

VIRCO MFG CORPORATION
Form 10-Q
June 16, 2014

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 30, 2014

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 (I.R.S. Employer
Incorporation or Organization) Identification No.)

2027 Harpers Way, Torrance, CA 90501
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (310) 533-0474

No change

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

The number of shares outstanding for each of the registrant's classes of common stock, as of the latest practicable date:

Common Stock, \$.01 par value — 14,718,414 shares as of June 6, 2014.

TABLE OF CONTENTS

<u>Part I. Financial Information</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Unaudited condensed consolidated balance sheets — April 30, 2014, January 31, 2014 and April 30, 2013</u>	<u>3</u>
<u>Unaudited condensed consolidated statements of operations — Three months ended April 30, 2014 and 2013</u>	<u>5</u>
<u>Unaudited condensed consolidated statements of comprehensive income (loss) — Three months ended April 30, 2014 and 2013</u>	<u>6</u>
<u>Unaudited condensed consolidated statements of cash flows — Three months ended April 30, 2014 and 2013</u>	<u>7</u>
<u>Notes to unaudited condensed consolidated financial statements — April 30, 2014</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>17</u>
<u>Item 4. Controls and Procedures</u>	<u>18</u>
<u>Part II. Other Information</u>	<u>19</u>
<u>Item 1. Legal Proceedings</u>	<u>19</u>
<u>Item 1A. Risk Factors</u>	<u>19</u>
<u>Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	<u>19</u>
<u>Item 6. Exhibits</u>	<u>19</u>
EX-31.1	
EX-31.2	
EX-32.1	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	

PART I. Financial Information

Item 1. Financial Statements

Virco Mfg. Corporation
Condensed Consolidated Balance Sheets

	4/30/2014	1/31/2014	4/30/2013
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Assets			
Current assets			
Cash	\$1,471	\$1,051	\$1,174
Trade accounts receivables, net	8,914	8,468	7,966
Other receivables	75	52	76
Income tax receivable	311	290	272
Inventories			
Finished goods, net	13,175	7,237	10,365
Work in process, net	18,775	11,116	18,105
Raw materials and supplies, net	9,642	9,427	10,450
	41,592	27,780	38,920
Deferred tax assets, net	203	203	—
Prepaid expenses and other current assets	1,924	1,795	1,998
Total current assets	54,490	39,639	50,406
Property, plant and equipment			
Land	1,671	1,671	1,671
Land improvements	1,193	1,185	1,213
Buildings and building improvements	47,290	47,271	47,399
Machinery and equipment	113,948	115,667	117,766
Leasehold improvements	2,177	2,328	2,452
	166,279	168,122	170,501
Less accumulated depreciation and amortization	130,376	131,817	133,832
Net property, plant and equipment	35,903	36,305	36,669
Deferred tax assets, net	611	611	1,477
Other assets	6,851	6,789	6,784
Total assets	\$97,855	\$83,344	\$95,336
See accompanying notes.			

Virco Mfg. Corporation
Condensed Consolidated Balance Sheets

	4/30/2014 (In thousands, except share data) Unaudited (Note 1)	1/31/2014 Unaudited (Note 1)	4/30/2013 Unaudited (Note 1)
Liabilities			
Current liabilities			
Accounts payable	\$16,640	\$12,355	\$13,087
Accrued compensation and employee benefits	3,865	3,594	3,636
Current portion of long-term debt	14,586	2,248	12,932
Deferred tax liabilities	—	—	572
Other accrued liabilities	5,348	4,459	5,162
Total current liabilities	40,439	22,656	35,389
Non-current liabilities			
Accrued self-insurance retention	2,539	2,025	3,122
Accrued pension expenses	23,538	23,951	26,074
Income tax payable	44	69	105
Long-term debt, less current portion	6,000	6,000	6,000
Other accrued liabilities	1,090	1,038	1,529
Total non-current liabilities	33,211	33,083	36,830
Commitments and contingencies			
Stockholders' equity			
Preferred stock:			
Authorized 3,000,000 shares, \$.01 par value; none issued or outstanding	—	—	—
Common stock:			
Authorized 25,000,000 shares, \$.01 par value; issued and outstanding 14,718,414 shares at 4/30/2014 and at 1/31/2014 and 147,145,503,371 shares at 04/30/2013		147	146
Additional paid-in capital	116,111	115,978	115,812
Accumulated deficit	(78,394)	(74,540)	(77,257)
Accumulated other comprehensive loss	(13,659)	(13,980)	(15,584)
Total stockholders' equity	24,205	27,605	23,117
Total liabilities and stockholders' equity	\$97,855	\$83,344	\$95,336
See accompanying notes.			

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

	Three months ended April 30,	
	2014	2013
	(In thousands, except per share data)	
Net sales	\$23,530	\$19,890
Costs of goods sold	15,353	13,481
Gross profit	8,177	6,409
Selling, general and administrative expenses	11,722	10,565
Interest expense, net	329	328
Income (loss) before income taxes	(3,874	) (4,484
Income tax expense (benefit)	(19	) (37
Net income (loss)	\$(3,855	) \$(4,447
Net loss per common share (a):		
Basic	\$(0.26	) \$(0.31
Diluted	\$(0.26	) \$(0.31
Weighted average shares outstanding:		
Basic	14,718	14,441
Diluted	14,718	14,441

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

See accompanying notes.

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

	Three months ended April 30,	
	2014	2013
	(In thousands)	
Net income (loss)	\$ (3,855	) \$ (4,447
Other comprehensive income (loss) :		
Pension adjustments, net of tax	321	402
Comprehensive income (loss)	\$ (3,534	) \$ (4,045

See accompanying notes.

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

	Three months ended April 30,	
	2014	2013
	(In thousands)	
Operating activities		
Net income (loss)	\$(3,855	) \$(4,447
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,071	1,016
Provision for doubtful accounts	20	15
(Gain) loss on sale of property, plant and equipment	—	(5
Deferred income taxes	—	(37
Stock-based compensation	133	142
Pension settlement	—	—
Changes in operating assets and liabilities:		
Trade accounts receivable	(438	) 853
Other receivables	(23	) 32
Inventories	(13,812	) (13,603
Income taxes	(46	) (13
Prepaid expenses and other assets	(191	) (275
Accounts payable and accrued liabilities	5,890	2,553
Net cash provided by (used in) operating activities	(11,251	) (13,769
Investing activities		
Capital expenditures	(667	) (800
Proceeds from sale of property, plant and equipment	—	11
Net investment in life insurance	—	—
Net cash provided by (used in) investing activities	(667	) (789
Financing activities		
Proceeds from long-term debt	20,586	18,932
Repayment of long-term debt	(8,248	) (4,053
Common stock repurchased	—	—
Cash dividend paid	—	—
Net cash provided by (used in) financing activities	12,338	14,879
Net increase (decrease) in cash	420	321
Cash at beginning of year	1,051	853
Cash at end of year	\$1,471	\$1,174
See accompanying notes.		

VIRCO MFG. CORPORATION

Notes to unaudited Condensed Consolidated Financial Statements

April 30, 2014

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, 2014, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2015. The balance sheet at January 31, 2014, 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, 2014 ("Form 10-K"). All references to the "Company" refer to Virco Mfg. Corporation and its subsidiaries.

Note 2. Correction of Immaterial Errors

Subsequent to the year ended January 31, 2014, the Company identified certain errors in the condensed consolidated balance sheets and consolidated statements of comprehensive income (loss) for the quarters ended April 30, July 31 and October 31, 2013. The Company previously recorded its quarterly net periodic pension cost as an increase to accrued pension expenses, when a portion of the net periodic pension cost attributed to the recognized net actuarial loss or (gain) should have been recorded as a decrease in the Company's accumulated other comprehensive loss. These errors have no impact on the amounts previously reported in the Company's statements of operations or statements of cash flows. Further, these errors have no impact on its consolidated financial statements as of and for the year ended January 31, 2014.

Management has evaluated the materiality of these errors quantitatively and qualitatively and has concluded that the corrections of these errors are immaterial to the condensed consolidated balance sheets, consolidated statements of comprehensive income (loss), and the financial statements as a whole. Accordingly, the Company has corrected the accompanying condensed consolidated balance sheet and consolidated statement of comprehensive income (loss) for the three months ended April 30, 2013, and it intends to revise its condensed consolidated balance sheets and consolidated statements of comprehensive income (loss) for the quarters ended July 31 and October 31, 2013 through subsequent periodic filings. The effect of recording immaterial corrections in the condensed consolidated balance sheets and consolidated statements of comprehensive income (loss) for the quarters ended April 30, July 31 and October 31, 2013 are as follows:

(in thousands)	For the Quarter Ended April 30, 2013		For the Quarter Ended July 31, 2013		For the Quarter Ended October 31, 2013	
	As Previously Reported	As Corrected	As Previously Reported	As Corrected	As Previously Reported	As Corrected
Accrued pension expenses	\$26,476	\$26,074	\$26,567	\$25,763	\$26,398	\$25,192
Total stockholder's equity	22,715	23,117	28,901	29,705	33,181	34,387
Net income (loss)	(4,447)	(4,447)	6,210	6,210	3,408	3,408
Comprehensive income (loss)	(4,447)	(4,045)	6,210	6,612	4,208	4,610
Impact for period-to-date comprehensive income (loss)	(4,447)	(4,045)	1,763	2,567	5,971	