, material costs and inventory levels to determine that interim inventories are fairly stated.

**Note 5. Debt**

The Company and Virco Inc., a wholly owned subsidiary of the Company ( Virco Inc. and, together with the Company, the Borrowers ) are party to a Revolving Credit and Security Agreement (the Credit Agreement ), dated as of December 22, 2011, with PNC Bank, National Association, as administrative agent and lender ( PNC ).

The Credit Agreement provides the Borrowers with a secured revolving line of credit (the Revolving Credit Facility ) of up to $60,000,000, with seasonal adjustments to the credit limit and subject to borrowing base limitations, and includes a sub-limit of up to $3,000,000 for issuances of letters of credit. The Revolving Credit Facility is an asset-based line of credit that is subject to a borrowing base limitation and generally provides for advances of up to 85% on eligible accounts receivable, plus a percentage equal to the lesser of 60% of the value of eligible inventory or 85% of the liquidation value of eligible inventory, plus an amount ranging from $6,000,000 to $12,000,000 from March 1 through July 15 of each year, minus undrawn amounts of letters of credit and reserves. The Revolving Credit Facility is secured by substantially all of the Borrowers personal property and certain of the Borrowers real property. The principal amount outstanding under the Credit Agreement and any accrued and unpaid interest is due no later than December 22, 2014, and the Revolving Credit Facility is subject to certain prepayment penalties upon earlier termination of the Revolving Credit Facility. Prior to the maturity date, principal amounts outstanding under the Credit Agreement may be repaid and reborrowed at the option of the Borrowers without premium or penalty, subject to borrowing base limitations, seasonal adjustments and certain other conditions.

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

The Credit Agreement contains a covenant that forbids the Company from issuing dividends or making payments with respect to the Company s capital stock, and contains numerous other covenants that limit under certain circumstances the ability of the Borrowers and their subsidiaries to, among other things, merge with or acquire other entities, incur new liens, incur additional indebtedness, repurchase stock, sell assets outside of the ordinary course of business, enter into transactions with affiliates, or substantially change the general nature of the business of the Borrowers, taken as a whole. The Credit Agreement also requires the Company to maintain certain financial covenants, including a minimum tangible net worth, minimum EBITDA amounts and a minimum fixed charge coverage ratio. In addition, there is 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 days each fiscal year. The Company believes that normal operating cash flow will allow it to meet the clean down requirement with no adverse impact on the Company s liquidity. The Company was in compliance with its covenants at April 30, 2012.

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

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

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

At April 30, 2012, availability under the Revolving Credit Facility was $11,311,000. Management believes that the carrying value of debt approximated fair value at April 30, 2012, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

The description set forth herein of the Credit Agreement is qualified in its entirety by the terms of the Credit Agreement, which has been filed with the Commission.

**Note 6. Income Taxes**

The Company recognizes deferred income taxes under the asset and liability method of accounting for income taxes in accordance with the provisions of ASC No. 740, Accounting for Income Taxes. Deferred income taxes are recognized for differences between the financial statement and tax basis of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, the Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. Based on this consideration, the Company determined the realization of a majority of the net deferred tax assets no longer met the more likely than not criteria and a valuation allowance was recorded against the majority of the net deferred tax assets at April 30, 2012. The effective tax rate for both quarters was impacted by the valuation allowance recognized against state deferred tax assets and discrete items associated with non-taxable permanent differences.

The Company is currently under IRS examination for its tax return for the year ended January 31, 2011. The years ended January 31, 2010 and January 31, 2012 remain open for examination by the IRS. The years ended January 31, 2008 through January 31, 2012 remain open for examination by state tax authorities. The Company is not currently under state examination.

The specific timing of when the resolution of each tax position will be reached is uncertain. As of April 30, 2012, 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 | |
|---|---|---|
| | 4/30/2012 | 4/30/2011 |
| | (In thousands, except per share data) | |
| Numerators: | | |
| Numerator for both basic and diluted net loss per share | $ (4,833) | $ (5,400) |
| Denominators: | | |
| Denominator for basic net loss per share weighted-average common shares outstanding | 14,296 | 14,205 |
| Potentially dilutive shares from stock option plans | | |
| Denominator for diluted net loss per share | 14,296 | 14,205 |
| Net loss per share - basic and diluted | $ (0.34) | $ (0.38) |

Certain exercisable and non-exercisable stock options were not included in the computation of diluted net loss per share at April 30, 2012 and 2011, 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, 2012 and 2011, was 39,000 and 140,000, respectively.

**Note 8. Stock Based Compensation**

**Stock Incentive Plans**

The Company s two stock plans are the 2007 Employee Stock Incentive Plan (the 2007 Plan ) and the 1997 Employee Incentive Stock Plan (the 1997 Plan ). Under the 2007 Plan, the Company may grant an aggregate of 1,000,000 shares to its

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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 40,000 awards during the first quarter of 2012. As of April 30, 2012, there were approximately 91,200 shares available for future issuance under the 2007 Plan.

The 1997 Plan expired in 2007 and there were no unexercised options outstanding under the 1997 Plan at April 30, 2012. Stock options awarded to employees under the 1997 Plan had to be at exercise prices equal to the fair market value of the Company s common stock on the date of grant. Stock options generally have a maximum term of 10 years and generally become exercisable ratably over a five-year period.

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

**Restricted Stock and Stock Unit Awards**

**Accounting for the Plans**

The following table presents a summary of restricted stock and stock unit awards at April 30, 2012 and 2011:

| | Expense for 3 months ended | | Unrecognized Compensation Cost at |
|---|---|---|---|
| | 4/30/2012 | 4/30/2011 | 4/30/2012 |
| **2007 Plan** | | | |
| 40,000 Grants of Restricted Stock, issued 3/21/2012, vesting immediately | $ 80,000 | $ | $ |
| 68,960 Grants of Restricted Stock, issued 6/21/2011, vesting over 1 year | 50,000 | | 17,000 |
| 56,455 Grants of Restricted Stock, issued 6/8/2010, vesting over 1 year | | 43,000 | |
| 382,500 Restricted Stock Units, issued 6/16/2009, vesting over 5 years | 56,000 | 67,000 | 470,000 |
| 262,500 Restricted Stock Units, issued 6/19/2007, vesting over 5 years | 74,000 | 89,000 | 25,000 |
| Totals for the period | $ 260,000 | $ 199,000 | $ 512,000 |

**Stockholders Rights**

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

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**Note 9. Comprehensive Loss and Stockholders Equity**

Comprehensive loss for the three months ended April 30, 2012 and 2011 was the same as net loss reported on the Statements of Operations. Accumulated other comprehensive loss at April 30, 2012 and 2011 and January 31, 2012 is composed of minimum pension liability adjustments.

During the three months ended April 30, 2012, the Company did not repurchase any shares of its common stock. As of April 30, 2012, $1.1 million remained available for repurchases of the Company s common stock pursuant to the Company s repurchase program approved by the Board of Directors. Pursuant to the Company s Credit Agreement with PNC, however, the Company is prohibited from repurchasing any shares of its stock except in cases where a repurchase is financed by a substantially concurrent issuance of new shares of the Company s common stock.

**Note 10. Retirement Plans**

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

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

The Company also provides a non-qualified plan for non-employee directors of the Company (the Non-Employee Directors Retirement Plan ). The Non-Employee Directors Retirement Plan provides a lifetime annual retirement benefit equal to the director s annual retainer fee for the fiscal year in which the director terminates his or her position with the Board, subject to the director providing 10 years of service to the Company. As more fully described in the Form 10-K, benefit accruals under this plan were frozen effective December 31, 2003.

The net periodic pension costs (income) for the Employees Retirement Plan, the VIP Plan, and the Non-Employee Directors Retirement Plan for the three months ended April 30, 2012 and 2011 were as follows (in thousands):

| | Three Months Ended April 30, | | | | | |
|---|---|---|---|---|---|---|
| | Employees Retirement Plan | | VIP Retirement Plan | | Non-Employee Directors Retirement Plan | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Service cost | $ | $ | $ | $ | $ | $ |
| Interest cost | 325 | 360 | 88 | 95 | 5 | 6 |
| Expected return on plan assets | (245) | (289) | | | | |
| Amortization of prior service cost | | | 51 | 13 | | |
| Recognized net actuarial (gain) or loss | 360 | 262 | | | | (10) |
| Net periodic pension cost (benefit) | $ 440 | $ 333 | $ 139 | $ 108 | $ 5 | $ (4) |

**Note 11. Warranty**

The Company accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. The Company s products carry a ten-year warranty. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The warranty liability is included in accrued liabilities in the accompanying consolidated balance sheets.

The following is a summary of the Company s warranty claim activity for the three months ended April 30, 2012 and 2011 (in thousands):

April 30,

| | 2012 | 2011 |
|---|---|---|
| Beginning balance | $ 1,400 | $ 2,300 |
| Provision | 111 | 82 |
| Costs incurred | (111) | (232) |
| Ending balance | $ 1,400 | $ 2,150 |

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**Note 12. Subsequent Events**

We have evaluated subsequent events to assess the need for potential recognition or disclosure in this Quarterly Report on Form 10-Q. Such events were evaluated through the date these financial statements were issued. Based upon this evaluation, it was determined that, except for the disclosure set forth below, no subsequent events occurred that required recognition or disclosure in the financial statements.

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**VIRCO MFG. CORPORATION**

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

**Results of Operations**

For the three months ended April 30, 2012, the Company incurred a pre-tax loss of $4,817,000 on net sales of $23,668,000 compared to a pre-tax loss of $5,372,000 on net sales of $24,256,000 in the same period last year.

Net sales for the three months ended April 30, 2012 decreased by $588,000, a 2.4% decrease, compared to the same period last year. This decrease was the result of a reduction in unit volume, offset by a modest increase in selling prices. The Company began the quarter with a backlog that was approximately $3.2 million (18.4%) less than at the start of the first quarter last year. Unit volume continues to be adversely impacted by the funded status of public schools. Incoming orders for the quarter increased by approximately 3.5% compared to the comparable quarter of the prior year. Backlog at April 30, 2012 decreased by approximately 3.7% compared to April 30, 2011.

As discussed more fully in the Form 10-K for the fiscal year ended January 31, 2012 ( Form 10-K ), the Company implemented a voluntary early retirement program in the third quarter of 2011 in an effort to bring its cost structure in line with decreased revenues. Combined with normal attrition of employees that were not replaced, the Company began the first quarter of 2012 with 21% fewer employees than at the beginning of the first quarter of 2011. The reduction in headcount was concentrated in manufacturing, and included both direct labor and indirect positions. It is the intent of the Company to meet the seasonal demand for production and distribution through more aggressive use of temporary seasonal workers. During the first quarter, the Company reduced production levels by approximately 25% compared to the first quarter last year. This had an adverse impact on factory overhead absorption, but due to reduced levels of spending, the unabsorbed overhead variance only increased by approximately $100,000. Because the Company started the year with lower levels of inventory, and because the Company produced less inventory during the first quarter of 2012 compared to the first quarter of 2011, inventory levels at April 30, 2012 were approximately $11.6 million or 22.5% lower than at April 30, 2011. Order rates for the first quarter of 2012 were approximately 3.5% greater than the first quarter of the prior year. If order rates continue to exceed the prior year, the Company will be required to hire additional temporary workers and increase production levels during the second and third quarters of 2012.

Gross margin as a percentage of sales increased to 29.4% for the three months ended April 30, 2012 compared to 27.9% in the same period last year. The improvement in gross margin was attributable to an increase in selling prices, a reduction in factory spending as discussed above, offset by a reduction in manufacturing overhead absorption.

Selling, general and administrative expenses for the three months ended April 30, 2012, decreased by approximately $407,000 compared to the same period last year, and decreased as a percentage of sales by 0.5%. The decrease in selling, general and administrative expenses was attributable to the reduction in headcount from the early retirement program and attrition offset slightly by increased retirement plan expenses. The reduction in headcount was primarily in warehouse, G&A, and sales overhead positions. The size of the direct sales force and sales related expenditures was largely unaffected by the prior s year restructuring activities.

In the first quarter of 2012 the Company did not record an income tax benefit. During the fourth quarter of 2011 the Company established a valuation allowance on the majority of deferred tax assets. Because of this valuation allowance the effective income tax expense / (benefit) is expected to be relatively low, with income tax expense / (benefit) being primarily attributable to alternative minimum taxes combined with income and franchise taxes required by various states.

Interest expense increased by approximately $41,000 for the three months ended April 30, 2012, compared to the same period last year. The increase was primarily due to higher average loan balances under the Company s credit facility with PNC Bank, National Association ( PNC ).

**Liquidity and Capital Resources**

Accounts receivable werelower at April 30, 2012 than at April 30, 2011, due to a slight reduction in sales and a slight reduction in days sales outstanding. The Company traditionally builds large quantities of inventory during the first quarter of each fiscal year in anticipation of seasonally high summer shipments. The Company started the current fiscal year with nearly $7,600,000 less inventory than in the prior year. During the quarter, the Company increased inventory by approximately $12,120,000 compared to January 31, 2012. This increase was less than the $16,130,000 increase in 2011, and because the Company started the year with substantially less inventory, at the end of the first quarter inventory was approximately $11,600,000 less compared to April 30, 2011. The increase in inventory during the first quarter of 2012 compared to January 31, 2012, was financed through the Company s credit facility with PNC.

Borrowings under the Company s revolving line of credit with PNC at April 30, 2012, decreased by approximately $875,000 compared to borrowings under the Wells Fargo Bank line of credit at April 30, 2011, primarily due to decreased levels of inventory. The Company established a goal of limiting capital spending to less than $3,000,000 for fiscal year 2012, which is less than the Company s anticipated depreciation expense. Capital spending for the three months ended April 30, 2012 was $325,000 compared to $803,000 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, 2012, was $7,394,000 compared to $12,243,000 for the same period last year. The decrease in cash used was primarily attributable to a reduction in the amount of inventory produced, and increase in the collection of receivables, a decrease in the pre-tax loss for the quarter and a decrease in accounts payable and accrued liabilities.

The Company believes that cash flows from operations, together with the Company s unused borrowing capacity under its revolving line of credit with PNC will be sufficient to fund the Company s debt service requirements, capital expenditures and working capital needs for the next twelve months. Approximately $11,311,000 was available for borrowing as of April 30, 2012.

**Off Balance Sheet Arrangements**

During the three months ended April 30, 2012, there were no material changes in the Company s off balance sheet arrangements or contractual obligations and commercial commitments from those disclosed in the Company s Form 10-K for the fiscal year ended January 31, 2012.

**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, 2012.

**Forward-Looking Statements**

From time to time, including in this Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2012, the Company or its representatives have made and may make forward-looking statements, orally or in writing, including those contained herein. Such forward-looking statements may be included in, without limitation, reports to stockholders, press releases, oral statements made with the approval of an authorized executive officer of the Company and filings with the Securities and Exchange Commission. The words or phrases anticipates, expects, will continue, believes, estimates, projects, or similar expressions are intended to identify forward-looking statemen the meaning of the Private Securities Litigation Reform Act of 1995. The results contemplated by the Company s forward-looking statements are subject to certain risks and uncertainties that could cause actual results to vary materially from anticipated results, including without limitation, availability of funding for educational institutions, availability and cost of materials, especially steel, availability and cost of labor, demand for the Company s products, competitive conditions affecting selling prices and margins, capital costs and general economic conditions. Such risks and uncertainties are discussed in more detail in the Company s Form 10-K.

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

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company and Virco Inc., a wholly owned subsidiary of the Company ( Virco Inc. and, together with the Company, the Borrowers ) are party to that certain Revolving Credit and Security Agreement (the Credit Agreement ), dated as of December 22, 2011, with PNC Bank, National Association, as administrative agent and lender ( PNC ).

The Credit Agreement provides the Borrowers with a secured revolving line of credit (the Revolving Credit Facility ) of up to $60,000,000, with seasonal adjustments to the credit limit and subject to borrowing base limitations, and includes a sub-limit of up to $3,000,000 for issuances of letters of credit. The Revolving Credit Facility is an asset-based line of credit that is subject to a borrowing base limitation and generally provides for advances of up to 85% on eligible accounts receivable, plus a percentage equal to the lesser of 60% of the value of eligible inventory or 85% of the liquidation value of eligible inventory, plus an amount ranging from $6,000,000 to $12,000,000 from March 1 through July 15 of each year, minus undrawn amounts of letters of credit and reserves. The Revolving Credit Facility is secured by substantially all of the Borrowers personal property and certain of the Borrowers real property. The principal amount outstanding under the Credit Agreement and any accrued and unpaid interest is due no later than December 22, 2014, and the Revolving Credit Facility is subject to certain prepayment penalties upon earlier termination of the Revolving Credit Facility. Prior to the maturity date, principal amounts outstanding under the Credit Agreement may be repaid and reborrowed at the option of the Borrowers without premium or penalty, subject to borrowing base limitations, seasonal adjustments and certain other conditions.

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

Credit Agreement is payable in arrears on a monthly basis for Alternative Base Rate loans, and at the end of the applicable interest period but at most every three months for Eurodollar Currency Rate loans.

The Credit Agreement contains a covenant that forbids the Company from issuing dividends or making payments with respect to the Company s capital stock, and contains numerous other covenants that limit under certain circumstances the ability of the

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Borrowers and their subsidiaries to, among other things, merge with or acquire other entities, incur new liens, incur additional indebtedness, repurchase stock, sell assets outside of the ordinary course of business, enter into transactions with affiliates, or substantially change the general nature of the business of the Borrowers, taken as a whole. The Credit Agreement also requires the Company to maintain certain financial covenants, including a minimum tangible net worth, minimum EBITDA amounts and a minimum fixed charge coverage ratio. In addition, there is 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 days each fiscal year. The Company believes that normal operating cash flow will allow it to meet the clean down requirement with no adverse impact on the Company s liquidity. The Company was in compliance with its covenants at April 30, 2012.

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

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

At April 30, 2012, availability under the Revolving Credit Facility was $11,311,000. Management believes that the carrying value of debt approximated fair value at April 30, 2012 and 2011, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

The descriptions set forth herein of the Credit Agreement is qualified in its entirety by the terms of the Credit Agreement, which has been filed with the Commission.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed with the Securities and Exchange Commission (the Commission ) pursuant to the Securities Exchange Act of 1934 (the Exchange Act ) is recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Assessing the costs and benefits of such controls and procedures necessarily involves the exercise of judgment by management, and such controls and procedures, by their nature, can provide only reasonable assurance that management s objectives in establishing them will be achieved.

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including its Principal Executive Officer along with its Principal Financial Officer**,** of the effectiveness of the design and operation of disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, pursuant to Exchange Act Rule 13a-15. Based upon the foregoing, the Company s Principal Executive Officer along with the Company s Principal Financial Officer concluded that, subject to the limitations noted in Part I, Item 4, the Company s disclosure controls and procedures are effective in ensuring that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its Principal Executive and Principal Financial Officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Internal Control over Financial Reporting**

There was no change in the Company s internal control over financial reporting during the first fiscal quarter of 2012 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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## PART II OTHER INFORMATION

## VIRCO MFG. CORPORATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

There have been no material changes from the risk factors as disclosed in the Company s Form 10-K for the period ended January 31, 2012.

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

On June 6, 2008, the Board of Directors approved a $3,000,000 share repurchase program. As of April 30, 2012, $1,053,000 remained available for repurchase under this program. The Company did not repurchase any shares of its stock during the first quarter of 2012. Pursuant to the Company s Credit Agreement with PNC, the Company is prohibited from repurchasing any shares of its stock except in cases where a repurchase is financed by a substantially concurrent issuance of new shares of the Company s common stock.

In addition, pursuant to the terms of the Company s Credit Agreement with PNC, the Company is prohibited from paying dividends. Consequently, for at least as long as this covenant is included in the Company s Credit Agreement, no dividends will be paid by the Company to its stockholders.

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

Exhibit 101.INS XBRL Instance Document.

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document.

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document.

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

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**VIRCO MFG. CORPORATION**

**SIGNATURES**

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

VIRCO MFG. CORPORATION

Date: June 11, 2012

By: /s/ Robert E. Dose
*Robert E. Dose*

*Vice President Finance*

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