VIRCO MFG CORPORATION
Form 10-Q
June 12, 2013
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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, 2013

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The number of shares outstanding for each of the registrant's classes of common stock, as of the latest practicable date:
Common Stock, $.01 par value — 14,550,371 shares as of May 31, 2013.

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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

	4/30/2013	1/31/2013	4/30/2012
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Assets			
Current assets:			
Cash	$1,174	$853	$ 1,958
Trade accounts receivable, net	7,966	8,835	9,108
Other receivables	76	108	76
Income tax receivable	272	259	316
Inventories:			
Finished goods, net	10,365	4,968	11,492
Work in process, net	18,105	11,041	18,548
Raw materials and supplies, net	10,450	9,308	9,871
	38,920	25,317	39,911
Prepaid expenses and other current assets	1,998	1,665	2,612
Total current assets	50,406	37,037	53,981
Property, plant and equipment:			
Land	1,671	1,671	1,671
Land improvements	1,213	1,213	1,213
Buildings and building improvements	47,399	47,703	47,797
Machinery and equipment	117,766	119,407	120,479
Leasehold improvements	2,452	2,452	2,549
	170,501	172,446	173,709
Less accumulated depreciation and amortization	133,832	135,564	135,370
Net property, plant and equipment	36,669	36,882	38,339
Deferred tax assets, net	1,477	1,484	2,195
Other assets	6,784	6,835	6,982
Total assets	$95,336	$82,238	$ 101,497

See Notes to Unaudited Condensed Consolidated Financial Statements

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VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	4/30/2013	1/31/2013	4/30/2012
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Liabilities			
Current liabilities:			
Accounts payable	$13,087	$11,864	$ 15,345
Accrued compensation and employee benefits	3,636	3,426	3,616
Current portion of long-term debt	12,932	4,053	12,276
Deferred tax liability	572	572	1,221
Other accrued liabilities	5,162	4,596	5,643
Total current liabilities	35,389	24,511	38,101
Non-current liabilities:			
Accrued self-insurance retention	3,122	2,585	2,508
Accrued pension expenses	26,476	26,385	25,169
Income tax payable	105	142	496
Long-term debt, less current portion	6,000	—	6,008
Other accrued liabilities	1,529	1,595	2,924
Total non-current liabilities	37,232	30,707	37,105
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 14,550,371 shares at 4/30/2013 and at 1/31/2013; and 14,377,393 shares at 4/30/2012	146	146	144
Additional paid-in capital	115,812	115,670	115,288
Accumulated deficit	(77,257)	(72,810)	(73,813)
Accumulated comprehensive loss	(15,986)	(15,986)	(15,328)
Total stockholders’ equity	22,715	27,020	26,291
Total liabilities and stockholders’ equity	$95,336	$82,238	$ 101,497

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	
	4/30/2013	4/30/2012
	(In thousands, except per share data)	
Net sales	$19,890	$23,668
Costs of goods sold	13,481	16,701
Gross profit	6,409	6,967
Selling, general and administrative expenses	10,565	11,529
Interest expense	328	255
Income (loss) before income taxes	(4,484)	(4,817)
Income tax expense (benefits)	(37)	16
Net income (loss)	$(4,447)	$(4,833)
Net income (loss) per common share (a) :		
Basic	$(0.31)	$(0.34)
Diluted	$(0.31)	$(0.34)
Weighted average shares outstanding:		
Basic	14,441	14,296
Diluted	14,441	14,296

(a) Net loss per common share for the three months ended April 30, 2013 and April 30, 2012 was calculated based on the 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 INCOME (LOSS)
Unaudited (Note 1)

	Three Months Ended	
	4/30/2013	4/30/2012
	(In thousands)	
Net income (loss)	$(4,447)	$(4,833)
Other comprehensive income (loss)	—	—
Comprehensive income (loss)	$(4,447)	$(4,833)

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	
	4/30/2013	4/30/2012
	(In thousands)	
Operating activities		
Net income (loss)	$(4,447)	$(4,833)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,016	1,195
Provision for doubtful accounts	15	(35)
(Gain) loss on sale of property, plant and equipment	(5)	—
Deferred income taxes	(37)	5
Stock based compensation	142	260
Changes in operating assets and liabilities:		
Trade accounts receivable	853	3,670
Other receivables	32	325
Inventories	(13,603)	(12,120)
Income taxes	(13)	16
Prepaid expenses and other current assets	(275)	(961)
Accounts payable and accrued liabilities	2,553	5,084
Net cash provided by (used in) operating activities	(13,769)	(7,394)
Investing activities		
Capital expenditures	(800)	(325)
Proceeds from sale of property, plant and equipment	11	—
Net cash provided by (used in) investing activities	(789)	(325)
Financing activities		
Proceeds from long-term debt	18,932	18,276
Repayment of long-term debt	(4,053)	(11,496)
Common stock issued	—	—
Cash dividend paid	—	—
Net cash provided by (used in) financing activities	14,879	6,780
Net increase (decrease) in cash	321	(939)
Cash at beginning of period	853	2,897
Cash at end of period	$1,174	$1,958

See Notes to Unaudited Condensed Consolidated Financial Statements.

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VIRCO MFG. CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 30, 2013

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, 2013, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2014. The balance sheet at January 31, 2013, 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, 2013 ("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 ongoing basis, management evaluates its estimates, including those related to market demand, labor costs, and stocking inventory.

Note 3. New Accounting Standards

In January 2013, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income (loss) by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income (loss) by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The Company adopted this guidance effective February 1, 2013, but had no such reclassifications to report for the three months ended April 30, 2013.

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.

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Note 5. Debt

On December 22, 2011, the Company and Virco Inc., a wholly owned subsidiary of the Company ("Virco" and, together with the Company, the "Borrowers") entered into a Revolving Credit and Security Agreement (the "Credit Agreement") with PNC Bank, National Association, as administrative agent and lender ("PNC"). On June 15, 2012, the Borrowers entered into Amendment No. 1 ("Amendment No. 1") to the Credit Agreement which, among other things, increased the borrowing availability thereunder by $3,000,000 for the period from May 1 through July 14 of each year. On July 27, 2012, the Borrowers entered into Amendment No. 2 ("Amendment No. 2") to the Credit Agreement which, among other things, reduced the minimum EBITDA financial covenant contained therein for the five consecutive months ending June 2012 from $1,600,000 to $300,000. On September 12, 2012, the Borrowers entered into Amendment No. 3 ("Amendment No. 3") to the Credit Agreement which, among other things, modified the minimum EBITDA covenant for the balance of the fiscal year. On December 6, 2012, the Borrowers entered into Amendment No. 4 ("Amendment No. 4") to the Credit Agreement which, among other things, waived the violation of the minimum EBITDA and minimum tangible net worth covenants at October 31, 2012 and eliminated the minimum EBITDA covenant at November 30, 2012. On March 1, 2013, the Borrowers entered into Amendment No. 5 ("Amendment No. 5") to the Credit Agreement, which among other things modified the minimum tangible net worth covenant for the periods from January 31, 2013 to January 31, 2014, modified the minimum EBIDTA covenant for certain periods to January 31, 2014 and waived the violation of the minimum EBITDA covenant for the eleven consecutive fiscal month period ending December 31, 2012.

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% of 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 $4,000,000 to $14,000,000 from February 15 through August 15 of each year, minus undrawn amounts of letters of credit and reserves as per Amendment No. 5. 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 the following financial maintenance covenants: (1) a minimum tangible net worth amount, (2) a minimum fixed charge coverage ratio, and (3) a minimum EBITDA amount, in each case as of the end of the relevant monthly, quarterly or annual measurement period.

In addition, the Credit Agreement contains a clean down provision that requires the Company to reduce borrowings under the line to less than $6,000,000 for a period of 60 consecutive days each fiscal year. 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, 2013.

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.

The Company's line of credit with PNC is structured to provide seasonal credit availability during the Company's peak summer season. The Company believes that the Revolving Credit Facility will provide sufficient liquidity to meet its capital requirements in the next 12 months. Approximately $8,342,000 was available for borrowing as of April 30, 2013.

The descriptions set forth herein of the Credit Agreement, Amendment No. 1, Amendment No. 2, Amendment No. 3, Amendment No. 4 and Amendment No. 5 are qualified in their entirety by the terms of such agreements, each of which has been filed with the Securities and Exchange Commission.

Note 6. Income Taxes

The 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, 2013. The effective tax rate for the quarter ended April 30, 2013 was impacted by the valuation allowance recognized against state deferred tax assets and discrete items associated with non-taxable permanent differences.

The years ended January 31, 2010, January 31, 2012 and January 31, 2013 remain open for examination by the IRS. The Company is not currently under IRS examination. The years ended January 31, 2009 through January 31, 2013 remain open for examination by state tax authorities. The Company is currently under examination by Texas for the year ended January 31, 2009. The Company is not currently under any other state examinations.

The specific timing of when the resolution of each tax position will be reached is uncertain. As of April 30, 2013, 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.

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Note 7. Net Income (Loss) per Share

	Three Months Ended 4/30/2013	4/30/2012
	(In thousands, except per share data)	
Net income (loss)	$(4,447)	$(4,833)
Average shares outstanding	14,441	14,296
Net effect of dilutive stock options based on the treasury stock method using average market price	—	—
Totals	14,441	14,296