VIRCO MFG CORPORATION
Form 10-Q
December 10, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

o **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended October 31, 2008

OR

o **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 þ No o

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 o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o No þ

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

Common Stock, $.01 par value 14,426,884 shares as of November 30, 2008.

VIRCO MFG. CORPORATION
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Exhibit 31.1 Certification of Robert A. Virtue, Principal Executive Officer, pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2 Certification of Robert E. Dose, Principal; Financial Officer, pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1 Certifications 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.
EX-31.1
EX-31.2
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PART I

Item 1. Financial Statements

VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	10/31/2008	1/31/2008	10/31/2007
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Assets			
Current assets:			
Cash	$ 3,474	$ 2,066	$ 4,382
Trade accounts receivable	25,805	15,674	24,032
Less allowance for doubtful accounts	258	200	209
Net trade accounts receivable	25,547	15,474	23,823
Other receivables	152	284	102
Inventories:			
Finished goods, net	8,953	14,564	10,063
Work in process, net	10,841	20,653	11,881
Raw materials and supplies, net	6,251	7,791	6,801
	26,045	43,008	28,745
Deferred tax assets, net	1,091	4,189	3,809
Prepaid expenses and other current assets	1,249	1,493	1,034
Total current assets	57,558	66,514	61,895
Property, plant and equipment:			
Land and land improvements	3,379	3,612	3,596
Buildings and building improvements	47,511	49,558	49,555
Machinery and equipment	115,518	114,286	112,917
Leasehold improvements	1,487	1,475	1,475
	167,895	168,931	167,543
Less accumulated depreciation and amortization	123,791	122,598	121,004
Net property, plant and equipment	44,104	46,333	46,539
Goodwill and other intangible assets, net	2,288	2,298	2,301
Deferred tax assets, net	5,652	5,652	6,612
Other assets	6,288	6,238	6,046

Total assets	$115,890	$127,035	$ 123,393

See Notes to Unaudited Condensed Consolidated Financial Statements.

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VIRCO MFG. CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	10/31/2008	1/31/2008	10/31/2007
	(In thousands, except share data)		
	Unaudited (Note 1)		Unaudited (Note 1)
Liabilities			
Current liabilities			
Checks released but not yet cleared bank	$ 2,417	$ 4,163	$ 2,662
Accounts payable	10,057	14,313	11,205
Accrued compensation and employee benefits	4,904	7,762	8,796
Current portion of long-term debt	74	74	74
Other accrued liabilities	7,023	8,206	7,357
Total current liabilities	24,475	34,518	30,094
Non-current liabilities			
Accrued self-insurance retention and other	4,571	3,848	4,359
Accrued pension expenses	13,341	12,749	14,175
Long-term debt, less current portion	60	3,772	135
Total non-current liabilities	17,972	20,369	18,669
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 14,426,884 shares at 10/31/2008, 14,428,662 shares at 1/31/2008 and 10/31/2007	144	144	144
Additional paid-in capital	114,442	114,318	114,119
Retained deficit	(36,053)	(37,224)	(32,067)
Accumulated comprehensive loss	(5,090)	(5,090)	(7,566)
Total stockholders equity	73,443	72,148	74,630
Total liabilities and stockholders equity	$115,890	$127,035	$ 123,393

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended	
	10/31/2008	10/31/2007
	(In thousands, except per share data)	
Net sales	$ 74,866	$ 76,977
Costs of goods sold	50,372	49,037
Gross profit	24,494	27,940
Selling, general and administrative expenses and others	18,868	20,814
Gain on sale of property	(1,131)	
Interest expense	370	509
Income before income taxes	6,387	6,617
Provision for income taxes	2,607	(10,122)
Net income	$ 3,780	$ 16,739
Dividend declared		
Cash	$ 0.05	$
Net income per common share		
Basic	$ 0.26	$ 1.16
Diluted	$ 0.26	$ 1.15
Weighted average shares outstanding		
Basic	14,467	14,416
Diluted	14,485	14,535

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine months ended	
	10/31/2008	10/31/2007
	(In thousands, except per share data)	
Net sales	$ 184,276	$ 197,030
Costs of goods sold	124,340	123,825
Gross profit	59,936	73,205
Selling, general and administrative expenses and others	52,269	55,625
Gain on sale of property	(1,131)	
Interest expense	1,244	1,953
Income before income taxes	7,554	15,627
Provision for income taxes	3,118	(9,742)
Net income	$ 4,436	$ 25,369
Dividend declared		
Cash	$ 0.10	
Net income per common share		
Basic	$ 0.31	$ 1.76
Diluted	$ 0.31	$ 1.75
Weighted average shares outstanding		
Basic	14,443	14,388
Diluted	14,467	14,503

See Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Nine months ended	
	10/31/2008	10/31/2007
	(In thousands)	
Operating activities		
Net income	$ 4,436	$ 25,369
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,309	5,035
Provision for doubtful accounts	60	40
Gain on sale of property, plant and equipment	(1,131)	(17)
Deferred income taxes	3,098	(10,681)
Stock based compensation	634	479
Changes in operating assets and liabilities		
Trade accounts receivable	(10,133)	(5,266)
Other receivables	132	126
Inventories	16,962	9,092
Income taxes	(335)	636
Prepaid expenses and other current assets	244	445
Accounts payable and accrued liabilities	(10,877)	(4,086)
Net cash provided by operating activities	7,399	21,172
Investing activities		
Capital expenditures	(3,185)	(3,444)
Proceeds from sale of property, plant and equipment	2,392	17
Net investment in life insurance	(50)	(200)
Net cash used in investing activities	(843)	(3,627)
Financing activities		
Repayment of long-term debt	(3,712)	(15,055)
Purchase of common stock	(352)	
Cash dividend paid	(1,084)	
Net cash used in financing activities	(5,148)	(15,055)
Net increase in cash	1,408	2,490
Cash at beginning of period	2,066	1,892

Cash at end of period	$ 3,474	$ 4,382
Supplemental disclosure		
Accrual for cash dividends declared but not paid	$ 361	

See Notes to Unaudited Condensed Consolidated Financial Statements.

VIRCO MFG. CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
October 31, 2008

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and nine months ended October 31, 2008, are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2009. The balance sheet at January 31, 2008 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, 2008 (Form 10-K). All references to the Company refer to Virco Mfg. Corporation and its subsidiaries.

Note 2. Seasonality

The market for educational furniture and equipment 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 proceeding 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 October 2006, the Financial Accounting Standards Board (FASB) ratified EITF 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* (EITF 06-4). This statement is effective for fiscal years beginning after December 15, 2007. This statement clarifies that FASB 106, Employers Accounting for Post-Retirement Benefits other than Pensions, applies to endorsement split-dollar life insurance arrangements. Prior to 2003, the Company provided split-dollar life insurance benefits to substantially all management employees. In 2003, the Company terminated the program for all active employees and surrendered the related policies. The Company did not terminate the policies for employees that had retired prior to 2003. The Company has purchased life insurance on the lives of the retired participants that will pay death benefits in excess of the amount promised to participants. The Company adopted EITF 06-4 on February 1, 2008, and recorded a $1,820,000 adjustment to its balance sheet to record a non-current liability included with accrued pension benefits and an equal decrease in retained earnings. The Company expects to incur approximately $120,000 per year of accretion expense related to this liability, offset by collection of death benefits. There was no impact on prior periods related to this adoption.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* . This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which is the fiscal year beginning February 1, 2008 for the Company. The Company adopted SFAS No. 157 effective February 1, 2008. The adoption of SFAS No. 157 for financial assets and liabilities held by the Company did not have a material effect on the Company s financial statements or notes thereto. As of October 31, 2008, the Company has financial assets in cash, which is measured at fair value using quoted prices for identical assets in an active market (Level 1 fair value hierarchy) in accordance to SFAS No. 157.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No.* 157 (FSP FAS 157-2), which permits a one year deferral of the application of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company will adopt SFAS No. 157 for non-

financial assets and non-financial liabilities on February 1, 2009 and does not expect the provisions to have a material effect on its results of operations, financial position or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* . SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, which is the fiscal year beginning February 1, 2008 for the Company. The Company adopted SFAS No. 159 on February 1, 2008 and elected not to measure any additional financial instruments or other items at fair value.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* , an amendment of FASB Statements No. 87, 88, 106, and 132(R). This standard requires recognition of the funded status of a benefit plan in the statement of financial position. The standard also requires recognition in other comprehensive income of certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. SFAS No. 158 provides recognition and disclosure elements to be effective as of the end of the fiscal year after December 15, 2006, and measurement elements to be effective for fiscal years ending after December 15, 2008. The Company adopted the recognition provisions of SFAS No. 158 and applied them to the funded status of the its defined benefit plans resulting in a decrease in Shareholders Equity of $1,900,000. In the fiscal year ending January 31, 2009 the Company will recognize the impact of using the fiscal year end date for recording pension expenses and liabilities. The Company will use the second alternative transition method (Method 2). The actuarial valuation prepared at year end will cover a 13 month period, and the estimated transition period adjustment will be charged to retained earnings. The Company is currently evaluating the impact on its financial statements, if any, from the adoption of this standard.

In December 2007, the FASB issued SFAS No. 141 (Revised), *Business Combinations* (SFAS No. 141(R)), replacing SFAS No. 141, *Business Combinations* (SFAS No. 141), and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* (SFAS No. 160). SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent considerations be recognized at the acquisition date and remeasured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests (i.e., minority interests) in a subsidiary, including changes in a parent s ownership interest in a subsidiary and requires, among other things, that noncontrolling interests in subsidiaries be classified as a separate component of equity. Except for the presentation and disclosure requirements of SFAS No. 160, which are to be applied retrospectively for all periods presented, SFAS No. 141 (R) and SFAS No. 160 are to be applied prospectively in financial statements issued for fiscal years beginning after December 15, 2008. The Company does not anticipate any material impact to its financial statements from the adoption of SFAS No. 160.

Note 4. Inventories

Fiscal year end financial statements at January 31, 2008 reflect inventories verified by physical counts with the material content valued by the LIFO method. At October 31, 2008 and 2007, there were no physical verifications of inventory quantities. Cost of sales is recorded at current cost. The effect of penetrating LIFO layers is not recorded at interim dates unless the reduction in inventory is expected to be permanent. No such adjustments have been made for the three-month or nine-month periods ended October 31, 2008 and 2007. LIFO reserves at October 31, 2008, January 31, 2008 and October 31, 2007 were $7,193,000, $7,193,000 and $7,357,000, respectively.

Note 5. Debt

Effective as of March 18, 2008, the Company entered into the Second Amended and Restated Credit Agreement (the Agreement), dated as of March 12, 2008, with Wells Fargo Bank, National Association (the Lender) and a related Revolving Line of Credit Note (the Note), dated as of March 12, 2008, in favor of the Lender. The Agreement

provides the Company with a secured revolving line of credit (the Revolving Credit) of up to $65,000,000, with seasonal adjustments to the credit limit, and includes a sub-limit of up to $10,000,000 for the issuance of letters of credit. The Revolving Credit is secured by a first priority perfected security interest in certain of the personal and real property of the Company and its subsidiaries in favor of the Lender.

Effective July 31, 2008, the Company entered into Amendment No. 1 (the First Amendment) to the Agreement. The First Amendment modified the Agreement to provide for, among other items, a borrowing base formula that may limit the amount available under the Revolving Credit or the letter of credit subfeature, monthly monitoring of the borrowing base and auditing of the collateral. In addition, the amendment modified or eliminated certain covenants, including the leverage ratio. Availability under the line was $21,018,000 at October 31, 2008.

The Revolving Credit will mature on February 1, 2010. Interest under the Revolving Credit is payable monthly at a fluctuating rate equal to the Lender s prime rate or, if the Company elects, LIBOR plus a fluctuating margin. The Agreement provides for an unused commitment fee of 0.25%.

The Agreement is subject to various financial covenants including a minimum consolidated fixed charge coverage ratio, and a maximum leverage ratio. The Agreement also places certain restrictions on activities by the Company, including capital expenditures, new operating leases, dividends and the repurchase of the Company s common stock. The Agreement is secured by certain of the Company s accounts

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receivable, inventories, equipment and real property. The Company was in compliance with its covenants at October 31, 2008. Management believes the carrying value of debt approximated fair value at October 31, 2008 and 2007, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

The foregoing description of each of the Agreement, the Note, the Revolving Credit and the First Amendment are qualified in the entirety by reference to the agreements attached as Exhibits 10.1, 10.2, 10.3 and 10.4 to the Form 8-K filed with the SEC on March 24, 2008 and the agreement attached as Exhibit 10.2 to the Company s Form 10-Q for the quarterly period ended July 31, 2008, filed with the SEC, each of which is incorporated herein by reference. These agreements have been included to provide investors with information regarding their terms and are not intended to provide any other factual information about the Company.

Prior to entering into the Agreement, the Company borrowed under an asset based line of credit with Wells Fargo. The revolving line typically provided for advances of 80% on eligible accounts receivable and 20%- 60% on eligible inventory. The advance rates fluctuated depending on the time of year and the types of assets. The agreement had an unused commitment fee of 0.375%. Interest was at prime or LIBOR +2.5%. Availability under the line was $19,074,000 at January 31, 2008. This line was replaced by the Agreement, as described above.

Note 6. Income Taxes

There were no significant increases or decreases in the unrecognized tax benefits during the three and nine months ended October 31, 2008. As of October 31, 2008, the Company does not believe 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.

The Internal Revenue Service (the IRS) has completed the examination of all of the Company s federal income tax returns through 2004 with no issues pending or unresolved. The years 2005 through 2008 remain open for examination by the IRS. The tax years 2003 to 2008 remain open for major state taxing jurisdictions. The Company is not being audited by a major taxing jurisdiction at October 31, 2008. During the quarter ended October 31, 2008, the Company was notified by the IRS that it will be auditing the Company s tax filings for fiscal year ended January 31, 2007.

At January 31, 2008, the Company had net operating losses carried forward for federal and state income tax purposes, expiring at various dates through 2027. Federal net operating losses that can potentially be carried forward total approximately $3,202,000 at January 31, 2008. State net operating losses that can potentially be carried forward total approximately $21,019,000 at January 31, 2008. The Company also had determined that it was more likely than not that some portion of the state net operating loss carry forwards and other state deferred tax assets would not be realized and had provided a valuation allowance of $841,000 on the deferred tax assets at January 31, 2008 and October 31, 2008. The Company evaluates the valuation allowance on a quarterly basis.

Note 7. Net Income per Share

	Three Months Ended		Nine Months Ended	
	10/31/2008	10/31/2007	10/31/2008	10/31/2007
	(In thousands, except per share data)			
Net income	$ 3,780	$16,739	$ 4,436	$25,369
Average shares outstanding	14,467	14,416	14,443	14,388
Net effect of dilutive stock options based on the treasury stock method using average market price	18	119	24	115
Totals	14,485	14,535	14,467	14,503
Net income per share basic	$ 0.26	$ 1.16	$ 0.31	$ 1.76

Net income per share diluted	$ 0.26	$ 1.15	$ 0.31	$ 1.75

Note 8. Stock Based Compensation

The Company s two stock plans are the Virco Mfg. Corporation 2007 Stock Incentive Plan (the 2007 Plan) and the Virco Mfg. Corporation 1997 Stock Incentive Plan (the 1997 Plan). The 1997 Plan expired in 2007. Under the 2007 Plan, the Company is permitted to grant an aggregate of 1,000,000 shares of common stock to its employees and directors in the form of stock options or other stock-based awards. As of October 31, 2008, 48,531 stock awards and 262,500 stock units have been issued under the 2007 Plan and 724,613 shares remain available for future grant. At October 31, 2008 there were 102,869 unexercised options outstanding that were issued pursuant to the

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1997 Plan. Stock options granted under the 1997 Plan have an exercise price equal to the market price at the date of grant and have a maximum term of 10 years. No stock options have been granted under the 2007 Plan.
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 the procedure for exercising stock options, it requires that the option holders provide a written notice of exercise to the stock plan administrator plus the applicable exercise price and tax withholdings, if any, prior to issuance of the shares.

Accounting for the Plans

The following table presents a summary of restricted stock and stock unit awards at October 31, 2008 and 2007:

	Expense for 3 months ended		Expense for 9 months ended		Unrecognized Compensation Cost at
	10/31/2008	10/31/2007	10/31/2008	10/31/2007	10/31/2008
2007 Stock Incentive Plan					
262,500 Restricted Stock Units, issued 6/19/2007, vesting over 5 years	$ 89,000	$ 91,000	$266,000	$149,000	$1,275,000
35,644 Grants of Restricted Stock, issued 6/17/2008, vesting over 1 year	44,000		73,000		102,000
12,887 Grants of Restricted Stock, issued 6/19/2007, vesting over 1 year		21,000	29,000	$ 36,000	
1997 Stock Incentive Plan					
270,000 Restricted Stock Units, issued 6/30/2004, vesting over 5 years	88,000	118,000	266,000	265,000	235,000
17,640 Grants of Restricted Stock, issued 6/20/2006, vesting over 1 year				29,000	
Totals for the period	$221,000	$230,000	$634,000	$479,000	$1,612,000

Stockholders Rights

On October 15, 1996, the Board of Directors declared a dividend of one preferred stock purchase right (each a Right, and collectively, the Rights) for each outstanding share of the Company s common stock. Each Right 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 by any person of 20% of the Company s

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 October 31, 2007, the Company and Mellon Investor Services LLC entered into an amendment to the agreement governing the Rights. The amendment, among other things, extended the term of the Rights to October 25, 2016, removed the dead-hand provisions from the Rights agreement, and formally replaced the former Rights Agent, The Chase Manhattan Bank, with its successor-in-interest, Mellon Investor Services LLC.

Note 9. Comprehensive Income (Loss)

Comprehensive income (loss) for the three months and nine months ended October 31, 2008 and 2007 was the same as net income (loss) reported on the statements of operations. Accumulated comprehensive income (loss) at October 31, 2008 and 2007 and January 31, 2008 is composed of minimum pension liability adjustments.

Note 10. Retirement Plans

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The Company and its subsidiaries cover all employees under a noncontributory defined benefit retirement plan, entitled the Virco Employees Retirement Plan (the Plan). Benefits under the Plan are based on years of service and career average earnings. As more fully described in the Form 10-K, benefit accruals under the Plan were frozen effective December 31, 2003. For the ten months ended October 31, 2008, investment results for the Plan assets have been adversely impacted by market conditions. The Plan has incurred a loss of approximately $5.5 million compared to an expected return of approximately $1.2 million. If the Plan assets do not recover, the Company will record an increase in comprehensive loss for the fiscal year ended January 31, 2009 and will be required to contribute additional funds to the pension trust in subsequent years.

The Company also provides a supplementary retirement plan for certain key employees, entitled 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 Virco Employees Retirement Plan. The VIP Plan is not funded, has no plan assets, and as such has not been impacted by the volatility in the financial markets during 2008. As more fully described in the Company s Form 10-K, benefit accruals under the VIP 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 Company s Board of Directors, subject to the director providing 10 years of service to the Company. The Non-Employee Directors Retirement Plan is not funded, has no plan assets, and as such has not been impacted by the volatility in the financial markets during 2008. As more fully described in the Company s Form 10-K, benefit accruals under this plan were frozen effective December 31, 2003.

The net periodic pension costs for the Plan, the VIP Plan, and the Non-Employee Directors Retirement Plan for the three months and nine months ended October 31, 2008 and 2007 were as follows (in thousands):

	Three Months Ended October 31,					
	Pension Plan		VIP Retirement Plan		Non-Employee Directors Retirement Plan	
	2008	2007	2008	2007	2008	2007
Service cost	$	$ 41	$	$ 50	$ 5	$ 6
Interest cost	388	345	90	90	8	7
Expected return on plan assets	(300)	(224)				
Amortization of transition amount		(9)				
Amortization of prior service cost	138	117	(80)	(134)		6
Recognized net actuarial loss or (gain)	50	49	40	30	(8)	(7)
Settlement and curtailment						
Net periodic pension cost	$ 276	$ 319	$ 50	$ 36	$ 5	$12

Nine Months Ended October 31,		
Pension Plan	VIP Retirement Plan	Non-Employee Directors Retirement Plan

	2008	2007	2008	2007	2008	2007
Service cost	$	$ 123	$	$ 150	$ 15	$ 18
Interest cost	1,164	1,035	270	270	24	21
Expected return on plan assets	(900)	(672)				
Amortization of transition amount		(27)				
Amortization of prior service cost	414	351	(240)	(402)		18
Recognized net actuarial loss or (gain)	150	147	120	90	(24)	(21)
Settlement and curtailment						
Net periodic pension cost	$ 828	$ 957	$ 150	$ 108	$ 15	$ 36

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Note 11. Warranty

The Company accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. The majority of the Company s products sold through January 31, 2005 carry a five-year warranty. Effective February 1, 2005, the Company extended its standard warranty period to 10 years. The Company 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 and nine months each ended October 31, 2008 and 2007 (in thousands):

	Three Months Ended		Nine Months Ended	
	10/31/2008	10/31/2007	10/31/2008	10/31/2007
	(In thousands)			
Beginning Accrued Warranty Balance	$2,000	$1,800	$ 1,750	$1,800
Provision	354	564	1,309	1,050
Costs Incurred	(354)	(464)	(1,059)	(950)
Ending Accrued Warranty Balance	$2,000	$1,900	$ 2,000	$1,900

Note 12. Sale of Real Estate

In October 2008, the Company sold a former manufacturing and warehouse facility located in Conway, AR. This building has been held as rental property for the last two years. The Company received approximately $2.4 million of sales proceeds and recorded a gain of $1.1 million as other operating income.

VIRCO MFG. CORPORATION

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

Unless otherwise noted, the terms we, our, us, Company and Virco refer to Virco Mfg. Corporation and its subsidiaries.

Results of Operations

The Company s results for the first nine months of fiscal 2008 have been adversely impacted by current economic conditions, significant cost increases for steel, plastic, energy and other commodities, and the related impact on school budgets and spending. The current economic environment has negatively impacted sales revenue in multiple ways. First, the challenging economic conditions have adversely impacted government budgets, which in turn have affected school funding. On a state-by-state basis, which is the level at which most funding for school furniture and equipment is actually generated, our decline in revenue is in states that were most affected by declines in real estate values and the related impact on property taxes. Two states with large declines in housing values California and Florida account for substantially our entire decline in revenue. Second, school budgets have been impacted by increased costs for energy and food, further affecting the funds available for furniture and equipment. Finally, the Company received orders from schools later in the year this year than in prior years, further compressing the narrow delivery window associated with shipments of educational furniture and equipment and moving a portion of orders and shipments from the second quarter to the third quarter.

The Company also absorbed significant cost increases with respect to two of its most significant raw materials, steel and plastic. The costs for these commodities spiked and affected the second quarter severely, and remained high for most of the third quarter at levels well above the beginning of the year. Subsequent to the third quarter, costs of these commodities has started to decline. In addition to volatile raw material costs, the Company incurred increased energy costs, affecting manufacturing operations, and increased fuel costs, affecting the expenses associated with the distribution of furniture to school locations.

As more fully described in the Company s annual report on Form 10-K for the fiscal year ended January 31, 2008 (Form 10K), the Company sells a significant portion of its annual sales volume under a variety of annual fixed price contracts. Nearly 40% of furniture sales are priced under one nationwide contract. Under this contract the Company is the exclusive supplier of movable classroom furniture and is the exclusive authorized reseller for many of its vendor partners. During the third quarter, Virco was awarded a new three-year nationwide contract with this same purchasing alliance covering the period beginning January 31, 2009 through December 31, 2011. In addition to the three year extension, the Company has added valuable new vendor partners, Wenger and Interior Concepts, for which it is the sole reseller under this contract. The Company negotiated a mid-year price adjustment under this nationwide contract as well as price adjustments for 2009 designed to recover the increased costs of commodities and energy. In addition to the successful extension and expansion of this contract, the Company has instituted mid-year price adjustments to virtually all dealers and resellers of its products. The price adjustments impacted new orders received for latter months of the quarter, and as such only affected a portion of third quarter sales.

During the first nine months of fiscal 2008, the Company worked to maintain the strength of its financial position, strengthen its competitive position in the education market, and recover gross margin lost to increasing energy and commodity costs. In addition to the new vendor partners and expanded contract discussed above, new product development has continued throughout the year, and acceptance of our new products by the market has been encouraging. In order to maintain the financial strength of the Company, production levels were reduced in the second and third quarters to control inventory levels. Despite a reduction in sales for the first nine months, the Company finished the quarter ended October 31, 2008 with reduced levels of inventory compared to the comparable quarter last year. During the third quarter the Company sold a property located in Conway, Arkansas that had been held as rental property, generating nearly $2.4 million in cash and a profit on sale of approximately $1.1 million. By the end of the third quarter Virco had completely repaid its seasonal line of credit.

For the three months ended October 31, 2008, the Company earned a pre-tax profit of $6,387,000 on sales of $74,866,000 compared to a pre-tax profit of $6,617,000 on sales of $76,977,000 in the same period last year. The third quarter of fiscal 2008 also includes a $1.1 million profit on sale of real estate associated with the sale of a property in Conway, Arkansas, as discussed above.

Sales for the three months ended October 31,2008 decreased by $2,111,000, a 2.7% decrease, compared to the same period last year. Incoming orders for the same period decreased by approximately 5.1% compared to the prior year. The reasons for these decreases are described in detail above. Backlog for the three months ended October 31, 2008 decreased by approximately 2.8% compared to the prior year. Gross margin as a percentage of sales decreased to 32.7% in the three months ended October 31, 2008 compared to 36.3% in the prior year. The decrease in gross margin as a percentage of sales was caused by the increased costs of raw materials and a 15% reduction in production hours during the third quarter of fiscal 2008, which adversely affected absorption of overhead costs.

Selling, general and administrative expense for the three months ended October 31, 2008 decreased by approximately $2 million compared to the same period last year, and decreased as a percentage of sales by approximately 1.8%. The decrease in selling, general and administrative expense was attributable to decreased variable compensation expenses and decreased variable freight and field service expenses. Interest expense decreased by approximately $139,000 in the three months ended October 31, 2008 compared to the same period last year as a result of reduced interest rates.

For the nine months ended October 31, 2008 the Company earned a pre-tax profit of $7,554,000 on sales of $184,276,000 compared to a pre-tax profit of $15,627,000 on sales of $197,030,000 in the same period last year.

Sales for the nine months ended October 31, 2008 decreased by $12,754,000, or 6.5% compared to the same period last year. The decrease was attributable to a reduction in sales volume, offset in part by an increase in prices. Orders for the same period decreased by approximately 7.6%.

Gross margin as a percentage of sales decreased to 32.5% for the nine months ended October 31, 2008 compared to 37.2% in the same period last year. In dollars, gross margin decreased by approximately $13.3 million for the nine months ended October 31, 2008. Approximately $5.2 million of the reduction was attributable to a change in sales volume, approximately $3.3 million due to decreased overhead variance, with the balance attributable to increased material costs.

Selling, general and administrative expense for the nine months ended October 31, 2008 decreased by approximately $3.4 million compared to the same period last year, and was slightly higher as a percentage of sales. The decrease in selling, general and administrative expense was attributable to decreased variable compensation costs and variable freight and field service costs.

Interest expense decreased by approximately $709,000 for the nine months ended October 31, 2008 compared to the same period last year due to reduced interest rates.

As more fully discussed in the Company s Form 10-K, the Company benefited from federal and state net operating loss carry forwards and had a 100% valuation allowance against net deferred tax assets that was substantially reversed as of the quarter ended October 31, 2007. For the nine months ended October 31, 2008, the income tax provision reflects a more typical effective tax rate.

Liquidity and Capital Resources

As a result of seasonally high shipments in the second and third quarters of fiscal 2008, accounts receivable increased by approximately $10 million at October 31, 2008 compared to January 31, 2008. Receivables increased by approximately $1.7 million at October 31, 2008 compared to October 31, 2007 due to the timing of summer shipments and portion of shipments that were projects. The Company traditionally builds large quantities of inventory during the first and second quarters of each fiscal year in anticipation of seasonally high summer shipments during the second and third quarters. At October 31, 2008, inventories were nearly $17 million lower than at January 31, 2008 and $2.7 million less than the third quarter of fiscal 2007. The seasonal increase in receivables and inventory during the summer months was financed through the Company s credit facility with Wells Fargo Bank, which is discussed in Item 3 Quantitative and Qualitative Disclosures About Market Risk. The seasonal lines of credit were repaid at October 31, 2008 and October 31, 2007.

The Company established a goal of limiting capital spending to approximately $5,000,000 for fiscal 2008, which is slightly less than anticipated depreciation expense. Capital spending for the nine months ended October 31, 2008 was $3,185,000 compared to $3,444,000 for the same period last year. Capital expenditures are being financed through the Company s credit facility established with Wells Fargo Bank and operating cash flow. Approximately $21,018,000 was available for borrowing under the Company s credit facility with Wells Fargo Bank as of October 31, 2008.

During the third quarter ended October 31, 2008, the Company sold a former manufacturing and warehouse facility in Conway, Arkansas. This property had not been utilized in Company operating activities for several years, and had been held as rental property. The Company generated approximately $2.4 million in cash and a $1.1 million profit from the sale.

As discussed more fully in the Company s Form 10-K, the Company has three defined benefit retirement plans. All three plans were frozen effective December 31, 2003. Two of the plans are unfunded plans, and have no plan assets. The funded status of these plans has not been impacted by economic conditions. One of the plans is a qualified defined benefit retirement plan that is funded by the Company. For the 10 months ended October 31, 2008, that plan lost approximately $5.5 million compared to an expected return of approximately $1.2 million. If the plan assets do not recover, the Company will record an increase in comprehensive loss for the fiscal year ending January 31, 2009 and will be required to contribute additional funds to the pension trust in subsequent years.

Net cash generated from operating activities for the nine months ended October 31, 2008 was $7,399,000 compared to $21,172,000 for the same period last year. The decrease in cash used in operations for the nine months ended October 31, 2008 was attributable to decreased profitability compared to the prior year, a reduction in accounts payable and accrued liabilities, and the timing of seasonal variations in inventory and receivables. The Company believes that cash flows from operations, together with the Company s unused borrowing capacity with Wells Fargo Bank will be sufficient to fund the Company s debt service requirements, capital expenditures and working capital needs for the next twelve months.

During the first nine months of fiscal 2008, the Company declared and paid three quarterly cash dividends of $0.025 per share. A fourth cash dividend was declared during the third quarter to be paid in the fourth quarter. Payment of a quarterly dividend was predicated on 1) the strength of our balance sheet; 2) anticipated cash flows; and 3) future cash requirements. Management anticipates that subsequent quarterly dividends will continue to be paid following a review of these factors and approval of the Company s Board of Directors.

On June 5, 2008, the Company announced that its Board of Directors authorized a stock repurchase program under which the Company may acquire up to $3 million of the Company s common stock in fiscal year 2008. Such repurchases may be made pursuant to open market or privately negotiated transactions. This $3 million common stock repurchase program includes any unused amounts previously authorized for repurchase by Company such that the maximum aggregate amount of common stock that the Company may repurchase is $3 million of the Company s common stock. Actual repurchases will be made after due consideration of stock price, projected cash flows and alternative uses of capital. During the first nine months of fiscal 2008, the Company repurchased 108,817 shares of stock for $351,512.

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Off Balance Sheet Arrangements

During the nine months ended October 31, 2008, 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. During the quarter ended October 31, 2008 the Company entered into operating leases for approximately $1.6 million of equipment that is expected to be delivered in the fourth quarter of the fiscal year ending January 31, 2009. During the quarter ended October 31, 2008 the Company also entered into a five-year extension of a lease for the manufacturing and distribution facility located in Torrance, CA. This agreement extends the lease through February 28, 2015.

Critical Accounting Policies and Estimates

The Company s critical accounting policies are outlined in its Form 10-K for the fiscal year ended January 31, 2008.

Forward-Looking Statements

From time to time, including in this quarterly report, the Company or its representatives have made and may make forward-looking statements, orally or in writing, including those contained herein. Such forward-looking statements may be included in, without limitation, reports to stockholders, press releases, oral statements made with the approval of an authorized executive officer of the Company and filings with the Securities and Exchange Commission. The words or phrases anticipates, expects, will continue, believes, estimates, projects, or similar expressions are i to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The results contemplated by the Company s forward-looking statements are subject to certain risks and uncertainties that could cause actual results to vary materially from anticipated results, including without limitation, material availability and cost of materials, especially steel, availability and cost of labor, demand for the Company s products, competitive conditions affecting selling prices and margins, capital costs, state and local tax revenue and the related impact on school budgets, 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

Effective as of March 18, 2008, the Company entered into the Second Amended and Restated Credit Agreement (the Agreement), dated as of March 12, 2008, with Wells Fargo Bank, National Association (the Lender) and a related Revolving Line of Credit Note (the Note), dated as of March 12, 2008, in favor of the Lender. The Agreement provides the Company with a secured revolving line of credit (the Revolving Credit) of up to $65,000,000, with seasonal adjustments to the credit limit, and includes a sub-limit of up to $10,000,000 for the issuance of letters of credit. The Revolving Credit is secured by a first priority perfected security interest in certain of the personal and real property of the Company and its subsidiaries in favor of the Lender.

Effective July 31, 2008**,** the Company entered into Amendment No. 1 (the First Amendment) to the Agreement. The First Amendment modified the Agreement to provide for, among other things, a borrowing base formula that may limit the amount available under the Revolving Credit or the letter of credit subfeature, monthly monitoring of the borrowing base and auditing of the collateral. In addition, the amendment modified or eliminated certain covenants, including the leverage ratio. Availability under the Revolving Credit was $21,018,000 at October 31, 2008.

The Revolving Credit will mature on February 1, 2010. Interest under the Revolving Credit is payable monthly at a fluctuating rate equal to the Lender s prime rate or, if the Company elects, LIBOR plus a fluctuating margin. The Agreement provides for an unused commitment fee of 0.25%.

The Agreement is subject to various financial covenants including a minimum consolidated current ratio, a minimum consolidated fixed charge coverage ratio, and a maximum leverage ratio. The Agreement also places certain restrictions on activities by the Company, including capital expenditures, new operating leases, dividends and the repurchase of the Company s common stock. The Agreement is secured by certain of the Company s accounts receivable, inventories, equipment and real property. The Company was in compliance with its covenants at October 31, 2008. Management believes the carrying value of debt approximated fair value at October 31, 2008 and 2007, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

The foregoing description of each of the Agreement, the Note, the Revolving Credit and the First Amendment are qualified in the entirety by reference to the agreements attached as Exhibits 10.1, 10.2, 10.3 and 10.4 to the Form 8-K filed with the SEC on March 24, 2008 and the agreement attached as Exhibit 10.2 to the Company s Form 10-Q for the quarterly period ended July 31, 2008, filed with the SEC on August 9, 2008, each of which is incorporated herein by reference. These agreements have been included to provide investors with information regarding their terms and are not intended to provide any other factual information about the Company.

Prior to entering the Agreement, the Company borrowed under an asset based line of credit with Wells Fargo. The revolving line typically provided for advances of 80% on eligible accounts receivable and 20%- 60% on eligible inventory. The advance rates fluctuated depending on

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the time of year and the types of assets. The agreement had an unused commitment fee of 0.375%. Interest was at prime or LIBOR +2.5%. Availability under the line was $19,074,000 at January 31, 2008. This line was replaced by the Agreement, as described above.

As more fully described in the Company s Form 10-K, the Company sells a substantial quantity of furniture under annual fixed price contracts, with little and sometimes no ability to increase prices during the duration of the contact. During the course of the contract, the results of operations can be impacted by the cost of certain commodities. During the nine month period ended October 31, 2008, the Company has been adversely impacted by increased costs for steel, plastic, and fuel.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that the 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 this 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 fiscal quarter ended October 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II

VIRCO MFG. CORPORATION

OTHER INFORMATION

Item 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

Other than as discussed below, there have been no material changes in the Company s risk factors as disclosed in the Company s Form 10-K for the period ended January 31, 2008.

The majority of our sales are generated under annual contracts, which limit our ability to raise prices during a given year in response to increases in costs.

We commit to annual contracts that determine selling prices for goods and services for periods of one year, and occasionally longer. If the costs of providing our products or services increase, we cannot be certain that we will be able to implement corresponding increases in our sales prices for such products or services in order to offset such increased costs. Significant cost increases in providing either the services or product during a given contract period could therefore lower our profit margins.

During the first six months of fiscal 2008, we were adversely impacted by increased costs for steel, plastic, and fuel. The costs for these commodities remained high through most of the third quarter of fiscal 2008. Subsequent to October 31, 2008, we experienced reductions in these commodity costs. During the quarter ended October 31, 2008, we successfully raised the sales prices under a significant number of our annual contracts in an effort to recover margin lost to increased costs. If the costs of providing our products or services increase further, we cannot be certain that we will be able to implement additional increases in our sales prices for our products or services to offset such increased costs. This in turn could lower our profit margins.

Approximately 40% of our sales are priced through one contract, under which we are the exclusive supplier of classroom furniture.

A nationwide contract/price list which allows schools and school districts to purchase furniture without bidding accounts for a significant portion of Virco s sales. This contract/price list is sponsored by a nationwide purchasing organization that does not purchase products from the Company. By providing a public bid specification and authorization service to publicly-funded agencies, the organization s contract/price list enables such agencies to make authorized expenditures of taxpayer funds. For all sales under this contract/price list, Virco has a direct selling relationship with the purchaser, whether this is a school, a district or another publicly-funded agency. In addition, Virco can ship directly to the purchaser; perform installation services at the purchaser s location; and finally bill directly to, and collect from, the purchaser. Although Virco sells direct to hundreds of individual schools and school districts, and these schools and school districts can purchase our products and services under several bids and contracts available to them, nearly 40% of Virco s sales were priced under this nationwide contract/price list. During the quarter ended October 31, 2008, Virco was awarded a new three-year nationwide contract with this same purchasing alliance covering the period beginning January 31, 2009 through December 31, 2011. If Virco were to lose its exclusive supplier status under this contract/price list, and other manufacturers were allowed to sell under this contract/price list, it could cause Virco s sales, or growth in sales, to decline.

Our product sales are significantly affected by education funding, which is outside of our control. Our sales and/or growth in our sales would be adversely affected by a recessionary economy or decreased state and local revenues, either of which in turn could cause decreased funding for education.

Our sales are significantly impacted by the level of education spending primarily in North America, which, in turn, is a function of the general economic environment. In a recessionary economy, state and local revenues decline, restricting funding for K-12 education spending which typically leads to a decrease in demand for school furniture.

During the first nine months of fiscal 2008, declining real estate values led to a reduction in the tax revenue of certain states to which we sell products. This reduction in revenue led to decreased education funding, and, in turn, a reduction in Company sales to those states. To the

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extent other states experience a similar declination in revenue (due to the recessionary economy or otherwise), those states could similarly reduce their funding for education, which could further adversely effect the revenue we derive from sales to those states.

In addition, geopolitical uncertainties, terrorist attacks, acts of war, natural disasters, increases in energy and other costs or combinations of such factors and other factors that are outside of our control could at any time have a significant effect on the economy, government revenues, and allocations of government spending. The occurrence of any of these or similar events in the future could cause demand for our products to decline or competitive pricing pressures to increase, either or both of which would adversely affect our business, operating results, cash flows and financial condition.

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

None

Item 6. Exhibits

Exhibit 31.1 Certification of Robert A. Virtue, Principal Executive Officer, pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Robert E. Dose, Principal Financial Officer, pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certifications 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.

SIGNATURES

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

VIRCO MFG. CORPORATION

Date: December 10, 2008

By: /s/ Robert E. Dose

Robert E. Dose
Vice President Finance

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