

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

VIRCO MFG CORPORATION

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**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 July 31, 2020

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
<u>Common Stock, \$0.01 par value per share</u>	<u>VIRC</u>	<u>The Nasdaq Stock Market LLC</u>

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.:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 — 15,918,642 shares as of September 12, 2020.

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PART I. Financial Information

Item 1. Financial Statements

Virco Mfg. Corporation

Unaudited Condensed Consolidated Balance Sheets

	7/31/2020	1/31/2020	7/31/2019
(In thousands)			
Assets			
Current assets			
Cash	\$ 878	\$ 1,150	\$ 877
Trade accounts receivables, net	32,688	11,762	41,105
Other receivables	60	57	397
Income tax receivable	535	298	340
Inventories	49,444	43,329	59,017
Prepaid expenses and other current assets	2,174	1,746	2,359
Total current assets	85,779	58,342	104,095
Non-current assets			
Property, plant and equipment			
Land	3,731	3,731	3,731
Land improvements	734	717	688
Buildings and building improvements	51,182	51,200	51,192
Machinery and equipment	111,710	110,610	109,540
Leasehold improvements	1,086	990	970
Total property, plant and equipment	168,443	167,248	166,121
Less accumulated depreciation and amortization	129,596	127,351	125,250
Net property, plant and equipment	38,847	39,897	40,871
Operating lease right-of-use assets	19,551	21,325	22,924
Deferred tax assets, net	11,222	11,230	7,816
Other assets, net	7,970	8,198	8,256
Total assets	\$ 163,369	\$ 138,992	\$ 183,962

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation
Unaudited Condensed Consolidated Balance Sheets

	7/31/2020	1/31/2020	7/31/2019
(In thousands, except share and par value data)			
Liabilities			
Current liabilities			
Accounts payable	\$ 16,764	\$ 10,587	\$ 18,634
Accrued compensation and employee benefits	5,595	6,392	5,322
Current portion of long-term debt	18,387	878	35,457
Current portion operating lease liability	4,581	3,654	3,275
Other accrued liabilities	6,417	3,607	6,871
Total current liabilities	51,744	25,118	69,559
Non-current liabilities			
Accrued self-insurance retention	1,494	1,410	1,686
Accrued pension expenses	21,419	21,310	13,951
Income tax payable	71	70	55
Long-term debt, less current portion	15,407	15,818	16,291
Operating lease liability, less current portion	17,798	19,787	21,598
Other long-term liabilities	704	661	557
Total non-current liabilities	56,893	59,056	54,138
Commitments and contingencies (Notes 6, 7 and 13)			
Stockholders' equity			
Preferred stock:			
Authorized 3,000,000 shares, \$0.01 par value; none issued or outstanding	—	—	—
Common stock:			
Authorized 25,000,000 shares, \$0.01 par value; issued and outstanding 15,918,642 shares at 7/31/2020 and 15,713,549 at 1/31/2020 and 7/31/2019	159	157	157
Additional paid-in capital	119,149	118,782	118,282
Accumulated deficit	(50,955)	(49,810)	(49,392)
Accumulated other comprehensive loss	(13,621)	(14,311)	(8,782)
Total stockholders' equity	54,732	54,818	60,265
Total liabilities and stockholders' equity	\$ 163,369	\$ 138,992	\$ 183,962

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation

Unaudited Condensed Consolidated Statements of Income

	Three months ended	
	7/31/2020	7/31/2019
	(In thousands, except per share data)	
Net sales	\$ 59,285	\$ 70,359
Costs of goods sold	36,082	41,620
Gross profit	23,203	28,739
Selling, general and administrative expenses	15,488	18,557
Loss on sale of property, plant & equipment	—	3
Operating income	7,715	10,179
Pension expense	542	188
Interest expense	494	907
Income before income taxes	6,679	9,084
Income tax expense	3,126	3,217
Net income	\$ 3,553	\$ 5,867
Net income per common share:		
Basic	\$ 0.23	\$ 0.38
Diluted	\$ 0.23	\$ 0.38
Weighted average shares of common stock outstanding:		
Basic	15,733	15,561
Diluted	15,746	15,568

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation

Unaudited Condensed Consolidated Statements of (Loss) Income

	Six months ended	
	7/31/2020	7/31/2019
	(In thousands, except per share data)	
Net sales	\$ 76,884	\$ 97,252
Costs of goods sold	48,777	59,429
Gross profit	28,107	37,823
Selling, general and administrative expenses	27,419	31,238
Loss on sale of property, plant & equipment	—	3
Operating income	688	6,582
Pension expense	1,084	376
Interest expense	898	1,607
(Loss) income before income taxes	(1,294)	4,599
Income tax (benefit) expense	(149)	1,799
Net (loss) income	\$ (1,145)	\$ 2,800
Net (loss) income per common share:		
Basic	\$ (0.07)	\$ 0.18
Diluted (a)	\$ (0.07)	\$ 0.18
Weighted average shares of common stock outstanding:		
Basic	15,694	15,524
Diluted (a)	15,694	15,529

(a) Net loss per common share for fiscal period ended July 31, 2020 was calculated based on basic shares outstanding due to the anti-dilutive effect on the inclusion of common stock equivalent shares.

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation

Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three months ended	
	7/31/2020	7/31/2019
	(In thousands)	
Net income	\$ 3,553	\$ 5,867
Other comprehensive income:		
Pension adjustments (net of tax expense of \$120 and \$45 at July 31, 2020 and 2019, respectively)	345	130
Net comprehensive income	<u>\$ 3,898</u>	<u>\$ 5,997</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation

Unaudited Condensed Consolidated Statements of Comprehensive (Loss) Income

	Six months ended	
	7/31/2020	7/31/2019
	(In thousands)	
Net (loss) income	\$ (1,145)	\$ 2,800
Other comprehensive income:		
Pension adjustments (net of tax expense of \$240 and \$91 at July 31, 2020 and 2019, respectively)	690	260
Net comprehensive (loss) income	\$ (455)	\$ 3,060

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation

Unaudited Condensed Consolidated Statements of Cash Flows

	Six months ended	
	7/31/2020	7/31/2019
(In thousands)		
Operating activities		
Net (loss) income	\$ (1,145)	\$ 2,800
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	2,675	2,916
Non-cash lease expense	712	173
Provision for doubtful accounts	35	35
Loss on sale of property, plant and equipment	—	3
Deferred income taxes	8	1,782
Stock-based compensation	506	423
Defined pension plan settlement	—	—
Amortization of net actuarial loss for pension plans	690	352
Changes in operating assets and liabilities:		
Trade accounts receivable	(20,964)	(27,887)
Other receivables	—	(357)
Inventories	(6,114)	(11,728)
Income taxes	(236)	(155)
Prepaid expenses and other current assets	(200)	(515)
Accounts payable and accrued liabilities	8,178	4,516
Net cash used in operating activities	(15,855)	(27,642)
Investing activities:		
Capital expenditures	(1,359)	(2,309)
Proceeds from sale of property, plant and equipment	—	—
Net cash used in investing activities	(1,359)	(2,309)
Financing activities:		
Borrowing from long-term debt	23,884	30,911
Repayment of long-term debt	(6,787)	(577)
Payment on deferred financing costs	—	—
Tax withholding payments on share-based compensation	(155)	(244)
Cash dividends paid	—	—
Net cash provided by financing activities	16,942	30,090
Net (decrease) increase in cash	(272)	139
Cash at beginning of period	1,150	738
Cash at end of period	\$ 878	\$ 877

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation

Unaudited Consolidated Statements of Changes in Equity and Accumulated Other Comprehensive Income (Loss)

Three-Month Period Ended July 31, 2020

In thousands, except share data	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholder's Equity
	Shares	Amount				
Balance at May 1, 2020	15,713,549	\$ 157	\$ 119,036	\$ (54,508)	\$ (13,966)	\$ 50,719
Net income	—	—	—	3,553	—	3,553
Cash dividends	—	—	—	—	—	—
Pension adjustments, net of tax effect of \$120	—	—	—	—	345	345
Shares vested and others	205,093	2	(139)	—	—	(137)
Stock compensation expense	—	—	252	—	—	252
Balance at July 31, 2020	15,918,642	\$ 159	\$ 119,149	\$ (50,955)	\$ (13,621)	\$ 54,732

Three-Month Period Ended July 31, 2019

In thousands, except share data	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholder's Equity
	Shares	Amount				
Balance at May 1, 2019	15,541,956	\$ 155	\$ 118,292	\$ (55,259)	\$ (8,912)	\$ 54,276
Net income	—	—	—	5,867	—	5,867
Cash dividends	—	—	—	—	—	—
Pension adjustments, net of tax effect of \$45	—	—	—	—	130	130
Shares vested and others	171,593	2	(247)	—	—	(245)
Stock compensation expense	—	—	237	—	—	237
Balance at July 31, 2019	15,713,549	\$ 157	\$ 118,282	\$ (49,392)	\$ (8,782)	\$ 60,265

Six-Month Period Ended July 31, 2020

In thousands, except share data	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholder's Equity
	Shares	Amount				
Balance at February 1, 2020	15,713,549	\$ 157	\$ 118,782	\$ (49,810)	\$ (14,311)	\$ 54,818
Net loss	—	—	—	\$ (1,145)	—	(1,145)
Cash dividends	—	—	—	—	—	—
Pension adjustments, net of tax effect of \$240	—	—	—	—	690	690
Shares vested and others	205,093	2	(139)	—	—	(137)
Stock compensation expense	—	—	506	—	—	506
Balance at July 31, 2020	15,918,642	\$ 159	\$ 119,149	\$ (50,955)	\$ (13,621)	\$ 54,732

Six-Month Period Ended July 31, 2019

In thousands, except share data	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholder's Equity
	Shares	Amount				
Balance at February 1, 2019	15,541,956	\$ 155	\$ 118,106	\$ (52,192)	\$ (9,042)	\$ 57,027
Net income	—	—	—	\$ 2,800	—	2,800
Cash dividends	—	—	—	—	—	—
Pension adjustments, net of tax effect of \$91	—	—	—	—	260	260
Shares vested and others	171,593	2	(247)	—	—	(245)
Stock compensation expense	—	—	423	—	—	423
Balance at July 31, 2019	15,713,549	\$ 157	\$ 118,282	\$ (49,392)	\$ (8,782)	\$ 60,265

See accompanying notes to unaudited condensed consolidated financial statements.

VIRCO MFG. CORPORATION

Notes to unaudited Condensed Consolidated Financial Statements

July 31, 2020

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 (U.S. GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2020 ("Form 10-K"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months and six months ended July 31, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2021. The balance sheet at January 31, 2020 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. All references to the "Company" refer to Virco Mfg. Corporation and its subsidiaries.

Liquidity

Management evaluated whether there are any conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern over the next twelve months through September 30, 2021. The Company has experienced an overall decline in net sales and net income through the first six-months of fiscal 2021 as compared to fiscal 2020 as a result of the disruption to its business and its customers caused by the COVID-19 pandemic. As a result of the reduced revenue, the Company was not in compliance with its fixed-charge coverage ratio under its revolving and secured credit agreement with PNC Bank, as of July 31, 2020 (see Note 7). The Company successfully negotiated a waiver and amendment to the agreement to satisfy the event of default and reduced the ratio required for the rolling four quarter period ending October 31, 2020 from 1.10:1.00 to 1.00:1.00.

The Company expects the impact of COVID-19 to continue to be a challenge for the foreseeable future and believes the economy will be adversely impacted for an indeterminate period, including the demand for its products. The extent of the impact will depend on numerous factors that are unknown, uncertain and cannot be reasonably predicted. The Company has plans to further moderate certain selling, general and administrative expenses and capital expenditures to preserve cash and maintain compliance with its financial covenants. Based on the Company's current projections and its ability to manage certain controllable expenditures, management believes it will maintain compliance with the financial covenants for the next 12 months and that the Company's existing cash, projected operating cash flows and available credit facilities, described in note 7, are adequate to meet its operating needs, liabilities and commitments over the next twelve months from the issuance of the interim financial statements.

Note 2. Seasonality and Management Use of Estimates

The market for educational furniture is marked by extreme seasonality, with approximately 50% of the Company's total sales typically occurring from June to August each year, 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 generally 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 educational institutions and government entities, which tend to pay accounts receivable slower 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. Significant estimates made by management include, but are not limited to, valuation of inventory; deferred tax assets and liabilities; useful lives of property, plant and equipment; liabilities under pension, warranty, self-insurance and environmental claims; and the accounts receivable allowance for doubtful accounts. Due to the inherent uncertainty involved in making assumptions and estimates, events and changes in circumstances arising after July 31, 2020, including those resulting from the impacts of the COVID-19 pandemic, may result in actual outcomes that differ from those contemplated by our assumptions and estimates.

Note 3. New Accounting Pronouncements

Recently Adopted Accounting Updates

In response to the large volume of anticipated lease concessions to be granted related to the effects of the COVID-19 pandemic, and the resultant expected cost and complexity of applying the lease modification requirements in ASC 842, the FASB issued Staff Q&A—Topic 842 and Topic 840: *Accounting For Lease Concessions Related to the Effects of the COVID-19 Pandemic*, in April 2020 as interpretive guidance to provide clarity in response to the crisis. The FASB staff indicated that it would be acceptable for entities to make an election to account for lease concessions related to the effects of the COVID-19 pandemic consistent with how they would be accounted for as though enforceable rights and obligations for those concessions existed in the original contract. Consequently, for such lease concessions, an entity will not need to reassess each existing contract to determine whether enforceable rights and obligations for concessions exist and an entity can elect to apply or not to apply the lease modification guidance in ASC 842 to those contracts. The election is available for concessions related to the effects of the COVID-19 pandemic that result in the total payments required by the modified contract being substantially the same as or less than total payments required by the original contract.

In accordance with this interpretive guidance, the Company elected to account for lease concessions related to the effects of the COVID-19 pandemic that resulted in the total payments required by the modified contract being substantially the same as or less than total payments required by the original contract consistent with how they would be accounted for as though enforceable rights and obligations for those concessions existed in the original contract. Consequently, for such lease concessions, the Company did not reassess each existing contract to determine whether enforceable rights and obligations for concessions existed and elected not to apply the lease modification guidance in ASC 842 to those contracts. The Company accounted for COVID-19 lease abatements of \$136,000 as reductions to variable lease expense as if no changes to the lease contract were made while continuing to recognize expense and reductions in the operating lease liability, as well as the operating lease right-of-use asset during the abatement period. There were no lease concessions recorded in the first quarter of fiscal 2021.

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*. This update simplifies various aspects related to accounting for income taxes, removes certain exceptions to the general principles in ASC 740, and clarifies and amends existing guidance to improve consistent application. The Company adopted this ASU as of February 1, 2020 and the adoption of this standard did not have a material effect on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)* which modifies the disclosure requirements of fair value measurements in Topic 820, *Fair Value Measurement*. For public companies the ASU removes disclosure requirements for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation process for Level 3 fair value measurements. The ASU modifies the disclosure requirements for investments in certain entities that calculate net asset value and clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The ASU adds the disclosure requirement for changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The Company

adopted this ASU as of February 1, 2020 and the adoption of this standard did not have a material effect on our condensed consolidated financial statements.

Recently Issued Accounting Updates

In August 2018, the FASB issued Accounting Standards Update No. 2018-14 (ASU 2018-14), *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20)*, which amends the current disclosure requirements regarding defined benefit pensions and other post retirement plans, and allows for the removal of certain disclosures, while adding certain new disclosure requirements. This standard is effective for fiscal years beginning after December 15, 2020 and allows for early adoption. The Company is currently evaluating the effect the standard will have on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the incurred loss impairment methodology for measuring and recognizing credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The adoption date, as modified by the recently issued ASU 2019-10 discussed below, will be for the fiscal year ending after December 15, 2022 and interim periods therein. The Company is currently evaluating the effect the standard will have on the consolidated financial statements and related disclosures.

In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. ASU 2019-10 moves the effective date for certain previously issued amendments to later dates, depending on the filing status of the respective entity. Specifically, due to the amendment and the Company's status as a smaller reporting company, the new effective dates for relevant previously issued amendments not yet adopted by the Company relate to ASU 2016-13 as described above.

Other recently issued accounting updates are not expected to have a material impact on the Company's consolidated financial statements.

Note 4. Revenue Recognition

The Company manufactures, markets and distributes a wide variety of school and office furniture to wholesalers, distributors, educational institutions and governmental entities. Revenue is recorded for promised goods or services when control is transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The Company's sales generally involve a single performance obligation to deliver goods pursuant to customer purchase orders. Prices for our products are based on published price lists and customer agreements. The Company has determined that the performance obligations are satisfied at a point in time when the Company completes delivery per the customer contract. The majority of sales are free on board ("FOB") destination where the destination is specified per the customer contract and may include delivering the furniture into the classroom, school site or warehouse. Sales of furniture that are sold FOB factory are typically made to resellers of our product who in turn provide logistics to the ultimate customer. Once a product has been delivered per the shipping terms, the customer is able to direct the use of, and obtain substantially all of the remaining benefits from, the asset. The Company considers control to have transferred upon shipment or delivery in accordance with shipping terms because the Company has a present right to payment at that time, the customer has legal title to the asset, the Company has transferred physical possession of the asset, and the customer has significant risks and rewards of ownership of the asset.

Sales are recorded net of discounts, sales incentives and rebates, sales taxes and estimated returns and allowances. The Company offers sales incentives and discounts through various regional and national programs to our customers. These programs include product rebates, product returns allowances and trade promotions. Variable consideration for these programs is estimated in the transaction price at contract inception based on current sales levels and historical experience using the expected value method, subject to constraint.

We do not consider our revenue generated through direct-to-customers and resellers to be meaningfully different revenue streams given similarities in the nature of the products, performance obligation and distribution processes. Sales are predominately in the United States and to a similar class of customer. We do not manage or evaluate the business based on product line or any other discernable category.

Note 5. Inventories

Inventories are valued at the lower of cost (determined on a first-in, first-out basis) or net realizable value and includes material, labor and factory overhead. The Company maintains valuation allowances for estimated slow-moving and obsolete inventory to reflect the difference between the cost of inventory and the estimated net realizable value. Valuation allowances for slow-moving and obsolete inventory are determined through a physical inspection of the product in connection with a physical inventory, a review of slow-moving product and consideration of active marketing programs. The market for education furniture is traditionally driven by value, not style, and the Company has not typically incurred significant obsolescence expenses. If market conditions are less favorable than those anticipated by management, additional valuation allowances may be required. Due to reductions in sales volume in the past years, the Company's manufacturing facilities are operating at reduced levels of capacity. The Company records the cost of excess capacity as a period expense, not as a component of capitalized inventory valuation.

The following table presents a breakdown of the Company's inventories as of July 31, 2020, January 31, 2020 and July 31, 2019:

	7/31/2020	1/31/2020	7/31/2019
	(in thousands)		
Finished goods	\$ 23,065	\$ 15,401	\$ 27,464
WIP	15,430	15,957	17,989
Raw materials	10,949	11,971	13,564
Total inventories	<u>\$ 49,444</u>	<u>\$ 43,329</u>	<u>\$ 59,017</u>

Note 6. Leases

The Company has operating leases on real property, equipment, and automobiles that expire at various dates. The Company determines if an arrangement is a lease at inception and assesses classification of the lease at commencement. All of the Company's leases are classified as operating leases, as a lessee. The Company uses the implicit rate when readily determinable, or the incremental borrowing rate. Our incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments using company specific credit spreads. The Company's lease terms include options to extend or terminate the lease only when it is reasonably certain that we will exercise that option. Lease expense for our operating leases is recognized on a straight-line basis over the lease term.

In accordance with ASC 842, quantitative information regarding our leases is as follows:

	Three-Months Ended		Six-Months Ended	
	7/31/2020	7/31/2019	7/31/2020	7/31/2019
	(in thousands, except lease term and discount rate)			
Operating lease cost	\$ 1,472	\$ 1,320	\$ 2,912	\$ 2,700
Short-term lease cost	124	82	160	136
Short-term sublease income	(10)	(20)	(20)	(30)
Variable lease cost (1)	(85)	61	370	509
Total lease cost	<u>\$ 1,501</u>	<u>\$ 1,443</u>	<u>\$ 3,422</u>	<u>\$ 3,315</u>

Other operating leases information:

Cash paid for amounts included in the measurement of lease liabilities	\$ 2,201	\$ 2,611
Right-of-use assets obtained in exchange for new lease liabilities	\$ 398	\$ 1,036
Weighted-average remaining lease term (years)	4.5	5.4
Weighted-average discount rate	6.4 %	6.38 %

(1) Subsequent to the issuance of the Company's condensed consolidated financial statements as of July 31, 2019, management identified an immaterial correction related to the disclosure of certain variable lease payments. Variable lease expense for the three-months and six-months ended July 31, 2019 did not previously include \$61,000 and \$509,000, respectively of variable lease payments for property taxes, insurance and common area maintenance related to triple net leases. Management corrected the disclosure related to variable lease expense in the table above for the three-months and six-months ended July 31, 2019 and, except for this change, the correction had no impact upon the Company's condensed consolidated financial statements.

Minimum future lease payments for operating leases in effect as of July 31, 2020, are as follows:

	Operating Lease	
	(in thousands)	
Remaining of 2021	\$	2,942
2022		5,757
2023		5,323
2024		5,225
2025		5,370
Thereafter		1,350
Remaining balance of lease payments	\$	25,967
Short-term lease liabilities	\$	4,581
Long-term lease liabilities		17,798
Total lease liabilities	\$	22,379
Difference between undiscounted cash flows and discounted cash flows	\$	3,588

Note 7. Debt

Outstanding balances for the Company's long-term debt were as follows:

	7/31/2020	1/31/2020	7/31/2019
	(in thousands)		
Revolving credit line	\$ 27,505	\$ 9,969	\$ 44,585
Other	6,289	6,727	7,163
Total debt	33,794	16,696	51,748
Less current portion	18,387	878	35,457
Non-current portion	\$ 15,407	\$ 15,818	\$ 16,291

The Company ("the "Borrowers") has a Revolving Credit and Security Agreement (the "Credit Agreement") with PNC Bank, National Association, as administrative agent and lender ("PNC"). The Credit Agreement has been amended twenty times since its origination in 2011 through fiscal 2020, which, among other things, extended the maturity date of the Credit Agreement for three years until March 19, 2023.

The Credit Agreement is an asset-based loan consisting of (i) a revolving line of credit with a Maximum Revolving Advance Amount of \$65,000,000 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 \$15,000,000 from January through July of each year, minus undrawn amounts of letters of credit and reserves and (2) an

equipment loan of \$2,000,000. The Credit Agreement is secured by substantially all of the Company's, as defined, personal property and certain of the Company's real property. The principal amount outstanding under the Credit Agreement and any accrued and unpaid interest is due no later than March 19, 2023, and the Credit Agreement is subject to certain prepayment penalties upon earlier termination of the Credit Agreement. 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, including reduced borrowings under the revolving line to less than or equal \$10,000,000 for a period of 30 consecutive days during the fourth quarter of each fiscal year. The Credit Agreement also contains certain financial covenants, including a fixed charge coverage ratio beginning on February 1st, 2020 of not less than 1.10 to 1.00, and capital expenditures not to exceed \$8,000,000. The Company was in violation with its financial covenants as of July 31, 2020. On September 8, 2020, the Company entered into Amendment No. 21 to the Revolving Credit and Security Agreement ("Amendment No. 21") with its lender, PNC Bank, National Association. Amendment No. 21 provided a limited waiver of the Company's violation of the covenant to maintain a Fixed Charge Coverage Ratio of at least 1.10 to 1.00 for the four fiscal quarter period ended July 31, 2020, and amended the Fixed Charge Coverage Ratio as follows: (i) 1.00 to 1.00 for the consecutive four fiscal quarter period ending October 31, 2020,

and (ii) 1.10 to 1.00 for each consecutive four fiscal quarter period ending thereafter. In connection with Amendment No. 21, the Company also agreed to pay to PNC Bank a non-refundable fee of \$75,000.

The Credit Agreement 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 1.25% to 1.75%, and the applicable margin for Eurodollar Currency Rate loans is a percentage within a range of 2.25% to 2.75%, in each case based on the EBITDA of the Borrower's 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. The interest rate as of July 31, 2020 was 4.5%. The Company also incurs a fee on the unused portion of the revolving line of credit at a rate of 0.375%.

To date the impact of COVID-19 on liquidity has been to moderate the seasonal increase in accounts receivable and production of inventory for summer delivery. Both the increase in accounts receivable and inventory are traditionally financed through the Company's line of credit with PNC Bank. Reductions in receivables and inventory were substantially offset by a reduction in borrowing under the revolving line with PNC Bank.

In addition to the financial covenants, the Credit Agreement contains events of default as disclosed in Note 3 to our Annual Report on Form 10-K for the year-ended January 31, 2020. Substantially all of the Borrowers' accounts receivable are automatically and promptly swept to repay amounts outstanding under the Credit Agreement upon receipt by the Borrowers. Due to this automatic liquidating nature of the Credit Agreement, 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.

The Company's revolving line of credit with PNC is structured to provide seasonal credit availability during the Company's peak summer season. Approximately \$32,896,000 was available for borrowing as of July 31, 2020.

Management believes that the carrying value of debt approximated fair value at July 31, 2020 and 2019, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

Note 8. 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. The Company maintains a partial valuation allowance of \$1,186,000, \$1,183,000 and \$2,003,000 as of July 31, 2020, January 31, 2020 and July 31, 2019 to reduce against certain state deferred tax assets that the Company does not believe it is more-likely-than-not to realize.

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The CARES Act modified the limitation for business interest expense deduction and the new limitation has increased from 30 to 50 percent of adjusted taxable income. Historically deferred taxes related to interest expense limitation were fully offset by a valuation allowance. The Company performed an analysis of the impact of the CARES Act and calculated a tax benefit of approximately \$200,000 which was driven by the release of the valuation allowance related to the business interest limitation.

The January 31, 2016 and subsequent years remain open for examination by the IRS and state tax authorities. The Company is not currently under any state examination. The Company is currently under IRS examination for its fiscal year ended January 31, 2016 Federal tax return.

Income tax expense for the second quarter ended July 31, 2020 is less than the prior year, primarily due to the decrease in pre-tax income and higher effective tax rate. For the six months ended July 31, 2020 the Company recorded an income tax benefit compared to income tax expense due to the loss for the current year versus income in the prior year.

Note 9. Net income (loss) per Share

	Three Months Ended		Six Months Ended	
	7/31/2020	7/31/2019	7/31/2020	7/31/2019
	(In thousands, except per share data)			
Net income (loss)	\$ 3,553	\$ 5,867	\$ (1,145)	\$ 2,800
Weighted average shares of common stock outstanding	15,733	15,561	15,694	15,524
Net effect of dilutive shares - based on the treasury stock method using average market price	13	7	—	5
Totals	15,746	15,568	15,694	15,529
Net income (loss) per share - basic	\$ 0.23	\$ 0.38	\$ (0.07)	\$ 0.18
Net income (loss) per share - diluted (a)	\$ 0.23	\$ 0.38	\$ (0.07)	\$ 0.18

(a) All exercisable and non-exercisable restricted stock awards and/or units were not included in the computation of diluted net loss per share for the six months and three months ended July 31, 2020, because their inclusion would have been anti-dilutive due to the net loss recorded for both periods. The number of stock awards and/or units outstanding, which met this anti-dilutive criterion for the six months ended July 31, 2020, was 5,000.

Note 10. Stock-Based Compensation

Stock Incentive Plan

The Company's two stock plans are the 2019 Employee Stock Incentive Plan (the "2019 Plan") and the 2011 Employee Incentive Stock Plan (the "2011 Plan").

Under the 2019 Plan, the Company may grant an aggregate of 1,000,000 shares to its employees in the form of restricted stock units and non-employee directors in the form of restricted stock awards. Restricted stock units and awards granted under the 2019 Plan are expensed ratably over the vesting period of the awards. The Company determines the fair value of its restricted stock units or awards and related compensation expense as the difference between the market value of the units or awards on the date of grant less the exercise price of the units or awards granted. During the six-month periods ended July 31, 2020, the Company granted 94,695 awards to non-employee directors, vested 45,600 shares according to their terms and forfeited 0 shares under the 2019 Plan. As of July 31, 2020, there were approximately 677,305 shares available for future issuance under the 2019 Plan.

Under the 2011 Plan, the Company may grant an aggregate of 2,000,000 shares to its employees in the form of restricted stock units and non-employee directors in the form of restricted stock awards. Restricted stock units and awards granted under the 2011 Plan are expensed ratably over the vesting period of the awards. The Company determines the fair value of its restricted stock units or awards and related compensation expense as the difference between the market value of the units or awards on the date of grant less the exercise price of the units or awards granted. During the six-month periods ended July 31, 2020, the Company granted 0 restricted awards to non-employee directors and 0 units to its employees; vested 59,385 stock awards and 119,200 units according to their terms and forfeited 0 stock units under the 2011 Plan. As of July 31, 2020, there were approximately 32,892 shares available for future issuance under the 2011 Plan.

During the three months ended July 31, 2020, stock-based compensation expense related to restricted stock units and awards recognized in cost of goods sold and selling, general and administrative expenses was \$65,000 and \$187,000, respectively. During the three months ended July 31, 2019, stock-based compensation expense related to restricted stock units and/or awards recognized in cost of goods sold and selling, general and administrative expenses was \$57,000 and \$180,000, respectively.

During the six months ended July 31, 2020, stock-based compensation expense related to restricted stock units and awards recognized in cost of goods sold and selling, general and administrative expenses was \$128,000 and \$378,000, respectively. During the six months ended July 31, 2019, stock-based compensation expense related to restricted stock units and/or awards recognized in cost of goods sold and selling, general and administrative expenses was \$116,000 and \$307,000, respectively.

As of July 31, 2020 there was \$2,431,000 of unrecognized compensation expense related to unvested restricted stock units and/or awards, which is expected to be recognized over a weighted average period of approximately 3 years.

Note 11. Retirement Plans

The Company and its subsidiaries cover certain employees under a noncontributory defined benefit retirement plan, entitled the Virco Employees' Retirement Plan (the "Pension Plan"). As more fully described in the Form 10-K, benefit accruals under the Employees Retirement Plan were frozen effective December 31, 2003. There is no service cost incurred under this plan.

The Company also provides a supplementary retirement plan for certain key employees, the VIP Retirement Plan (the "VIP Plan"). As more fully described in the Annual Report on Form 10-K for the year ended January 31, 2019, benefit accruals under this plan were frozen since December 31, 2003. There is no service cost incurred under this plan.

The net periodic pension cost for the Pension Plan and the VIP Plan for the three months and six months ended July 31, 2020 and 2019 were as follows:

	Combined Employee Retirement Plans							
	Three Months Ended		Six Months Ended					
	7/31/2020	7/31/2019	7/31/2020	7/31/2019				
	(in thousands)							
Service cost	\$	—	\$	—	\$	—	\$	—
Interest cost		301		355		602		710
Expected return on plan assets		(224)		(343)		(448)		(686)
Plan settlement		—		—		—		—
Amortization of prior service cost		—		—		—		—
Recognized net actuarial loss		465		176		930		352
Benefit cost	\$	542	\$	188	\$	1,084	\$	376

401(k) Retirement Plan

The Company's retirement plan, which covers all U.S. employees, allows participants to defer from 1% to 75% of their eligible compensation through a 401(k)-retirement program. The plan includes Virco stock as one of the investment options. At July 31, 2020 and 2019, the plan held 850,789 shares and 708,345 shares of Virco stock, respectively. For the three months ended July 31, 2020 and 2019, the compensation costs incurred for employer match was \$195,000 and \$187,000, respectively. For the six months ended July 31, 2020 and 2019, the compensation costs incurred for employer match was \$405,000 and \$374,000, respectively.

Note 12. Warranty Accrual

The Company provides an assurance type warranty against all substantial defects in material and workmanship. The standard warranty offered on products sold after January 1, 2017 was modified to provide specific warranty periods by product component, with no warranty period longer than ten years. The Company's warranty is not a guarantee of service life, which depends upon events outside the Company's control and may be different from the warranty period. The Company accrues an estimate of its exposure to warranty claims based upon both product sales data and an analysis of actual warranty claims incurred.

The following is a summary of the Company's warranty-claim activity for the three and six months ended July 31, 2020 and 2019:

	Three Months Ended		Six Months Ended	
	7/31/2020	7/31/2019	7/31/2020	7/31/2019
	(in thousands)			
Beginning balance	\$ 800	\$ 700	\$ 800	\$ 700
Provision	(17)	245	43	316
Costs incurred	(33)	(145)	(93)	(216)
Ending balance	\$ 750	\$ 800	\$ 750	\$ 800

Note 13. Contingencies

The Company has a self-insured retention for product and general liability losses up to \$250,000 per occurrence, workers' compensation liability losses up to \$250,000 per occurrence and for automobile liability losses up to \$50,000 per occurrence. The Company has purchased insurance to cover losses in excess of the retention up to a limit of \$30,000,000. The Company has obtained an actuarial estimate of its total expected future losses for liability claims and recorded a liability equal to the net present value.

The Company and its subsidiaries are defendants in various legal proceedings resulting from operations in the normal course of business. It is the opinion of management, in consultation with legal counsel, that the ultimate outcome of all such matters will not materially affect the Company's financial position, results of operations or cash flows.

Note 14. Delivery Costs

For the quarter ended July 31, 2020 and 2019, shipping and classroom delivery costs of approximately \$4,907,000 and \$6,497,000, respectively, were included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

For the six months ended July 31, 2020 and 2019, shipping and classroom delivery costs of approximately 6,985,000 and 9,258,000, respectively, were included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Note 15. COVID-19

On March 11, 2020, the World Health Organization declared the current coronavirus (COVID-19) outbreak to be a global pandemic. In response to this declaration and the rapid spread of COVID-19 within the United States, federal, state and local governments throughout the country have imposed varying degrees of restriction on social and commercial activity to promote social distancing in an effort to slow the spread of the illness. The Company has been operating its manufacturing and distribution facilities on a voluntary basis to give employees the flexibility to remain at home with children who are out of school or for other personal reasons as they deem necessary.

Office employees and others who can work from home continue to do so. Appropriate measures are being taken to protect the health of employees performing essential on-site operations.

The Company's Conway, Arkansas facilities, which represent approximately two thirds of the Company's production and distribution capacity, has been fully operational for this period of time. In accordance with State of California and local orders that include guidance on the definition and responsibilities of "essential businesses," the Company has been operating its Torrance facility. During May, the Company closed its Torrance facility for several days before and after Memorial Day to perform comprehensive cleaning of production and office areas. Management estimates that the Torrance facility is currently staffed at approximately 50% of its normal level.

Note 16. Subsequent Events

On September 8, 2020, the Company entered into Amendment No. 21 to the Revolving Credit and Security Agreement ("Amendment No. 21") with its lender, PNC Bank, National Association. Amendment No. 21 provided a limited waiver of the Company's violation of the covenant to maintain a Fixed Charge Coverage Ratio of at least 1.10 to 1.00 for the four fiscal quarter period ended July 31, 2020, and amended the Fixed Charge Coverage Ratio as follows: (i) 1.00 to 1.00 for the consecutive four fiscal quarter period ending October 31, 2020, and (ii) 1.10 to 1.00 for each consecutive four fiscal quarter period ending thereafter. In connection with Amendment No. 21, the Company also agreed to pay to PNC Bank a non-refundable fee of \$75,000.

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

Results of Operations

The effects of COVID -19

Results of operations for the three-month and six-month periods ended July 31, 2020 have been significantly impacted by economic conditions driven by the COVID-19 epidemic. The majority of our primary customers, the K-12 public school systems, closed school campuses and initiated remote learning on or about March 15, 2020. At this time, most school districts are continuing with remote learning for the academic year beginning August 2020, with a minority of districts attempting hybrid or on-site learning.

Selling activities have been significantly impacted. Our direct sales force, one of the Company's distinct competitive advantages, was unable to make in-person sales calls and has been required to call on customers using telephonic or other electronic methods. Our primary customers, educators and district business officials, are typically working remotely which complicates selling activities. Virco traditionally displays product at a variety of shows, most of which have been cancelled or held remotely. When working on site, educators and business officials typically require appointments and many districts do not allow vendors on-site. Orders of furniture were impacted, but the severity of the impact varied by funding source. Transactional orders, which are typically smaller, sometimes made through internet and other resellers, and are frequently for more immediate delivery fell sharply. Project orders, which are typically, larger, frequently requiring project management and full-service, characterized by a longer selling process, typically months in advance of the order, remained stable compared to the prior year. Funding sources for project orders are frequently bond funded, precluding funding from being diverted to alternative expenditures. The market for educational furniture is extremely seasonal, but there has traditionally been a remarkable stability to this seasonal cycle. In the current year, the timing of orders has not followed the traditional seasonal trends. Orders of educational furniture are traditionally very strong in May and June. In the current year these months were uncharacteristically slow.

Delivery of furniture to customers has been adversely impacted. Customers deferred deliveries of furniture during the initial school closures. This caused a reduction in first quarter shipments, but because orders were stable, our backlog of orders at April 30, 2020 was approximately \$8,324,000 greater than the same date in the prior year. Order backlog at July 31, 2020 was flat compared to the same date in the prior year. The Company has followed a process where we call every customer prior to shipping furniture from our warehouse to confirm that there will be school personnel on-site to accept the delivery. This has added complexity to the distribution process but has enabled effective execution of deliveries. During the second quarter, shipments of furniture started to model the traditional seasonal cycle, but at a reduced level of activity due to lower May and June orders. In typical years, shipments of furniture are scheduled to occur prior to Labor Day, when all schools are typically in session. This year does not appear to have the same hard deadline.

Manufacturing has been impacted, but operations have been successful given the circumstances. Our Arkansas factories, which represent approximately two-thirds of our annual volume have been operating the entire time. Our Torrance factory closed for one week at the inception of the pandemic when state and local shutdown orders were not coordinated. After the Company determined that our operations were essential, production re-started. The Torrance operations were closed for several days around Memorial Day to facilitate deep cleaning when a small number of employees were tested positive for COVID-19, but it quickly resumed operations and has been operating since Memorial Day. Our seasonal manufacturing cycle traditionally utilized temporary labor to address the education market seasonal cycle. The reduced production volume has been addressed by limiting temporary labor, and there have been no layoffs or furloughs of our employees. At various times our supply chain has been challenged by interruptions of imported components and by domestic suppliers' difficulties. While challenging, the Company has performed effectively during this period.

The COVID-19 epidemic has impacted or accelerated changes in many industries, including the furniture industry. While many furniture markets may be permanently impacted, the current pandemic appears to have reinforced the need and desire to have children attend K-12 schools and be instructed in classroom settings. Furniture that facilitates social distancing has been a part of the Company's product offering since its founding in 1950. The current condition of the K-12 education market continues to be one of significant disruption. State and local governments are anticipated to have severe budgetary concerns. Management believes that while the market for school furniture may decline in the fiscal year ending January 31, 2021 and probably beyond, our domestic manufacturing footprint provides meaningful opportunities to take market share without having to do so through pricing tactics.

Three Months Ended July 31, 2020

For the three months ended July 31, 2020, the Company earned a pre-tax profit of \$6,679,000 on sales of \$59,285,000 compared to a pre-tax profit of \$9,084,000 on sales of \$70,359,000 in the prior year.

Net sales for the three months ended July 31, 2020 decreased by \$11,074,000 or 15.7%. The Company began the quarter with an order backlog that was over \$8 million higher than the prior year due to slow COVID-19 impacted sales for the first quarter. Orders for the second quarter were approximately 27.9% lower than in the second quarter of the prior year. School closures adversely impacted selling activities and order rates for the months of May and June – traditionally significant months for generating orders during the traditional seasonal market for education furniture. Order rates for the month of July partially recovered to a 12% reduction compared to the prior year. Order backlog at July 31, 2020 was flat compared to the same date last year.

Gross margin for the second quarter was 39.1% compared to 40.8% in the prior year. The gross margin was favorably affected by a modest price increase at the beginning of the year, offset by unfavorable manufacturing overhead variances incurred when production rates declined in response to the decrease in unit volume.

Selling, general and administrative expenses for the three months ended July 31, 2020 decreased by more than \$3.0 million compared to the same period last year and decreased as a percentage of sales to 26.1% from 26.4%. The decrease in selling, general and administrative expenses was primarily attributable to decreased variable freight, service, and selling expenses.

Interest expense decreased by \$413,000 for the three months ended July 31, 2020 compared to the same period last year. The Company has borrowed less money to finance seasonal working capital.

Income tax expense for the second quarter ended July 31, 2020 is less than the prior year, primarily due to the decrease in pre-tax income.

Six Months Ended July 31, 2020

For the six months ended July 31, 2020, the Company incurred a pre-tax loss of \$1,294,000 on net sales of \$76,884,000 compared to a pre-tax profit of \$4,599,000 on net sales of \$97,252,000 in the same period last year. Net sales for the six months ended July 31, 2020 decreased by approximately \$20.4 million compared to the same period last year. This decrease was primarily the result of a reduction in unit volume offset by a modest increase in selling prices. The Company began the year with a backlog of orders that was slightly less than the prior year. Order rates for the first six months decreased by approximately 18.6% compared to the prior year.

Gross margin as a percentage of sales declined to 36.6% for the six months ended July 31, 2020 compared to 38.9% in the same period last year. The gross margin was favorably affected by the price increase described above, offset by unfavorable manufacturing overhead variances incurred when production rates declined in response to the decrease in unit volume.

Selling, general and administrative expenses for the six months ended July 31, 2020 decreased by approximately \$3.8 million compared to the same period last year and increased as a percentage of sales to 35.7% compared to 32.1% in the prior year. The decrease in selling, general and administrative expenses was primarily attributable to decreased variable freight, service, and selling expenses.

Interest expense decreased by \$709,000 for the six months ended July 31, 2020 compared to the same period last year. The Company has borrowed less money to finance seasonal working capital.

For the six months ended July 31, 2020 the Company recorded an income tax benefit compared to income tax expense due to the loss for the current year versus income in the prior year.

Liquidity and Capital Resources

Approximately 50% of the Company's annual sales volume is traditionally shipped in the months of June through August of each year. The Company traditionally manufactures large quantities of inventory during the first and second quarters of each fiscal year in anticipation of seasonally high summer shipments. In addition, the Company finances a large balance of accounts receivable during the peak season. Accounts receivable increased by \$20,926,000 from January 31, 2020 to July 31, 2020. This compares to prior year when accounts receivable grew by \$27,852,000 during the same period. The accounts receivable balance was approximately \$8.4 million lower at July 31, 2020 than at July 31, 2019 due to lower second quarter sales.

For the first six months, the Company increased inventory by approximately \$6,115,000 at July 31, 2020 compared to January 31, 2020. This compares to an increase of \$11,728,000 during the same period last year. Inventory at July 31, 2020 was \$9.6 million lower than the prior year. The decrease in inventory compared to the prior year is primarily due to decreased unit

volume to related to slower order rates. The increase in accounts receivable and inventory at July 31, 2020 compared to the January 31, 20120, was offset in part by a reduction in payables and additional borrowings through the Company's credit facility with PNC Bank.

Interest expense for the six months ended July 31, 2020 is lower than the same period last year. This is primarily attributable to lower levels of borrowing. Borrowings under the Company's revolving line of credit with PNC Bank at July 31, 2020 is lower than the borrowings at July 31, 2019.

Capital spending for the six months ended July 31, 2020 was \$1,359,000 compared to \$2,309,000 for the same period last year. Capital expenditures are being financed through the Company's credit facility with PNC Bank and operating cash flow.

The Company has experienced an overall decline in net sales and net income through the first six-months of fiscal 2021 as compared to fiscal 2020 as a result of the disruption to its business and its customers caused by the COVID-19 pandemic. As a result of the reduced revenue , the Company was not in compliance with its fixed-charge coverage ratio under its revolving and secured credit agreement with PNC Bank, as of July 31, 2020 (see Note 7). The Company successfully negotiated a waiver and amendment to the agreement to satisfy the event of default and reduced the ratio required for the rolling four quarter period ending October 31, 2020 from 1.10:1.00 to 1.00:1.00.

The Company expects the impact of COVID-19 to continue to be a challenge for the foreseeable future and believes the economy will be adversely impacted for an indeterminate period, including the demand for its products. The extent of the impact will depend on numerous factors that are unknown, uncertain and cannot be reasonably predicted. The Company has plans to further moderate certain selling, general and administrative expenses and capital expenditures to preserve cash and maintain compliance with its financial covenants. Based on the Company's current projections and its ability to manage certain controllable expenditures, management believes it will maintain compliance with the financial covenants for the next 12 months.

The Company believes that cash flows from operations, together with the Company's unused borrowing capacity with PNC Bank will be sufficient to fund the Company's debt service requirements, capital expenditures and working capital needs for the next twelve months.

Off Balance Sheet Arrangements

None.

Critical Accounting Policies and Estimates

The Company's critical accounting policies are outlined in its Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

Forward-Looking Statements

From time to time, including in this Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2020, the Company or its representatives have made and may make forward-looking statements, orally or in writing. 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 ("SEC"). The words or phrases "anticipates," "expects," "will continue," "believes," "estimates," "projects," or similar expressions are intended 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, availability of funding for educational institutions, availability and cost of

materials, especially steel, availability and cost of labor, demand for the Company's products, competitive conditions affecting selling prices and margins, capital costs and general economic conditions. Such risks and uncertainties are discussed in more detail in the Company's Form 10-K for the fiscal year ended January 31, 2020 under the caption "Risk Factors".

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act as of our second quarter of fiscal 2021 and are not required to provide the information under this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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 our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 ("Exchange Act") as of July 31, 2020. Based upon the foregoing, the Company's Principal Executive Officer along with the Company's Principal Financial Officer concluded that the Company's disclosure controls and procedures as of such date were effective to ensure that the information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to Company management, including its Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, Company management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control Over Financial Reporting

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. Based upon the foregoing, the Company's Principal Executive Officer along with the Company's Principal Financial Officer concluded that the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

There have been no changes in the Company's internal control over financial reporting during the fiscal quarter covered by this quarterly report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II — Other Information

Virco Mfg. Corporation

Item 1. Legal Proceedings

The Company is a party to various legal actions 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 actions, 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

You should carefully consider and evaluate the information in this Quarterly Report and the risk factors set forth under the caption “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020 (the “Form 10-K”), which was filed with the SEC on April 30, 2020. The risk factors associated with our business have not materially changed compared to the risk factors disclosed in the Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On September 8, 2020, the Company entered into Amendment No. 21 to the Revolving Credit and Security Agreement (“Amendment No. 21”) with its lender, PNC Bank, National Association. Amendment No. 21 provided a limited waiver of the Company’s violation of the covenant to maintain a Fixed Charge Coverage Ratio of at least 1.10 to 1.00 for the four fiscal quarter period ended July 31, 2020, and amended the Fixed Charge Coverage Ratio as follows: (i) 1.00 to 1.00 for the consecutive four fiscal quarter period ending October 31, 2020, and (ii) 1.10 to 1.00 for each consecutive four fiscal quarter period ending thereafter. In connection with Amendment No. 21, the Company also agreed to pay to PNC Bank a non-refundable fee of \$75,000.

The foregoing description of Amendment No. 21 to the Revolving Credit and Security Agreement is not complete and is qualified in its entirety by reference to the text of Amendment No. 21, a copy of which is filed as Exhibit 10.3.20 to this Quarterly Report on Form 10-Q and incorporated by reference herein.

Item 6. Exhibits

Exhibit**Number****Document**

- 3.3 Third Amended and Restated Bylaws of the Company dated June 9, 2020 (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed with the SEC on June 12, 2020)
- 10.3.20 Twenty-First Amendment to Revolving Credit and Security Agreement, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent.
- 31.1 Certification of Robert A. Virtue, Chief 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.
- 31.2 Certification of Robert E. Dose, Vice President, Finance, pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 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.

Exhibit 101.INS — XBRL Instance Document.

Exhibit 101.SCH — XBRL Taxonomy Extension Schema Document.

Exhibit 101.CAL — XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.LAB — XBRL Taxonomy Extension Label Linkbase Document.

Exhibit 101.PRE — XBRL Taxonomy Extension Presentation Linkbase Document.

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.

Date: September 14, 2020

VIRCO MFG. CORPORATION

By: /s/ Robert E. Dose

Robert E. Dose

Vice President — Finance

(Principal Financial Officer)

**TWENTY-FIRST AMENDMENT TO
REVOLVING CREDIT AND SECURITY AGREEMENT AND LIMITED WAIVER**

This **TWENTY-FIRST AMENDMENT TO REVOLVING CREDIT AND SECURITY AGREEMENT AND LIMITED WAIVER** (this “**Amendment**”) is entered into as of September 8, 2020 by and among **VIRCO MFG. CORPORATION**, a Delaware corporation (“**VMC**”), **VIRCO INC.**, a Delaware corporation (“**Virco**”, and together with VMC, “**Borrowers**” and, each individually, a “**Borrower**”), the financial institutions from time to time party to the Credit Agreement (as defined below) as lenders (collectively, “**Lenders**”), and **PNC BANK, NATIONAL ASSOCIATION** (“**PNC**”), as administrative agent for Lenders (PNC, in such capacity, “**Agent**”), with respect to the following:

RECITALS

WHEREAS, Borrowers, Lenders and Agent have previously entered into that certain Revolving Credit and Security Agreement, dated as of December 22, 2011 (as amended, restated or otherwise modified from time to time, the “**Credit Agreement**”);

WHEREAS, an Event of Default has occurred under **Section 10.3(a)** of the Credit Agreement as a result of Borrowers’ failure to maintain a Fixed Charge Coverage Ratio of the Borrowers of at least 1.10 to 1.00 for the four fiscal quarter period ended July 31, 2020 as required under **Section 6.5(a)** of the Credit Agreement (the “**Existing Event of Default**”); and

WHEREAS, Borrowers have requested that Lenders and Agent (a) waive the Existing Event of Default, and (b) amend the Credit Agreement in certain respects, which Lenders and Agent are willing to do on the terms and subject to the conditions contained in this Amendment.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Credit Agreement, the Loan Documents and this Amendment, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

AGREEMENTS

a. Definitions Incorporated. Initially capitalized terms used but not otherwise defined in this Amendment have the respective meanings set forth in the Credit Agreement, as amended hereby.

b. Recitals. The Recitals above are incorporated herein as though set forth in full and Borrowers stipulate to the accuracy of each of the Recitals.

c. Amendments to the Credit Agreement. The Credit Agreement is hereby amended as follows:

i. Amendments to Section 1.2 of the Credit Agreement.

1. Section 1.2 of the Credit Agreement is hereby amended to add the following new definitions in the proper alphabetical order:

“**Twenty-First Amendment**’ means the Twenty-First Amendment to Revolving Credit and Security Agreement and Limited Waiver dated as of September 8, 2020 among Borrowers, the Lenders party thereto and Agent.”

“**Twenty-First Amendment Effective Date**’ has the meaning specified for such term in the Twenty-First Amendment.”

2. Section 1.2 of the Credit Agreement is hereby amended to amend and restate in their entirety the following defined terms:

“**Alternate Base Rate**’ means, for any day, a rate *per annum* equal to the highest of (a) the Base Rate in effect on such day, (b) the Federal Funds Open Rate in effect on such day plus 1/2 of 1% and (c) the Eurodollar Rate for an Interest period of one month plus 1%, so long as the Eurodollar Rate is offered, ascertainable and not unlawful. Any change in the Alternate Base Rate (or any component thereof) shall take effect at the opening of business on the day such change occurs.”

“**Applicable Margin**’ shall mean, as of any date of determination, the number of percentage points set forth below opposite the level then in effect, it being understood that the Applicable Margin for (i) Advances that are Domestic Rate Loans shall be the percentage set forth under the column “Domestic Rate Loans” and (ii) Advances that are Eurodollar Rate Loans shall be the percentage set forth under the column “Eurodollar Rate Loans”:

<u>Level</u>	<u>Applicable Trigger Period</u>	<u>Domestic Rate Loans</u>		<u>Eurodollar Rate Loans</u>	
		Revolving Advances	Equipment Loans	Revolving Advances	Equipment Loans
I	during the Seasonal Overadvance Period (as defined in <u>Section 2.1(a)(iii)</u>)	1.75	1.25	2.75	2.25
II	at all other times	1.25	1.25	2.25	2.25

“**Equipment Loan Rate**’ shall mean (a) with respect to Equipment Loans that are Domestic Rate Loans, an interest rate per annum equal to the sum of the Applicable Margin for Equipment Loans plus the Alternate Base Rate and (b) with respect to Equipment Loans that are Eurodollar Rate Loans, the sum of the Applicable Margin for Equipment Loans plus the Eurodollar Rate.”

“**Eurodollar Alternate Source**’ shall have the meaning set forth in the definition of Eurodollar Rate.”

“**Eurodollar Rate**’ shall mean for any Eurodollar Rate Loan for the then current Interest Period relating thereto, the interest rate per annum determined by Agent by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1% per

annum) (a) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which U.S. dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by Agent in good faith as an authorized information vendor for the purpose of displaying rates at which U.S. dollar deposits are offered by leading banks in the London interbank deposit market (a “Eurodollar Alternate Source”), at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period as the London interbank offered rate for U.S. Dollars for an amount comparable to such Eurodollar Rate Loan and having a borrowing date and a maturity comparable to such Interest Period (or (x) if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Eurodollar Alternate Source, a comparable replacement rate determined by Agent at such time (which determination shall be conclusive absent manifest error), or (y) if the Eurodollar Rate is unascertainable as set forth in Section 3.8(b), a comparable replacement rate determined in accordance with Section 3.8(b), by (b) a number equal to 1.00 minus the Reserve Percentage; provided, however, that if the Eurodollar Rate determined as provided above would be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

The Eurodollar Rate shall be adjusted with respect to any Eurodollar Rate Loan that is outstanding on the effective date of any change in the Reserve Percentage as of such effective date. Agent shall give reasonably prompt notice to the Borrowing Agent of the Eurodollar Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.”

ii. **New Section 1.5 to the Credit Agreement.** The following new Section 1.5 is added to the Credit Agreement;

“1.5 Eurodollar Notification. Section 3.8(b) of this Agreement provides a mechanism for determining an alternate rate of interest in the event that the London interbank offered rate is no longer available or in certain other circumstances. The Agent does not warrant or accept any responsibility for and shall not have any liability with respect to, the administration, submission or any other matter related to the London interbank offered rate or other rates in the definition of “Eurodollar Rate” or with respect to any alternative or successor rate thereto, or replacement rate therefor.”

iii. **Amendment to Section 2.2X(iii) of the Credit Agreement.** The three instances of the use of the word “LIBOR” contained in Section 2.2X(iii) of the Credit Agreement are amended and replaced by the word “Eurodollar”.

iv. **Amendment to Section 3.8 of the Credit Agreement.** Section 3.8 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“3.8 Alternate Rate of Interest.

(a) Interest Rate Inadequate or Unfair. In the event that Agent or any Lender shall have determined that:

(i) reasonable means do not exist for ascertaining the Eurodollar Rate applicable pursuant to Section 2.2 hereof for any Interest Period; or

(ii) Dollar deposits in the relevant amount and for the relevant maturity are not available in the London interbank LIBOR market, with respect to an outstanding Eurodollar Rate Loan, a proposed Eurodollar Rate Loan, or a proposed conversion of a Domestic Rate Loan into a Eurodollar Rate Loan; or

(iii) the making, maintenance or funding of any Eurodollar Rate Loan has been made impracticable or unlawful by compliance by Agent or such Lender in good faith with any Applicable Law or any interpretation or application thereof by any Governmental Body or with any request or directive of any such Governmental Body (whether or not having the force of law); or

(iv) the Eurodollar Rate will not adequately and fairly reflect the cost to such Lender of the establishment or maintenance of any Eurodollar Rate Loan;

then Agent shall give Borrowing Agent prompt written or telephonic notice of such determination. If such notice is given prior to a Benchmark Replacement Date (as defined below), (A) any such requested Eurodollar Rate Loan shall be made as a Domestic Rate Loan, unless Borrowing Agent shall notify Agent no later than 1:00 p.m. Eastern Standard Time two (2) Business Days prior to the date of such proposed borrowing, that its request for such borrowing shall be cancelled or made as an unaffected type of Eurodollar Rate Loan, (B) any Domestic Rate Loan or Eurodollar Rate Loan which was to have been converted to an affected type of Eurodollar Rate Loan shall be continued as or converted into a Domestic Rate Loan, or, if Borrowing Agent shall notify Agent, no later than 1:00 p.m. Eastern Standard Time two (2) Business Days prior to the proposed conversion, shall be maintained as an unaffected type of Eurodollar Rate Loan, and (C) any outstanding affected Eurodollar Rate Loans shall be converted into a Domestic Rate Loan, or, if Borrowing Agent shall notify Agent, no later than 1:00 p.m. Eastern Standard Time two (2) Business Days prior to the last Business Day of the then current Interest Period applicable to such affected Eurodollar Rate Loan, shall be converted into an unaffected type of Eurodollar Rate Loan, on the last Business Day of the then current Interest Period for such affected Eurodollar Rate Loans (or sooner, if any Lender cannot continue to lawfully maintain such affected Eurodollar Rate Loan). Until such notice has been withdrawn, Lenders shall have no obligation to make an affected type of Eurodollar Rate Loan or maintain outstanding affected Eurodollar Rate Loans and no Borrower shall have the right to convert a Domestic Rate Loan or an unaffected type of Eurodollar Rate Loan into an affected type of Eurodollar Rate Loan.

(b) Successor Eurodollar Rate Index.

(i) Benchmark Replacement. Notwithstanding anything to the contrary herein or in the other Loan Documents, if Agent determines that a Benchmark Transition Event or an Early Opt-in Event has occurred, Agent and Borrowers may amend this Agreement to replace the Eurodollar Rate with a Benchmark Replacement; and any such amendment will become effective at 5:00 p.m. New York City time on the fifth (5th) Business Day after Agent has provided such proposed amendment to all Lenders, so long as Agent has not received, by such time, written notice of objection to such amendment from Lenders comprising the Required Lenders. Until the Benchmark Replacement is effective, each advance, conversion and renewal of a Eurodollar Rate Loan will continue to bear interest with reference to the Eurodollar Rate; provided,

however, during a Benchmark Unavailability Period (i) any pending selection of, conversion to or renewal of a Eurodollar Rate Loan that has not yet gone into effect shall be deemed to be a selection of, conversion to or renewal of a Domestic Rate Loan, (ii) all outstanding Eurodollar Rate Loans shall automatically be converted to Domestic Rate Loans at the expiration of the existing Interest Period (or sooner, if Agent cannot continue to lawfully maintain such affected Eurodollar Rate Loan) and (iii) the component of the Alternate Base Rate based upon the Eurodollar Rate will not be used in any determination of the Alternate Base Rate.

(ii) Benchmark Replacement Conforming Changes. In connection with the implementation of a Benchmark Replacement, Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in the other Loan Documents, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement.

(iii) Notices; Standards for Decisions and Determinations. Agent will promptly notify Borrowers and the Lenders of (i) the implementation of any Benchmark Replacement, (ii) the effectiveness of any Benchmark Replacement Conforming Changes and (iii) the commencement of any Benchmark Unavailability Period. Any determination, decision or election that may be made by Agent or Lenders pursuant to this Section 3.8(b) including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party hereto, except, in each case, as expressly required pursuant to this Section 3.8(b).

(iv) Certain Defined Terms. As used in this Section 3.8(b):

(A) “Benchmark Replacement” means the sum of: (1) the alternate benchmark rate that has been selected by Agent and Borrowers giving due consideration to (x) any selection or recommendation of a replacement rate or the mechanism for determining such a rate by the Relevant Governmental Body or (y) any evolving or then-prevailing market convention for determining a rate of interest as a replacement to the Eurodollar Rate for U.S. dollar-denominated credit facilities and (2) the Benchmark Replacement Adjustment; provided that, if the Benchmark Replacement as so determined would be less than the Benchmark Replacement Floor, the Benchmark Replacement will be deemed to be the Benchmark Replacement Floor for purposes of this Agreement.

(B) “Benchmark Replacement Adjustment” means, with respect to any replacement of the Eurodollar Rate with an alternate benchmark rate for each applicable Interest Period, the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by Agent and Borrowers (1) giving due consideration to (x) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the Eurodollar Rate with the applicable Benchmark Replacement (excluding such spread adjustment) by the Relevant Governmental Body or (y) any evolving or then-prevailing market convention for

determining a spread adjustment, or method for calculating or determining such spread adjustment, for such replacement of the Eurodollar Rate for US Dollar denominated credit facilities at such time and (2) which may also reflect adjustments to account for (x) the effects of the transition from the Eurodollar Rate to the Benchmark Replacement and (y) yield- or risk-based differences between the Eurodollar Rate and the Benchmark Replacement.

(C) “Benchmark Replacement Conforming Changes” means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of “Base Rate,” the definition of “Interest Period,” timing and frequency of determining rates and making payments of interest and other administrative matters) that Agent decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by Agent in a manner substantially consistent with market practice (or, if Agent decides that adoption of any portion of such market practice is not administratively feasible or if Agent determines that no market practice for the administration of the Benchmark Replacement exists, in such other manner of administration as Agent decides is reasonably necessary in connection with the administration of this Agreement).

(D) “Benchmark Replacement Date” means the earlier to occur of the following events with respect to the Eurodollar Rate:

(1) in the case of clause (1) or (2) of the definition of “Benchmark Transition Event,” the later of (x) the date of the public statement or publication of information referenced therein and (y) the date on which the administrator of the Eurodollar Rate permanently or indefinitely ceases to provide the Eurodollar Rate; or

(2) in the case of clause (3) of the definition of “Benchmark Transition Event,” the date of the public statement or publication of information referenced therein.

(E) “Benchmark Replacement Floor” means the minimum rate of interest, if any, specified for the Eurodollar Rate or, if no minimum rate of interest is specified, zero.

(F) “Benchmark Transition Event” means the occurrence of one or more of the following events with respect to the Eurodollar Rate:

(1) a public statement or publication of information by or on behalf of the administrator of the Eurodollar Rate announcing that such administrator has ceased or will cease to provide the Eurodollar Rate, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Eurodollar Rate;

(2) a public statement or publication of information by a Governmental Body having jurisdiction over Agent, the regulatory supervisor for the administrator of the Eurodollar Rate, the U.S. Federal Reserve System, an insolvency official with jurisdiction over the administrator for the Eurodollar Rate, a resolution

authority with jurisdiction over the administrator for the Eurodollar Rate or a court or an entity with similar insolvency or resolution authority over the administrator for the Eurodollar Rate, which states that the administrator of the Eurodollar Rate has ceased or will cease to provide the Eurodollar Rate permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Eurodollar Rate; or

(3) a public statement or publication of information by the regulatory supervisor for the administrator of the Eurodollar Rate or a Governmental Body having jurisdiction over the Agent announcing that the Eurodollar Rate is no longer representative.

(G) “Benchmark Unavailability Period” means, if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the Eurodollar Rate and solely to the extent that the Eurodollar Rate has not been replaced with a Benchmark Replacement, the period (1) beginning at the time that such Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the Eurodollar Rate for all purposes hereunder in accordance with Section 3.8(b) and (y) ending at the time that a Benchmark Replacement has replaced the Eurodollar Rate for all purposes hereunder pursuant to Section 3.8(b).

(H) “Early Opt-in Event” means a determination by Agent that US Dollar denominated credit facilities being executed at such time, or that include language similar to that contained in this Section 3.8(b), are being executed or amended, as applicable, to incorporate or adopt a new benchmark interest rate to replace the Eurodollar Rate.

(I) “Relevant Governmental Body” means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.”

v. **Amendment to Section 6.5(b) of the Credit Agreement.** Section 6.5(b) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

“(b) Fixed Charge Coverage Ratio. Cause to be maintained a Fixed Charge Coverage Ratio as follows: (i) for the consecutive four fiscal quarter period of Borrowers ending October 31, 2020, 1.00 to 1.00, and (ii) for each consecutive four fiscal quarter period of Borrowers ending thereafter, 1.10 to 1.00.”

d. **Limited Waiver of Existing Event of Default.** Subject to the terms and conditions set forth herein, the Agent and Lenders waive the Existing Event of Default. The foregoing waiver is a one-time waiver and applies only to the specified circumstance and does not modify or otherwise affect the Credit Parties’ obligations to comply with such provision of the Credit Agreement or any other provision of the Credit Agreement in any other instance. By virtue of the waiver in the immediately preceding sentence, the Credit Parties hereby affirm and agree that no other Event of Default has occurred as a result of the Existing Event of Default.

e. **Conditions Precedent.** The obligations of Agent and Lenders hereunder, and this Amendment, will be effective on the date (the “**Twenty-First Amendment Effective Date**”) of

satisfaction of each of the following conditions precedent, each in a manner in form and substance acceptable to Agent:

i. Amendment. Borrowers shall have delivered to Agent an executed original of this Amendment.

ii. Amendment to Fee Letter. Borrowers shall have delivered to Agent an executed original of the Amendment to Fee Letter dated the date hereof, and shall have paid all fees in connection therewith.

iii. Corporate Resolutions. Borrowers shall deliver to Agent copies of resolutions duly adopted by each Borrower, in form and substance satisfactory to Agent, authorizing the execution and delivery of the Twenty-First Amendment and all documents and transactions related thereto, and such resolutions shall be in full force and effect, duly adopted by the appropriate governing body, and shall have not been amended, modified or revoked.

iv. Representations and Warranties. The representations and warranties contained herein and in the Credit Agreement shall be true and correct in all material respects as of the date hereof as if made on the date hereof, except for such representations and warranties limited by their terms to a specific date, in which case each such representation and warranty shall be true and correct in all material respects as of such specific date;

v. No Default. After giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing; and

vi. Other. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated hereby shall be satisfactory in form and substance to Agent and its counsel.

f. Representations and Warranties. To induce Lenders and Agent to enter into this Amendment, each Borrower represents and warrants to Lenders and Agent as of the date hereof as follows:

i. Such Borrower has full power, authority and legal right to enter into this Amendment and to perform all its respective Obligations hereunder. This Amendment has been duly executed and delivered by such Borrower and the Credit Agreement, as amended by this Amendment constitutes the legal, valid and binding obligation of such Borrower enforceable in accordance with its terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally. The execution, delivery and performance of this Amendment (i) are within such Borrower's powers, have been duly authorized by all necessary company action, are not in contravention of law or the terms of such Borrower's by-laws, certificate of incorporation, or other applicable documents relating to such Borrower's formation or to the conduct of such Borrower's business or of any material agreement or undertaking to which such Borrower is a party or by which such Borrower is bound, (ii) will not conflict with or violate any law or regulation, or any judgment, order, writ, injunction or decree of any court or Governmental Body, (iii) will not require the Consent of any Governmental Body or any other Person, except those Consents which will have been duly obtained, made or compiled prior to date hereof and which are in full force and effect, and (iv) will not conflict with, nor result in any breach in any of the provisions of or constitute a default under or result in the creation of any Lien except Permitted Encumbrances upon any asset of such Borrower under the

provisions of any material agreement, charter document, instrument, by-law or other instrument to which such Borrower is a party or by which it or its property is a party or by which it may be bound.

ii. After giving effect to this Amendment, the representations and warranties contained in the Credit Agreement are true and correct in all material respects except to the extent any such representation or warranty is expressly stated to have been made as of a specific date, in which case each such representation and warranty is true and correct in all material respects as of such specific date, and no Default or Event of Default has occurred and is continuing.

g. Reaffirmation. Except as specifically modified by this Amendment, the Credit Agreement and the other Loan Documents remain in full force and effect in accordance with their respective terms and are hereby ratified, reaffirmed and confirmed by Borrowers.

h. Events of Default. Any failure to comply with the terms of this Amendment will constitute an Event of Default under the Credit Agreement.

i. Integration. This Amendment, together with the Credit Agreement and the Loan Documents, incorporates all negotiations of the parties hereto with respect to the subject matter hereof and is the final expression and agreement of the parties hereto with respect to the subject matter hereof.

j. Severability. If any part of this Amendment is contrary to, prohibited by, or deemed invalid under Applicable Laws, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited or invalid, but the remainder hereof shall not be invalidated thereby and shall be given effect so far as possible.

k. Submission of Amendment. The submission of this Amendment to the parties or their agents or attorneys for review or signature does not constitute a commitment by Agent or Lenders to amend or otherwise modify any of the provisions of the Credit Agreement and this Amendment shall have no binding force or effect until the Twenty-First Amendment Effective Date.

l. Counterparts; Facsimile Signatures. This Amendment may be executed in any number of and by different parties hereto on separate counterparts, all of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile or other similar form of electronic transmission (e.g., via .pdf) shall be deemed to be an original signature hereto.

m. Governing Law. This Amendment is a Loan Document and is governed by the Applicable Law pertaining in the State of New York, other than those conflict of law provisions that would defer to the substantive laws of another jurisdiction. This governing law election has been made by the parties in reliance on, among other things, Section 5-1401 of the General Obligations Law of the State of New York, as amended (as and to the extent applicable), and other Applicable Law.

n. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of Borrowers, Lenders, Agent, and all future holders of the Obligations and their respective successors and assigns, except that no Borrower may assign or transfer any of its rights or obligations under this Amendment without the prior written consent of Agent.

o. Attorneys' Fees; Costs. Borrowers agree to promptly pay, upon written demand, all reasonable and documented attorneys' fees and costs incurred in connection with the negotiation, documentation and execution of this Amendment. If any legal action or proceeding shall be commenced

at any time by any party to this Amendment in connection with its interpretation or enforcement, the prevailing party or parties in such action or proceeding shall be entitled to reimbursement of its reasonable attorneys' fees and costs in connection therewith, in addition to all other relief to which the prevailing party or parties may be entitled.

p. Jury Waiver; California Judicial Reference. Without limiting the applicability of any other provision of the Credit Agreement, the terms of Article XII of the Credit Agreement, INCLUDING WITHOUT LIMITATION SECTION 12.3 regarding jury trial waiver and california judicial reference shall apply to this Amendment.

q. Total Agreement. This Amendment, the Credit Agreement, and the other Loan Documents contain the entire understanding among Borrowers, Lenders and Agent and supersede all prior agreements and understandings, if any, relating to the subject matter hereof. Any promises, representations, warranties, or guarantees not herein contained and hereinafter made have no force and effect unless in writing, signed by Borrowers' and Agent's respective officers. Neither this Amendment nor any portion or provisions hereof may be changed, modified, amended, waived, supplemented, discharged, cancelled, or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged. Each Borrower acknowledges that it has been advised by counsel in connection with the execution of this Amendment and the other Loan Documents and is not relying upon oral representations or statements inconsistent with the terms and provisions of this Amendment.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as of the date first written above.

VIRCO MFG. CORPORATION,

a Delaware corporation, as a Borrower

By: _

Name:

Title:

VIRCO INC.,

a Delaware corporation, as a Borrower

By: _

Name:

Title:

PNC BANK, NATIONAL ASSOCIATION,

as Lender and as Agent

By: _

Name:

Title:



September 8, 2020

Virco Mfg. Corporation
2027 Harpers Ways
Torrance, California 90501
Attention: Robert Dose

Virco Inc.
2027 Harpers Ways
Torrance, California 90501
Attention: Robert Dose

Re: Fee Letter (as amended, restated, amended and restated, or otherwise modified from time to time, the “**Fee Letter**”) to the Revolving Credit and Security Agreement, dated as of December 22, 2011, among VIRCO MFG. CORPORATION, a Delaware corporation, VIRCO INC., a Delaware corporation (together with each other Person that becomes a party thereto as a borrower pursuant to Section 7.12 of the Credit Agreement, collectively “**Borrowers**”), the Persons from time to time party thereto as a guarantor pursuant to Section 7.12 of the Credit Agreement, the financial institutions that are now or that hereafter become a party thereto (collectively, “**Lenders**”) and PNC BANK, NATIONAL ASSOCIATION (“**PNC**”), as administrative agent for Lenders (PNC, in such capacity, “**Agent**”) (as amended prior to the date hereof and on the date hereof pursuant to the Seventeenth Amendment and as may be further amended, restated, or otherwise modified from time to time, the “**Credit Agreement**”). Initially capitalized terms used but not defined herein have the respective meanings set forth in the Credit Agreement.

Ladies and Gentlemen:

This letter agreement constitutes an amendment, effective as of the Twenty-First Amendment Effective Date, of the fees under the Fee Letter that Borrowers have agreed to pay to the Agent in connection with the Credit Agreement.

In connection with, and in consideration of, the agreements contained in the Credit Agreement and the Twenty-First Amendment, the Agent’s continued services as agent, and the Agent’s participation in the credit facilities set forth in the Credit Agreement, Borrowers hereby agree to the following amendment to the Fee Letter:

(i) Twenty-First Amendment Fee. A new Section 8 of the Fee Letter is hereby added to read in its entirety as follows and the Fee Letter shall be re-numbered accordingly:

*“8. Twenty-First Amendment Fee. Borrowers shall pay to Agent a non-refundable extension fee in the amount of \$75,000 (the “**Twenty-First Amendment Fee**”) in connection with the Twenty-First Amendment (and which fee shall be fully earned and not refundable in any manner as of the Twenty-First Amendment Effective Date).*

Except as amended hereby, the Fee Letter remains in full force and effect.

The fees and other consideration to be paid pursuant to the Fee Letter and this letter are confidential and shall not to be disclosed by any Borrower to any person or entity. By execution of this letter, the Borrowers agree to pay or cause to be paid the fees to the Agent as and when due as provided in the Fee Letter, as amended hereby. This letter may be executed in any number of counterparts, each of which will be an original and all of which will constitute one and the same agreement.

[Signature Page Follows]

Very truly yours,

PNC BANK, NATIONAL ASSOCIATION,
as Agent

By: _____
Name:
Title:

Accepted and agreed to as of the date first set forth above:

VIRCO MFG. CORPORATION,
a Delaware corporation

By: _____
Name:
Title:

VIRCO INC.,
a Delaware corporation

By: _____

Name:

Title:

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112482217_2

**SECRETARY'S CERTIFICATE
OF
VIRCO MFG. CORPORATION**

September 8, 2020

Reference is made to those certain proposed forms of (i) Twenty-First Amendment to Revolving Credit and Security Agreement and Limited Waiver, to be dated on or about September 8, 2020, by and among Virco Mfg. Corporation (the “Company”) and Virco, Inc., as Borrowers, the financial institutions from time to time party thereto, as Lenders, and PNC Bank, National Association, as administrative agent for the Lenders (the “Agent”) (the “Twenty-First Amendment”), and (ii) Amendment to Fee Letter to be dated on or about September 8, 2020 in favor of the Agent (the “Fee Letter”, together with the Twenty-First Amendment, collectively, the “Twenty-First Amendment Documents”).

The undersigned hereby certifies that he is the duly elected, qualified, and acting Secretary of the Company, and that, as such, he is familiar with the facts herein certified and is duly authorized to certify the same and does hereby certify, on behalf of the Company and not in his individual capacity as follows:

1. Attached hereto as Exhibit A is a true and complete copy of the resolutions duly adopted by the Board of Directors of the Company on September 8, 2020 authorizing the execution, delivery and performance of the Twenty-First Amendment Documents and the other documents and agreements that the Company will enter into in connection therewith, the consummation of the transactions contemplated thereby and the performance of the obligations thereunder. Such resolutions have not in any way been amended, revoked, rescinded or modified and have been in full force and effect since their adoption and including the date hereof and are now in full force and effect.

IN WITNESS WHEREOF, I hereunder subscribe my name effective as of the date first set forth above.

By: _____
Name: Robert E. Dose
Title: Corporate Secretary

EXHIBIT A

**RESOLUTIONS OF BOARD OF DIRECTORS OF
VIRCO MFG. CORPORATION**

Adopted on September 8, 2020

**TWENTY-FIRST AMENDMENT DOCUMENTS TO REVOLVING CREDIT AND SECURITY
AGREEMENT**

WHEREAS, the Company previously entered into a Revolving Credit and Security Agreement, dated as of December 22, 2011, by and among the Company, Virco Mfg. Corporation. (“Virco,” and together with the Company, “Borrowers”), the financial institutions from time to time party thereto as lenders (collectively, “Lenders”), and PNC Bank National Association (“PNC”), as administrative agent for the Lenders (the “Agent”) (as amended, restated or otherwise modified from time to time, the “Credit Agreement”);

WHEREAS, the Board has reviewed and desires to approve a proposed Twenty-First Amendment and Limited Waiver to the Credit Agreement to be dated on or about September __, 2020, by and among the Borrowers, Lenders and Agent and an Amendment to the Fee Letter with Agent to be dated on or about September 8, 2020, substantially in the forms attached hereto as Appendix A (collectively, the “Twenty-First Amendment Documents”).

NOW THEREFORE BE IT RESOLVED, that the Twenty-First Amendment Documents are hereby ratified, adopted, confirmed and approved in all respects as the act and deed of the Company;

RESOLVED FURTHER, that the proper officers of the Company be, and each of them hereby is, authorized and directed, for and on behalf of the Company, to execute and deliver the Twenty-First Amendment Documents and to take such further actions and execute and deliver such other documents, agreements, certificates or amendments as each may deem necessary or appropriate to carry out the purposes and intent of the Twenty-First Amendment Documents;

OMNIBUS RESOLUTION

RESOLVED, that the proper officers of the Company be, and each of them hereby is, authorized and directed to execute all additional documents, agreements, certificates or amendments and take whatever action is deemed necessary or advisable to carry out the purposes and perform the obligations of the Company as set forth in these resolutions, and all prior actions taken by such officers in connection herewith are hereby confirmed, ratified and approved in all respects as the act and deed of the Company.

[End of Resolutions]

APPENDIX A

**TWENTY-FIRST AMENDMENT TO REVOLVING CREDIT AND SECURITY AGREEMENT AND
LIMITED WAIVER
and
AMENDMENT TO THE FEE LETTER**

**ACTION BY UNANIMOUS WRITTEN CONSENT
OF THE
BOARD OF DIRECTORS OF
VIRCO INC.**

(a Delaware Corporation)

September 8, 2020

The undersigned, being all the members of the Board of Directors (the “Board”) of Virco Inc., a Delaware corporation (the “Company”), take the following action by written consent pursuant to Section 141(f) of the General Corporation Law of the State of Delaware:

**TWENTY-FIRST AMENDMENT DOCUMENTS TO REVOLVING CREDIT AND SECURITY
AGREEMENT**

WHEREAS, the Company previously entered into a Revolving Credit and Security Agreement, dated as of December 22, 2011, by and among the Company, Virco Mfg. Corporation. (“Virco,” and together with the Company, “Borrowers”), the financial institutions from time to time party thereto as lenders (collectively, “Lenders”), and PNC Bank National Association (“PNC”), as administrative agent for the Lenders (the “Agent”) (as amended, restated or otherwise modified from time to time, the “Credit Agreement”);

WHEREAS, the Board has reviewed and desires to approve a proposed Twenty-First Amendment and Limited Waiver to the Credit Agreement to be dated on or about September 8, 2020, by and among the Borrowers, Lenders and Agent and an Amendment to the Fee Letter with Agent to be dated on or about September 8, 2020, substantially in the forms attached hereto as Appendix A (collectively, the “Twenty-First Amendment Documents”).

NOW THEREFORE BE IT RESOLVED, that the Twenty-First Amendment Documents are hereby ratified, adopted, confirmed and approved in all respects as the act and deed of the Company;

RESOLVED FURTHER, that the proper officers of the Company be, and each of them hereby is, authorized and directed, for and on behalf of the Company, to execute and deliver the

Twenty-First Amendment Documents and to take such further actions and execute and deliver such other documents, agreements, certificates or amendments as each may deem necessary or appropriate to carry out the purposes and intent of the Twenty-First Amendment Documents;

OMNIBUS RESOLUTION

RESOLVED, that the proper officers of the Company be, and each of them hereby is, authorized and directed to execute all additional documents, agreements, certificates or amendments and take whatever action is deemed necessary or advisable to carry out the purposes and perform the obligations of the Company as set forth in these resolutions, and all prior actions taken by such officers in connection herewith are hereby confirmed, ratified and approved in all respects as the act and deed of the Company.

IN WITNESS WHEREOF, the undersigned have executed this Unanimous Written Consent as of the date first written above.

Name: Douglas A. Virtue

Name: Robert A. Virtue

Signature Page to Twenty-First Amendment and Limited Waiver [Virco]

Exhibit A
Attached.

Signature Page to Twenty-First Amendment and Limited Waiver [Virco]

CERTIFICATIONS

I, Robert A. Virtue, certify that:

1. I have reviewed this Form 10-Q of Virco Mfg. Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert A. Virtue

Robert A. Virtue

Chief Executive Officer and Chairman of the Board (Principal Executive Officer)

Date: September 14, 2020

CERTIFICATIONS

I, Robert E. Dose, certify that:

1. I have reviewed this Form 10-Q of Virco Mfg. Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert E. Dose

Robert E. Dose

Date: September 14, 2020

*Vice President — Finance, Secretary and Treasurer (Principal
Financial Officer)*

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, in his capacity as an officer of Virco Mfg. Corporation (the “Company”), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his own knowledge:

- The Quarterly Report of the Company on Form 10-Q for the period ended July 31, 2020, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- The information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: September 14, 2020

/s/ Robert A. Virtue

Robert A. Virtue

Chief Executive Officer and Chairman of the Board

(Principal Executive Officer)

/s/ Robert E. Dose

Robert E. Dose

Vice President — Finance, Secretary and Treasurer

(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Virco Mfg. Corporation and will be retained by Virco Mfg. Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**Document and Entity
Information - shares**

**6 Months Ended
Jul. 31, 2020**

Sep. 12, 2020

[Document and Entity Information \[Abstract\]](#)

<u>Entity Registrant Name</u>	VIRCO MFG CORPORATION	
<u>Entity Central Index Key</u>	0000751365	
<u>Document Type</u>	10-Q	
<u>Document Period End Date</u>	Jul. 31, 2020	
<u>Amendment Flag</u>	false	
<u>Document Fiscal Year Focus</u>	2021	
<u>Document Fiscal Period Focus</u>	Q2	
<u>Current Fiscal Year End Date</u>	--01-31	
<u>Entity Filer Category</u>	Smaller Reporting Company	
<u>Entity Common Stock, Shares Outstanding</u>		15,918,642
<u>Entity Shell Company</u>	false	
<u>Entity Emerging Growth Company</u>	false	
<u>Entity Small Business</u>	true	
<u>Entity Current Reporting Status</u>	Yes	

**Condensed Consolidated
Balance Sheets - USD (\$)
\$ in Thousands**

**Jul. 31, Jan. 31, Jul. 31,
2020 2020 2019**

Current assets:

<u>Cash</u>	\$ 878	\$ 1,150	\$ 877
<u>Trade accounts receivables, net</u>	32,688	11,762	41,105
<u>Other receivables</u>	60	57	397
<u>Income tax receivable</u>	535	298	340
<u>Inventories</u>	49,444	43,329	59,017
<u>Prepaid expenses and other current assets</u>	2,174	1,746	2,359
<u>Total current assets</u>	85,779	58,342	104,095

Property, plant and equipment:

<u>Land</u>	3,731	3,731	3,731
<u>Land improvements</u>	734	717	688
<u>Buildings and building improvements</u>	51,182	51,200	51,192
<u>Machinery and equipment</u>	111,710	110,610	109,540
<u>Leasehold improvements</u>	1,086	990	970
<u>Total property, plant and equipment</u>	168,443	167,248	166,121
<u>Less accumulated depreciation and amortization</u>	129,596	127,351	125,250
<u>Net property, plant and equipment</u>	38,847	39,897	40,871
<u>Operating lease right-of-use assets</u>	19,551	21,325	22,924
<u>Deferred tax assets, net</u>	11,222	11,230	7,816
<u>Other assets, net</u>	7,970	8,198	8,256
<u>Total assets</u>	163,369	138,992	183,962

Current liabilities:

<u>Accounts payable</u>	16,764	10,587	18,634
<u>Accrued compensation and employee benefits</u>	5,595	6,392	5,322
<u>Current portion of long-term debt</u>	18,387	878	35,457
<u>Current portion operating lease liability</u>	4,581	3,654	3,275
<u>Other accrued liabilities</u>	6,417	3,607	6,871
<u>Total current liabilities</u>	51,744	25,118	69,559

Non-current liabilities:

<u>Accrued self-insurance retention</u>	1,494	1,410	1,686
<u>Accrued pension expenses</u>	21,419	21,310	13,951
<u>Income tax payable</u>	71	70	55
<u>Long-term debt, less current portion</u>	15,407	15,818	16,291
<u>Operating lease liability, less current portion</u>	17,798	19,787	21,598
<u>Other long-term liabilities</u>	704	661	557
<u>Total non-current liabilities</u>	56,893	59,056	54,138

Commitments and contingencies (Notes 6, 7 and 13)

Preferred stock:

<u>Authorized 3,000,000 shares, \$0.01 par value; none issued or outstanding</u>	0	0	0
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Common stock:

<u>Authorized 25,000,000 shares, \$0.01 par value; issued and outstanding 15,918,642 shares at 7/31/2020 and 15,713,549 at 1/31/2020 and 7/31/2019</u>	159	157	157
<u>Additional paid-in capital</u>	119,149	118,782	118,282
<u>Accumulated deficit</u>	(50,955)	(49,810)	(49,392)
<u>Accumulated other comprehensive loss</u>	(13,621)	(14,311)	(8,782)
<u>Total stockholders' equity</u>	54,732	54,818	60,265
<u>Total liabilities and stockholders' equity</u>	\$ 163,369	\$ 138,992	\$ 183,962

**Condensed Consolidated
Balance Sheets
(Parenthetical) - \$ / shares**

Jul. 31, 2020 Jan. 31, 2020 Jul. 31, 2019

Statement of Financial Position [Abstract]

<u>Preferred stock, shares authorized (shares)</u>	3,000,000	3,000,000	3,000,000
<u>Preferred stock, par value (usd per share)</u>	\$ 0.01	\$ 0.01	\$ 0.01
<u>Preferred stock, shares issued (shares)</u>	0	0	0
<u>Preferred stock, shares outstanding (shares)</u>	0	0	0
<u>Common stock, shares authorized (shares)</u>	25,000,000	25,000,000	25,000,000
<u>Common stock, par value (usd per share)</u>	\$ 0.01	\$ 0.01	\$ 0.01
<u>Common stock, shares issued (shares)</u>	15,918,642	15,713,549	15,713,549
<u>Common stock, shares outstanding (shares)</u>	15,918,642	15,713,549	15,713,549

Condensed Consolidated Statements of (Loss) Income Unaudited - USD (\$) shares in Thousands, \$ in Thousands	3 Months Ended		6 Months Ended	
	Jul. 31, 2020	Jul. 31, 2019	Jul. 31, 2020	Jul. 31, 2019
<u>Income Statement [Abstract]</u>				
<u>Net sales</u>	\$ 59,285	\$ 70,359	\$ 76,884	\$ 97,252
<u>Costs of goods sold</u>	36,082	41,620	48,777	59,429
<u>Gross profit</u>	23,203	28,739	28,107	37,823
<u>Selling, general and administrative expenses</u>	15,488	18,557	27,419	31,238
<u>Loss on sale of property, plant & equipment</u>	0	3	0	3
<u>Operating income</u>	7,715	10,179	688	6,582
<u>Pension expense</u>	542	188	1,084	376
<u>Interest expense</u>	494	907	898	1,607
<u>(Loss) income before income taxes</u>	6,679	9,084	(1,294)	4,599
<u>Income tax (benefit) expense</u>	3,126	3,217	(149)	1,799
<u>Net (loss) income</u>	\$ 3,553	\$ 5,867	\$ (1,145)	\$ 2,800
<u>Net income (loss) per common share:</u>				
<u>Basic (usd per share)</u>	\$ 0.23	\$ 0.38	\$ (0.07)	\$ 0.18
<u>Diluted (usd per share)</u>	\$ 0.23	\$ 0.38	\$ (0.07)	\$ 0.18
<u>Weighted average shares outstanding:</u>				
<u>Basic (shares)</u>	15,733	15,561	15,694	15,524
<u>Diluted (shares)</u>	15,746	15,568	15,694	15,529

**Condensed Consolidated
Statements of
Comprehensive Income
Unaudited - USD (\$)
\$ in Thousands**

3 Months Ended		6 Months Ended	
Jul. 31, 2020	Jul. 31, 2019	Jul. 31, 2020	Jul. 31, 2019

Statement of Comprehensive Income [Abstract]

Net (loss) income

\$	\$	\$	\$
3,553	5,867	(1,145)	2,800

Other comprehensive income:

Pension adjustments (net of tax expense of \$120 and \$45 for Three Months Ended July 31, 2020 and 2019, respectively. Net of tax expense of \$240 and \$91 for Six Months Ended July 31, 2020 and 2019, respectively)

345	130	690	260
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Net comprehensive (loss) income

\$	\$	\$ (455)	\$
3,898	5,997	(455)	3,060

**Condensed Consolidated
Statements of
Comprehensive Income
(Loss) Unaudited
(Parentheticals) - USD (\$)
\$ in Thousands**

3 Months Ended **6 Months Ended**
Jul. 31, 2020 Jul. 31, 2019 Jul. 31, 2020 Jul. 31, 2019

Statement of Comprehensive Income [Abstract]

<u>Pension adjustments, tax</u>	\$ 120	\$ 45	\$ 240	\$ 91
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**Condensed Consolidated
Statements of Cash Flows**
Unaudited - USD (\$)
\$ in Thousands

6 Months Ended

**Jul. 31,
2020** **Jul. 31,
2019**

Operating activities

<u>Net (loss) income</u>	\$ (1,145)	\$ 2,800
<u>Adjustments to reconcile net (loss) income to net cash used in operating activities:</u>		
<u>Depreciation and amortization</u>	2,675	2,916
<u>Non-cash lease expense</u>	712	173
<u>Provision for doubtful accounts</u>	35	35
<u>Loss on sale of property, plant and equipment</u>	0	3
<u>Deferred income taxes</u>	8	1,782
<u>Stock-based compensation</u>	506	423
<u>Defined pension plan settlement</u>	0	0
<u>Amortization of net actuarial loss for pension plans</u>	690	352
<u>Changes in operating assets and liabilities:</u>		
<u>Trade accounts receivable</u>	(20,964)	(27,887)
<u>Other receivables</u>	0	(357)
<u>Inventories</u>	(6,114)	(11,728)
<u>Income taxes</u>	(236)	(155)
<u>Prepaid expenses and other current assets</u>	(200)	(515)
<u>Accounts payable and accrued liabilities</u>	8,178	4,516
<u>Net cash used in operating activities</u>	(15,855)	(27,642)
<u>Investing activities:</u>		
<u>Capital expenditures</u>	(1,359)	(2,309)
<u>Proceeds from sale of property, plant and equipment</u>	0	0
<u>Net cash used in investing activities</u>	(1,359)	(2,309)
<u>Financing activities:</u>		
<u>Borrowing from long-term debt</u>	23,884	30,911
<u>Repayment of long-term debt</u>	(6,787)	(577)
<u>Payment on deferred financing costs</u>	0	0
<u>Tax withholding payments on share-based compensation</u>	(155)	(244)
<u>Cash dividends paid</u>	0	0
<u>Net cash provided by financing activities</u>	16,942	30,090
<u>Net (decrease) increase in cash</u>	(272)	139
<u>Cash at beginning of period</u>	1,150	738
<u>Cash at end of period</u>	\$ 878	\$ 877

Unaudited Consolidated Statements of Changes in Equity and Accumulated Other Comprehensive Income (Loss) - USD (\$) \$ in Thousands	Total	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss
<u>Beginning balance (shares) at Jan. 31, 2019</u>		15,541,956			
<u>Beginning balance at Jan. 31, 2019</u>	\$ 57,027	\$ 155	\$ 118,106	\$ (52,192)	\$ (9,042)
<u>Increase (Decrease) in Stockholders' Equity [Roll Forward]</u>					
<u>Net income</u>	2,800			2,800	
<u>Pension adjustments, net of tax effect</u>	260				260
<u>Shares vested and others (shares)</u>		171,593			
<u>Shares vested and others</u>	(245)	\$ 2	(247)		
<u>Stock compensation expense</u>	\$ 423		423		
<u>Ending balance (shares) at Jul. 31, 2019</u>	15,713,549	15,713,549			
<u>Ending balance at Jul. 31, 2019</u>	\$ 60,265	\$ 157	118,282	(49,392)	(8,782)
<u>Increase (Decrease) in Stockholders' Equity [Roll Forward]</u>					
<u>Pension adjustments, tax</u>	91				
<u>Beginning balance (shares) at Apr. 30, 2019</u>		15,541,956			
<u>Beginning balance at Apr. 30, 2019</u>	54,276	\$ 155	118,292	(55,259)	(8,912)
<u>Increase (Decrease) in Stockholders' Equity [Roll Forward]</u>					
<u>Net income</u>	5,867			5,867	
<u>Pension adjustments, net of tax effect</u>	130				130
<u>Shares vested and others (shares)</u>		171,593			
<u>Shares vested and others</u>	(245)	\$ 2	(247)		
<u>Stock compensation expense</u>	\$ 237		237		
<u>Ending balance (shares) at Jul. 31, 2019</u>	15,713,549	15,713,549			
<u>Ending balance at Jul. 31, 2019</u>	\$ 60,265	\$ 157	118,282	(49,392)	(8,782)
<u>Increase (Decrease) in Stockholders' Equity [Roll Forward]</u>					
<u>Pension adjustments, tax</u>	\$ 45				

<u>Beginning balance (shares) at Jan. 31, 2020</u>	15,713,549	15,713,549			
<u>Beginning balance at Jan. 31, 2020</u>	\$ 54,818	\$ 157	118,782	(49,810)	(14,311)
<u>Increase (Decrease) in Stockholders' Equity [Roll Forward]</u>					
<u>Net income</u>	(1,145)			(1,145)	
<u>Pension adjustments, net of tax effect</u>	690				690
<u>Shares vested and others (shares)</u>		205,093			
<u>Shares vested and others</u>	(137)	\$ 2	(139)		
<u>Stock compensation expense</u>	\$ 506		506		
<u>Ending balance (shares) at Jul. 31, 2020</u>	15,918,642	15,918,642			
<u>Ending balance at Jul. 31, 2020</u>	\$ 54,732	\$ 159	119,149	(50,955)	(13,621)
<u>Increase (Decrease) in Stockholders' Equity [Roll Forward]</u>					
<u>Pension adjustments, tax</u>	240				
<u>Beginning balance (shares) at Apr. 30, 2020</u>		15,713,549			
<u>Beginning balance at Apr. 30, 2020</u>	50,719	\$ 157	119,036	(54,508)	(13,966)
<u>Increase (Decrease) in Stockholders' Equity [Roll Forward]</u>					
<u>Net income</u>	3,553			3,553	
<u>Pension adjustments, net of tax effect</u>	345				345
<u>Shares vested and others (shares)</u>		205,093			
<u>Shares vested and others</u>	(137)	\$ 2	(139)		
<u>Stock compensation expense</u>	\$ 252		252		
<u>Ending balance (shares) at Jul. 31, 2020</u>	15,918,642	15,918,642			
<u>Ending balance at Jul. 31, 2020</u>	\$ 54,732	\$ 159	\$ 119,149	\$ (50,955)	\$ (13,621)
<u>Increase (Decrease) in Stockholders' Equity [Roll Forward]</u>					
<u>Pension adjustments, tax</u>	\$ 120				

**Unaudited Consolidated
Statements of Changes in
Equity and Accumulated
Other Comprehensive
Income (Loss)
(Parenthetical) - USD (\$)
\$ in Thousands**

3 Months Ended

6 Months Ended

Jul. 31, 2020 Jul. 31, 2019 Jul. 31, 2020 Jul. 31, 2019

[Statement of Stockholders' Equity \[Abstract\]](#)

[Pension adjustments, tax](#)

\$ 120

\$ 45

\$ 240

\$ 91

Basis of Presentation

**6 Months Ended
Jul. 31, 2020**

[Organization, Consolidation
and Presentation of
Financial Statements
\[Abstract\]
Basis of Presentation](#)

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2020 ("Form 10-K"). In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months and six months ended July 31, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2021. The balance sheet at January 31, 2020 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. All references to the "Company" refer to Virco Mfg. Corporation and its subsidiaries.

Liquidity

Management evaluated whether there are any conditions and events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern over the next twelve months through September 30, 2021. The Company has experienced an overall decline in net sales and net income through the first six-months of fiscal 2021 as compared to fiscal 2020 as a result of the disruption to its business and its customers caused by the COVID-19 pandemic. As a result of the reduced revenue, the Company was not in compliance with its fixed-charge coverage ratio under its revolving and secured credit agreement with PNC Bank, as of July 31, 2020 (see Note 7). The Company successfully negotiated a waiver and amendment to the agreement to satisfy the event of default and reduced the ratio required for the rolling four quarter period ending October 31, 2020 from 1.10:1.00 to 1.00:1.00.

The Company expects the impact of COVID-19 to continue to be a challenge for the foreseeable future and believes the economy will be adversely impacted for an indeterminate period, including the demand for its products. The extent of the impact will depend on numerous factors that are unknown, uncertain and cannot be reasonably predicted. The Company has plans to further moderate certain selling, general and administrative expenses and capital expenditures to preserve cash and maintain compliance with its financial covenants. Based on the Company's current projections and its ability to manage certain controllable expenditures, management believes it will maintain compliance with the financial covenants for the next 12 months and that the Company's existing cash, projected operating cash flows and available credit facilities, described in note 7, are adequate to

meet its operating needs, liabilities and commitments over the next twelve months from the issuance of the interim financial statements.

**Seasonality and
Management Use of
Estimates**

6 Months Ended

Jul. 31, 2020

[Seasonality \[Abstract\]](#)

[Seasonality and Management
Use of Estimates](#)

The market for educational furniture is marked by extreme seasonality, with approximately 50% of the Company's total sales typically occurring from June to August each year, 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 generally 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 educational institutions and government entities, which tend to pay accounts receivable slower 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. Significant estimates made by management include, but are not limited to, valuation of inventory; deferred tax assets and liabilities; useful lives of property, plant and equipment; liabilities under pension, warranty, self-insurance and environmental claims; and the accounts receivable allowance for doubtful accounts. Due to the inherent uncertainty involved in making assumptions and estimates, events and changes in circumstances arising after July 31, 2020, including those resulting from the impacts of the COVID-19 pandemic, may result in actual outcomes that differ from those contemplated by our assumptions and estimates.

New Accounting Pronouncements

6 Months Ended
Jul. 31, 2020

[New Accounting Pronouncements and Changes in Accounting Principles \[Abstract\]](#)

[New Accounting Pronouncements](#)

New Accounting Pronouncements

Recently Adopted Accounting Updates

In response to the large volume of anticipated lease concessions to be granted related to the effects of the COVID-19 pandemic, and the resultant expected cost and complexity of applying the lease modification requirements in ASC 842, the FASB issued Staff Q&A—Topic 842 and Topic 840: *Accounting For Lease Concessions Related to the Effects of the COVID-19 Pandemic*, in April 2020 as interpretive guidance to provide clarity in response to the crisis. The FASB staff indicated that it would be acceptable for entities to make an election to account for lease concessions related to the effects of the COVID-19 pandemic consistent with how they would be accounted for as though enforceable rights and obligations for those concessions existed in the original contract. Consequently, for such lease concessions, an entity will not need to reassess each existing contract to determine whether enforceable rights and obligations for concessions exist and an entity can elect to apply or not to apply the lease modification guidance in ASC 842 to those contracts. The election is available for concessions related to the effects of the COVID-19 pandemic that result in the total payments required by the modified contract being substantially the same as or less than total payments required by the original contract.

In accordance with this interpretive guidance, the Company elected to account for lease concessions related to the effects of the COVID-19 pandemic that resulted in the total payments required by the modified contract being substantially the same as or less than total payments required by the original contract consistent with how they would be accounted for as though enforceable rights and obligations for those concessions existed in the original contract. Consequently, for such lease concessions, the Company did not reassess each existing contract to determine whether enforceable rights and obligations for concessions existed and elected not to apply the lease modification guidance in ASC 842 to those contracts. The Company accounted for COVID-19 lease abatements of \$136,000 as reductions to variable lease expense as if no changes to the lease contract were made while continuing to recognize expense and reductions in the operating lease liability, as well as the operating lease right-of-use asset during the abatement period. There were no lease concessions recorded in the first quarter of fiscal 2021.

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*. This update simplifies various aspects related to accounting for income taxes, removes certain exceptions to the general principles in ASC 740, and clarifies and amends existing guidance to improve consistent application. The Company adopted this ASU as of February 1, 2020 and the adoption of this standard did not have a material effect on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)* which modifies the disclosure requirements of fair value measurements in Topic 820, *Fair Value Measurement*. For public companies the ASU removes disclosure requirements for transfers

between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation process for Level 3 fair value measurements. The ASU modifies the disclosure requirements for investments in certain entities that calculate net asset value and clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The ASU adds the disclosure requirement for changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The Company adopted this ASU as of February 1, 2020 and the adoption of this standard did not have a material effect on our condensed consolidated financial statements.

Recently Issued Accounting Updates

In August 2018, the FASB issued Accounting Standards Update No. 2018-14 (ASU 2018-14), *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20)*, which amends the current disclosure requirements regarding defined benefit pensions and other post retirement plans, and allows for the removal of certain disclosures, while adding certain new disclosure requirements. This standard is effective for fiscal years beginning after December 15, 2020 and allows for early adoption. The Company is currently evaluating the effect the standard will have on the consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the incurred loss impairment methodology for measuring and recognizing credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The adoption date, as modified by the recently issued ASU 2019-10 discussed below, will be for the fiscal year ending after December 15, 2022 and interim periods therein. The Company is currently evaluating the effect the standard will have on the consolidated financial statements and related disclosures.

In November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. ASU 2019-10 moves the effective date for certain previously issued amendments to later dates, depending on the filing status of the respective entity. Specifically, due to the amendment and the Company's status as a smaller reporting company, the new effective dates for relevant previously issued amendments not yet adopted by the Company relate to ASU 2016-13 as described above.

Other recently issued accounting updates are not expected to have a material impact on the Company's consolidated financial statements.

Revenue Recognition

**6 Months Ended
Jul. 31, 2020**

Revenue from Contract with Customer [Abstract] Revenue Recognition

Revenue Recognition

The Company manufactures, markets and distributes a wide variety of school and office furniture to wholesalers, distributors, educational institutions and governmental entities. Revenue is recorded for promised goods or services when control is transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The Company's sales generally involve a single performance obligation to deliver goods pursuant to customer purchase orders. Prices for our products are based on published price lists and customer agreements. The Company has determined that the performance obligations are satisfied at a point in time when the Company completes delivery per the customer contract. The majority of sales are free on board ("FOB") destination where the destination is specified per the customer contract and may include delivering the furniture into the classroom, school site or warehouse. Sales of furniture that are sold FOB factory are typically made to resellers of our product who in turn provide logistics to the ultimate customer. Once a product has been delivered per the shipping terms, the customer is able to direct the use of, and obtain substantially all of the remaining benefits from, the asset. The Company considers control to have transferred upon shipment or delivery in accordance with shipping terms because the Company has a present right to payment at that time, the customer has legal title to the asset, the Company has transferred physical possession of the asset, and the customer has significant risks and rewards of ownership of the asset.

Sales are recorded net of discounts, sales incentives and rebates, sales taxes and estimated returns and allowances. The Company offers sales incentives and discounts through various regional and national programs to our customers. These programs include product rebates, product returns allowances and trade promotions. Variable consideration for these programs is estimated in the transaction price at contract inception based on current sales levels and historical experience using the expected value method, subject to constraint.

We do not consider our revenue generated through direct-to-customers and resellers to be meaningfully different revenue streams given similarities in the nature of the products, performance obligation and distribution processes. Sales are predominately in the United States and to a similar class of customer. We do not manage or evaluate the business based on product line or any other discernable category.

Inventories

6 Months Ended
Jul. 31, 2020

[Inventory Disclosure](#)

[\[Abstract\]](#)

[Inventories](#)

Inventories are valued at the lower of cost (determined on a first-in, first-out basis) or net realizable value and labor and factory overhead. The Company maintains valuation allowances for estimated slow-moving and obsolete inventory. The difference between the cost of inventory and the estimated net realizable value. Valuation allowances for slow-moving and obsolete inventory are determined through a physical inspection of the product in connection with a physical inventory, a review of slow-moving inventory, and consideration of active marketing programs. The market for education furniture is traditionally driven by value, not style, and the Company does not typically incur significant obsolescence expenses. If market conditions are less favorable than those anticipated by the Company, additional valuation allowances may be required. Due to reductions in sales volume in the past years, the Company's manufacturing facilities are operating at reduced levels of capacity. The Company records the cost of excess capacity as a period expense, not as a component of capitalized inventory valuation.

The following table presents a breakdown of the Company's inventories as of July 31, 2020, January 31, 2020 and July 31, 2019:

	<u>7/31/2020</u>	<u>1/31/2020</u>
		(in thousands)
Finished goods	\$ 23,065	\$ 15,430
WIP	15,430	15,949
Raw materials	10,949	11,949
Total inventories	<u>\$ 49,444</u>	<u>\$ 43,328</u>

Leases

[Leases \[Abstract\]](#)
[Leases](#)

6 Months Ended
Jul. 31, 2020

Leases

The Company has operating leases on real property, equipment, and automobiles that expire at various dates. The Company determines if an arrangement is a lease at inception and assesses classification of the lease at commencement. All of the Company's leases are classified as operating leases, as a lessee. The Company uses the implicit rate when readily determinable, or the incremental borrowing rate. Our incremental borrowing rate is estimated to approximate the interest rate on a basis with similar terms and payments using company specific credit spreads. The Company's lease terms include options to extend or terminate the lease if it is reasonably certain that we will exercise that option. Lease expense for our operating leases is recognized on a straight-line basis over the lease term.

In accordance with ASC 842, quantitative information regarding our leases is as follows:

	Three-Months Ended		Six-Months Ended
	7/31/2020	7/31/2019	7/31/2020
	(in thousands, except lease term and discount rate)		
Operating lease cost	\$ 1,472	\$ 1,320	\$ 2,912
Short-term lease cost	124	82	160
Short-term sublease income	(10)	(20)	(20)
Variable lease cost (1)	(85)	61	370
Total lease cost	\$ 1,501	\$ 1,443	\$ 3,422
Other operating leases information:			
Cash paid for amounts included in the measurement of lease liabilities			\$ 2,201
Right-of-use assets obtained in exchange for new lease liabilities			\$ 398
Weighted-average remaining lease term (years)			4.5
Weighted-average discount rate			6.4 %

(1) Subsequent to the issuance of the Company's condensed consolidated financial statements as of July 31, 2019, management identified an immaterial error in the disclosure of certain variable lease payments. Variable lease expense for the three-months and six-months ended July 31, 2019 did not previously include \$509,000, respectively of variable lease payments for property taxes, insurance and common area maintenance related to triple net leases. Management has revised its disclosure related to variable lease expense in the table above for the three-months and six-months ended July 31, 2019 and, except for this change, has no other impact upon the Company's condensed consolidated financial statements.

Minimum future lease payments for operating leases in effect as of July 31, 2020, are as follows:

Remaining of 2021

2022

2023

2024

2025

Thereafter

Remaining balance of lease payments

Short-term lease liabilities

Long-term lease liabilities

Total lease liabilities

Difference between undiscounted cash flows and discounted cash flows

Debt

6 Months Ended
Jul. 31, 2020

[Debt Disclosure \[Abstract\]](#)

[Debt](#)

Debt

Outstanding balances for the Company's long-term debt were as follows:

	7/31/2020	1/31/2020
	(in thousands)	
Revolving credit line	\$ 27,505	\$ 9,906
Other	6,289	6,721
Total debt	33,794	16,627
Less current portion	18,387	8,750
Non-current portion	\$ 15,407	\$ 15,817

The Company ("the Borrowers") has a Revolving Credit and Security Agreement (the "Credit Agreement") with PNC Bank, National Association and lender ("PNC"). The Credit Agreement has been amended twenty times since its origination in 2011 through fiscal 2020, which, among other things, extends the maturity date of the Credit Agreement for three years until March 19, 2023.

The Credit Agreement is an asset-based loan consisting of (i) a revolving line of credit with a Maximum Revolving Advance Amount of \$65,000,000, borrowing base limitation and generally provides for advances of up to 85% of eligible accounts receivable, plus a percentage equal to the lesser of eligible inventory or 85% of the liquidation value of eligible inventory, plus \$15,000,000 from January through July of each year, minus undrawn credit and reserves and (2) an equipment loan of \$2,000,000. The Credit Agreement is secured by substantially all of the Company's, as defined, present and certain of the Company's real property. The principal amount outstanding under the Credit Agreement and any accrued and unpaid interest is due on or before July 31, 2023, and the Credit Agreement is subject to certain prepayment penalties upon earlier termination of the Credit Agreement. Prior to the maturity date, the amount 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, including reduced borrowings under the revolving line to less than or equal to \$10,000,000 for a period of 90 days during the fourth quarter of each fiscal year. The Credit Agreement also contains certain financial covenants, including a fixed charge coverage ratio of not less than 1.10 to 1.00 as of February 1st, 2020 of not less than 1.10 to 1.00, and capital expenditures not to exceed \$8,000,000. The Company was in violation with its financial covenants as of February 1st, 2020. On September 8, 2020, the Company entered into Amendment No. 21 to the Revolving Credit and Security Agreement ("Amendment No. 21") with PNC Bank, National Association. Amendment No. 21 provided a limited waiver of the Company's violation of the covenant to maintain a Fixed Charge Coverage Ratio of at least 1.10 to 1.00 for the four fiscal quarter period ended July 31, 2020, and amended the Fixed Charge Coverage Ratio as follows: (i) 1.00 to 1.00 for the fiscal quarter period ending October 31, 2020, and (ii) 1.10 to 1.00 for each consecutive four fiscal quarter period ending thereafter. In connection with Amendment No. 21, the Company also incurred a non-refundable fee of \$75,000.

The Credit Agreement bears interest, at the Borrowers' option, at either the Alternate Base Rate (as defined in the Credit Agreement) or the Eurodollar 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 1.75% to 2.75%, and the applicable margin for Eurodollar Currency Rate loans is a percentage within a range of 2.25% to 2.75%, in each case based on the applicable rate in effect 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. The interest rate for the period ended July 31, 2020 was 4.5%. The Company also incurs a fee on the unused portion of the revolving line of credit at a rate of 0.375%.

To date the impact of COVID-19 on liquidity has been to moderate the seasonal increase in accounts receivable and production of inventory for sales. The increase in accounts receivable and inventory are traditionally financed through the Company's line of credit with PNC Bank. Reductions in receivables and inventory have been substantially offset by a reduction in borrowing under the revolving line with PNC Bank.

In addition to the financial covenants, the Credit Agreement contains events of default as disclosed in Note 3 to our Annual Report on Form 10-K for the year ended January 31, 2020. Substantially all of the Borrowers' accounts receivable are automatically and promptly swept to repay amounts outstanding under the Credit Agreement upon receipt by the Borrowers. Due to this automatic liquidating nature of the Credit Agreement, if the Borrowers breach any covenant, violate any warranty or suffer a deterioration in their ability to borrow pursuant to the borrowing base calculation, the Borrowers may not have access to cash under the Credit Agreement by PNC at its discretion.

The Company's revolving line of credit with PNC is structured to provide seasonal credit availability during the Company's peak summer season. As of July 31, 2020, \$32,896,000 was available for borrowing as of July 31, 2020.

Management believes that the carrying value of debt approximated fair value at July 31, 2020 and 2019, as all of the long-term debt bears interest at a rate based on prevailing market conditions.

Income Taxes

**6 Months Ended
Jul. 31, 2020**

[Income Tax Disclosure](#)

[\[Abstract\]](#)

[Income Taxes](#)

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. The Company maintains a partial valuation allowance of \$1,186,000, \$1,183,000 and \$2,003,000 as of July 31, 2020, January 31, 2020 and July 31, 2019 to reduce against certain state deferred tax assets that the Company does not believe it is more-likely-than-not to realize.

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The CARES Act modified the limitation for business interest expense deduction and the new limitation has increased from 30 to 50 percent of adjusted taxable income. Historically deferred taxes related to interest expense limitation were fully offset by a valuation allowance. The Company performed an analysis of the impact of the CARES Act and calculated a tax benefit of approximately \$200,000 which was driven by the release of the valuation allowance related to the business interest limitation.

The January 31, 2016 and subsequent years remain open for examination by the IRS and state tax authorities. The Company is not currently under any state examination. The Company is currently under IRS examination for its fiscal year ended January 31, 2016 Federal tax return.

Income tax expense for the second quarter ended July 31, 2020 is less than the prior year, primarily due to the decrease in pre-tax income and higher effective tax rate. For the six months ended July 31, 2020 the Company recorded an income tax benefit compared to income tax expense due to the loss for the current year versus income in the prior year.

Net Income (Loss) per Share

6 Months Ended
Jul. 31, 2020

[Earnings Per Share](#)

[\[Abstract\]](#)

[Net Income \(Loss\) per Share](#) Net income (loss) per Share

	Three Months Ended		Six Months Ended
	7/31/2020	7/31/2019	7/31/2020
(In thousands, except per share data)			
Net income (loss)	\$ 3,553	\$ 5,867	\$ (1,145)
Weighted average shares of common stock outstanding	15,733	15,561	15,694
Net effect of dilutive shares - based on the treasury stock method using average market price	13	7	—
Totals	<u>15,746</u>	<u>15,568</u>	<u>15,694</u>
Net income (loss) per share - basic	\$ 0.23	\$ 0.38	\$ (0.07)
Net income (loss) per share - diluted (a)	\$ 0.23	\$ 0.38	\$ (0.07)

(a) All exercisable and non-exercisable restricted stock awards and/or units were not included in the computation of diluted net loss per share three months ended July 31, 2020, because their inclusion would have been anti-dilutive due to the net loss recorded for both periods. The number of and/or units outstanding, which met this anti-dilutive criterion for the six months ended July 31, 2020, was 5,000.

Stock-Based Compensation

**6 Months Ended
Jul. 31, 2020**

[Share-based Payment
Arrangement \[Abstract\]
Stock-Based Compensation](#)

Stock-Based Compensation

Stock Incentive Plan

The Company's two stock plans are the 2019 Employee Stock Incentive Plan (the "2019 Plan") and the 2011 Employee Incentive Stock Plan (the "2011 Plan").

Under the 2019 Plan, the Company may grant an aggregate of 1,000,000 shares to its employees in the form of restricted stock units and non-employee directors in the form of restricted stock awards. Restricted stock units and awards granted under the 2019 Plan are expensed ratably over the vesting period of the awards. The Company determines the fair value of its restricted stock units or awards and related compensation expense as the difference between the market value of the units or awards on the date of grant less the exercise price of the units or awards granted. During the six-month periods ended July 31, 2020, the Company granted 94,695 awards to non-employee directors, vested 45,600 shares according to their terms and forfeited 0 shares under the 2019 Plan. As of July 31, 2020, there were approximately 677,305 shares available for future issuance under the 2019 Plan.

Under the 2011 Plan, the Company may grant an aggregate of 2,000,000 shares to its employees in the form of restricted stock units and non-employee directors in the form of restricted stock awards. Restricted stock units and awards granted under the 2011 Plan are expensed ratably over the vesting period of the awards. The Company determines the fair value of its restricted stock units or awards and related compensation expense as the difference between the market value of the units or awards on the date of grant less the exercise price of the units or awards granted. During the six-month periods ended July 31, 2020, the Company granted 0 restricted awards to non-employee directors and 0 units to its employees; vested 59,385 stock awards and 119,200 units according to their terms and forfeited 0 stock units under the 2011 Plan. As of July 31, 2020, there were approximately 32,892 shares available for future issuance under the 2011 Plan.

During the three months ended July 31, 2020, stock-based compensation expense related to restricted stock units and awards recognized in cost of goods sold and selling, general and administrative expenses was \$65,000 and \$187,000, respectively. During the three months ended July 31, 2019, stock-based compensation expense related to restricted stock units and/or awards recognized in cost of goods sold and selling, general and administrative expenses was \$57,000 and \$180,000, respectively.

During the six months ended July 31, 2020, stock-based compensation expense related to restricted stock units and awards recognized in cost of goods sold and selling, general and administrative expenses was \$128,000 and \$378,000, respectively. During the six months ended July 31, 2019, stock-based compensation expense related to restricted stock units and/or awards recognized in cost of goods sold and selling, general and administrative expenses was \$116,000 and \$307,000, respectively.

As of July 31, 2020 there was \$2,431,000 of unrecognized compensation expense related to unvested restricted stock units and/or awards, which is expected to be recognized over a weighted average period of approximately 3 years.

Retirement Plans

6 Months Ended
Jul. 31, 2020

[Retirement Benefits](#)

[\[Abstract\]](#)

[Retirement Plans](#)

Retirement Plans

The Company and its subsidiaries cover certain employees under a noncontributory defined benefit retirement plan, entitled the Virco Employees “Pension Plan”). As more fully described in the Form 10-K, benefit accruals under the Employees Retirement Plan were frozen effective December 31, 2003. Service cost incurred under this plan.

The Company also provides a supplementary retirement plan for certain key employees, the VIP Retirement Plan (the “VIP Plan”). As more fully described in the Report on Form 10-K for the year ended January 31, 2019, benefit accruals under this plan were frozen since December 31, 2003. There is no service cost incurred under this plan.

The net periodic pension cost for the Pension Plan and the VIP Plan for the three months and six months ended July 31, 2020 and 2019 were as follows:

	Combined Employee Retirement Plans					
	Three Months Ended			Six Months Ended		
	7/31/2020		7/31/2019		7/31/2020	
	(in thousands)					
Service cost	\$	—	\$	—	\$	—
Interest cost		301		355		602
Expected return on plan assets		(224)		(343)		(448)
Plan settlement		—		—		—
Amortization of prior service cost		—		—		—
Recognized net actuarial loss		465		176		930
Benefit cost	\$	542	\$	188	\$	1,084

401(k) Retirement Plan

The Company’s retirement plan, which covers all U.S. employees, allows participants to defer from 1% to 75% of their earnings through a 401(k)-retirement program. The plan includes Virco stock as one of the investment options. At July 31, 2020 and 2019, there were 850,789 shares and 708,345 shares of Virco stock, respectively. For the three months ended July 31, 2020 and 2019, the costs incurred for employer match was \$195,000 and \$187,000, respectively. For the six months ended July 31, 2020 and 2019, the costs incurred for employer match was \$405,000 and \$374,000, respectively.

Warranty Accrual

**6 Months Ended
Jul. 31, 2020**

[Product Warranties
Disclosures \[Abstract\]
Warranty Accrual](#)

Warranty Accrual

The Company provides an assurance type warranty against all substantial defects in material and workmanship. The standard warranty offered on January 1, 2017 was modified to provide specific warranty periods by product component, with no warranty period longer than ten years. The Company's guarantee of service life, which depends upon events outside the Company's control and may be different from the warranty period. The Company's exposure to warranty claims based upon both product sales data and an analysis of actual warranty claims incurred.

The following is a summary of the Company's warranty-claim activity for the three and six months ended July 31, 2020 and 2019:

	Three Months Ended		Six Months Ended
	7/31/2020	7/31/2019	7/31/2020
	(in thousands)		
Beginning balance	\$ 800	\$ 700	\$ 800
Provision	(17)	245	43
Costs incurred	(33)	(145)	(93)
Ending balance	<u>\$ 750</u>	<u>\$ 800</u>	<u>\$ 750</u>

Contingencies

**6 Months Ended
Jul. 31, 2020**

[Commitments and
Contingencies Disclosure](#)
[\[Abstract\]](#)
[Contingencies](#)

Contingencies

The Company has a self-insured retention for product and general liability losses up to \$250,000 per occurrence, workers' compensation liability losses up to \$250,000 per occurrence and for automobile liability losses up to \$50,000 per occurrence. The Company has purchased insurance to cover losses in excess of the retention up to a limit of \$30,000,000. The Company has obtained an actuarial estimate of its total expected future losses for liability claims and recorded a liability equal to the net present value.

The Company and its subsidiaries are defendants in various legal proceedings resulting from operations in the normal course of business. It is the opinion of management, in consultation with legal counsel, that the ultimate outcome of all such matters will not materially affect the Company's financial position, results of operations or cash flows.

Delivery Costs

**6 Months Ended
Jul. 31, 2020**

Other Income and Expenses

[Abstract]

Delivery Costs

Delivery Costs

For the quarter ended July 31, 2020 and 2019, shipping and classroom delivery costs of approximately \$4,907,000 and \$6,497,000, respectively, were included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

For the six months ended July 31, 2020 and 2019, shipping and classroom delivery costs of approximately 6,985,000 and 9,258,000, respectively, were included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

COVID-19

**6 Months Ended
Jul. 31, 2020**

Unusual or Infrequent Items, or Both [Abstract]

COVID-19

COVID-19

On March 11, 2020, the World Health Organization declared the current coronavirus (COVID-19) outbreak to be a global pandemic. In response to this declaration and the rapid spread of COVID-19 within the United States, federal, state and local governments throughout the country have imposed varying degrees of restriction on social and commercial activity to promote social distancing in an effort to slow the spread of the illness. The Company has been operating its manufacturing and distribution facilities on a voluntary basis to give employees the flexibility to remain at home with children who are out of school or for other personal reasons as they deem necessary. Office employees and others who can work from home continue to do so.

Appropriate measures are being taken to protect the health of employees performing essential on-site operations.

The Company's Conway, Arkansas facilities, which represent approximately two thirds of the Company's production and distribution capacity, has been fully operational for this period of time. In accordance with State of California and local orders that include guidance on the definition and responsibilities of "essential businesses," the Company has been operating its Torrance facility. During May, the Company closed its Torrance facility for several days before and after Memorial Day to perform comprehensive cleaning of production and office areas.

Management estimates that the Torrance facility is currently staffed at approximately 50% of its normal level.

Subsequent Events

**6 Months Ended
Jul. 31, 2020**

[Subsequent Events](#)

[\[Abstract\]](#)

[Subsequent Events](#)

Subsequent Events On September 8, 2020, the Company entered into Amendment No. 21 to the Revolving Credit and Security Agreement (“Amendment No. 21”) with its lender, PNC Bank, National Association. Amendment No. 21 provided a limited waiver of the Company’s violation of the covenant to maintain a Fixed Charge Coverage Ratio of at least 1.10 to 1.00 for the four fiscal quarter period ended July 31, 2020, and amended the Fixed Charge Coverage Ratio as follows: (i) 1.00 to 1.00 for the consecutive four fiscal quarter period ending October 31, 2020, and (ii) 1.10 to 1.00 for each consecutive four fiscal quarter period ending thereafter. In connection with Amendment No. 21, the Company also agreed to pay to PNC Bank a non-refundable fee of \$75,000.

Inventories (Tables)

**6 Months Ended
Jul. 31, 2020**

[Inventory Disclosure](#)
[\[Abstract\]](#)
[Schedule of Inventory](#)

The following table presents a breakdown of the Company's inventories as of July 31, 2020, January 31, 2020 and July 31, 2019:

	<u>7/31/2020</u>	<u>1/31/2020</u>
		(in thousands)
Finished goods	\$ 23,065	\$ 15,4
WIP	15,430	15,9
Raw materials	10,949	11,9
Total inventories	<u>\$ 49,444</u>	<u>\$ 43,3</u>

Leases (Tables)

6 Months Ended
Jul. 31, 2020

[Leases \[Abstract\]](#)

[Quantitative Information of Leases](#)

In accordance with ASC 842, quantitative information regarding our leases is as follows:

	Three-Months Ended		Six-Months Ended
	7/31/2020	7/31/2019	7/31/2020
	(in thousands, except lease term and discount rate)		
Operating lease cost	\$ 1,472	\$ 1,320	\$ 2,912
Short-term lease cost	124	82	160
Short-term sublease income	(10)	(20)	(20)
Variable lease cost (1)	(85)	61	370
Total lease cost	\$ 1,501	\$ 1,443	\$ 3,422

Other operating leases information:

Cash paid for amounts included in the measurement of lease liabilities	\$	2,201	\$
Right-of-use assets obtained in exchange for new lease liabilities	\$	398	\$
Weighted-average remaining lease term (years)			4.5
Weighted-average discount rate			6.4 %

(1) Subsequent to the issuance of the Company's condensed consolidated financial statements as of July 31, 2019, management identified an immaterial change to the disclosure of certain variable lease payments. Variable lease expense for the three-months and six-months ended July 31, 2019 did not previously include \$509,000, respectively of variable lease payments for property taxes, insurance and common area maintenance related to triple net leases. Management has updated the disclosure related to variable lease expense in the table above for the three-months and six-months ended July 31, 2019 and, except for this change, has no impact upon the Company's condensed consolidated financial statements.

[Schedule of Minimum Future Lease Payments](#)

Minimum future lease payments for operating leases in effect as of July 31, 2020, are as follows:

Remaining of 2021
2022
2023
2024
2025
Thereafter
Remaining balance of lease payments
Short-term lease liabilities
Long-term lease liabilities
Total lease liabilities
Difference between undiscounted cash flows and discounted cash flows

Debt (Tables)**6 Months Ended
Jul. 31, 2020****[Debt Disclosure \[Abstract\]](#)****[Outstanding balances of long-term debt](#)**

Outstanding balances for the Company's long-term debt were as follows:

	<u>7/31/2020</u>	<u>1/31/2020</u>
		(in thousands)
Revolving credit line	\$ 27,505	\$ 9,900
Other	6,289	6,720
Total debt	33,794	16,620
Less current portion	18,387	8,700
Non-current portion	\$ 15,407	\$ 15,810

**Net Income (Loss) per Share
(Tables)**

[Earnings Per Share](#)

[\[Abstract\]](#)

[Schedule of Earnings Per
Share, Basic and Diluted](#)

**6 Months Ended
Jul. 31, 2020**

	Three Months Ended		Six Months Ended
	7/31/2020	7/31/2019	7/31/2020
(In thousands, except per share data)			
Net income (loss)	\$ 3,553	\$ 5,867	\$ (1,145)
Weighted average shares of common stock outstanding	15,733	15,561	15,694
Net effect of dilutive shares - based on the treasury stock method using average market price	13	7	—
Totals	15,746	15,568	15,694
Net income (loss) per share - basic	\$ 0.23	\$ 0.38	\$ (0.07)
Net income (loss) per share - diluted (a)	\$ 0.23	\$ 0.38	\$ (0.07)

(a) All exercisable and non-exercisable restricted stock awards and/or units were not included in the computation of diluted net loss per share three months ended July 31, 2020, because their inclusion would have been anti-dilutive due to the net loss recorded for both periods. The number of exercisable and non-exercisable restricted stock awards and/or units outstanding, which met this anti-dilutive criterion for the six months ended July 31, 2020, was 5,000.

Retirement Plans (Tables)

6 Months Ended
Jul. 31, 2020

[Retirement Benefits](#)

[\[Abstract\]](#)

[Schedule of Defined Benefit Plans Disclosures](#)

The net periodic pension cost for the Pension Plan and the VIP Plan for the three months and six months ended July 31, 2020 and 2019 were as follows:

	Combined Employee Retirement Plans		
	Three Months Ended		Six Months Ended
	7/31/2020	7/31/2019	7/31/2020
	(in thousands)		
Service cost	\$ —	\$ —	\$ —
Interest cost	301	355	602
Expected return on plan assets	(224)	(343)	(448)
Plan settlement	—	—	—
Amortization of prior service cost	—	—	—
Recognized net actuarial loss	465	176	930
Benefit cost	\$ 542	\$ 188	\$ 1,084

Warranty Accrual (Tables)**6 Months Ended
Jul. 31, 2020**[Product Warranties](#)[Disclosures \[Abstract\]](#)[Schedule of Product Warranty Liability](#)

The following is a summary of the Company's warranty-claim activity for the three and six months ended July 31, 2020 and 2019:

	Three Months Ended		Six Months Ended
	7/31/2020	7/31/2019	7/31/2020
	(in thousands)		
Beginning balance	\$ 800	\$ 700	\$ 800
Provision	(17)	245	43
Costs incurred	(33)	(145)	(93)
Ending balance	\$ 750	\$ 800	\$ 750

**Basis of Presentation
(Details) - Consecutive Four
Fiscal Quarters Ending
Thereafter - Amendment No. Jul. 31, 2020
21 To Credit Facility
[Member]**

Maximum

Maximum fixed charge coverage ratio 1.10

Minimum

Maximum fixed charge coverage ratio 1.00

Seasonality (Details)

**6 Months Ended
Jul. 31, 2020**

[Sales \[Member\]](#)

[Seasonality \(Textual\) \[Abstract\]](#)

[The market for educational furniture is marked by extreme seasonality](#) 50.00%

**New Accounting
Pronouncements (Details)
\$ in Thousands**

**6 Months Ended
Jul. 31, 2020
USD (\$)**

[COVID-19 \[Member\]](#)

[New Accounting Pronouncements or Change in Accounting Principle \[Line Items\]](#)

[Reduction In Variable Lease Expense](#)

\$ 136

Inventories (Details) - USD**(\$)****Jul. 31, 2020 Jan. 31, 2020 Jul. 31, 2019****\$ in Thousands****[Inventory Disclosure \[Abstract\]](#)**

<u>Finished goods</u>	\$ 23,065	\$ 15,401	\$ 27,464
<u>WIP</u>	15,430	15,957	17,989
<u>Raw materials</u>	10,949	11,971	13,564
<u>Total inventories</u>	\$ 49,444	\$ 43,329	\$ 59,017

Leases - ASC 842 Quantitative Information (Details) - USD (\$) \$ in Thousands	3 Months Ended		6 Months Ended	
	Jul. 31, 2020	Jul. 31, 2019	Jul. 31, 2020	Jul. 31, 2019
	<u>Leases [Abstract]</u>			
<u>Operating lease cost</u>	\$ 1,472	\$ 1,320	\$ 2,912	\$ 2,700
<u>Short-term lease cost</u>	124	82	160	136
<u>Short-term sublease income</u>	(10)	(20)	(20)	(30)
<u>Variable lease cost</u>	(85)	61	370	509
<u>Total lease cost</u>	\$ 1,501	\$ 1,443	3,422	3,315
<u>Cash paid for amounts included in the measurement of lease liabilities</u>			2,201	2,611
<u>Right-of-use assets obtained in exchange for new lease liabilities</u>			\$ 398	\$ 1,036
<u>Weighted-average remaining lease term (years)</u>	4 years 6 months	5 years 4 months 24 days	4 years 6 months	5 years 4 months 24 days
<u>Weighted-average discount rate</u>	6.40%	6.38%	6.40%	6.38%

**Leases - ASC 842 Minimum
Lease Payments (Details) -
USD (\$)
\$ in Thousands**

Jul. 31, 2020 Jan. 31, 2020 Jul. 31, 2019

Leases [Abstract]

<u>Remaining of 2021</u>	\$ 2,942		
<u>2022</u>	5,757		
<u>2023</u>	5,323		
<u>2024</u>	5,225		
<u>2025</u>	5,370		
<u>Thereafter</u>	1,350		
<u>Remaining balance of lease payments</u>	25,967		
<u>Short-term lease liabilities</u>	4,581	\$ 3,654	\$ 3,275
<u>Long-term lease liabilities</u>	17,798	\$ 19,787	\$ 21,598
<u>Total lease liabilities</u>	22,379		
<u>Difference between undiscounted cash flows and discounted cash flows</u>	\$ 3,588		

Debt (Long-term Debt)
(Details) - USD (\$)
\$ in Thousands

Jul. 31, 2020 Jan. 31, 2020 Jul. 31, 2019

Debt Instrument [Line Items]

<u>Long-term debt</u>	\$ 33,794	\$ 16,696	\$ 51,748
<u>Less current portion</u>	18,387	878	35,457
<u>Non-current portion</u>	15,407	15,818	16,291

Revolving Credit Facility [Member]

Debt Instrument [Line Items]

<u>Long-term debt</u>	27,505	9,969	44,585
<u>Other Debt [Member]</u>			

Debt Instrument [Line Items]

<u>Long-term debt</u>	\$ 6,289	\$ 6,727	\$ 7,163
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Debt (Narrative) (Details)	6 Months Ended		
	Jul. 31, 2020 USD (\$)	Sep. 08, 2020 USD (\$)	Feb. 01, 2020 USD (\$)
<u>Line of Credit Facility [Line Items]</u>			
<u>Line Of Credit Facility, Borrowing Capacity, Term</u>	\$		
	15,000,000		
<u>Line of credit facility, period for reduced borrowings during fourth quarter of each fiscal year (consecutive days)</u>	30 days		
<u>Revolving credit facility bears interest increased</u>	2.00%		
<u>Interest rate</u>	4.50%		
<u>Unused portion fee rate</u>	0.375%		
<u>Inventory [Member]</u>			
<u>Line of Credit Facility [Line Items]</u>			
<u>Revolving credit facility borrowing base limitation</u>	60.00%		
<u>Inventories [Member]</u>			
<u>Line of Credit Facility [Line Items]</u>			
<u>Revolving credit facility borrowing base limitation</u>	85.00%		
<u>Maximum [Member] Accounts receivable [Member]</u>			
<u>Line of Credit Facility [Line Items]</u>			
<u>Revolving credit facility borrowing base limitation</u>	85.00%		
<u>Amendment No. 20 To Credit Facility [Member]</u>			
<u>Line of Credit Facility [Line Items]</u>			
<u>Maximum fixed charge coverage ratio</u>			1.10
<u>Amendment No. 20 To Credit Facility [Member] Maximum [Member]</u>			
<u>Line of Credit Facility [Line Items]</u>			
<u>Maximum capital expenditures</u>			\$
			8,000,000
<u>Amendment No. 21 To Credit Facility [Member] Subsequent Event</u>			
<u>Line of Credit Facility [Line Items]</u>			
<u>Non-refundable fee</u>			\$ 75,000
<u>Amendment No. 21 To Credit Facility [Member] Subsequent Event Consecutive Four Fiscal Quarters Ending July 31, 2020</u>			
<u>Line of Credit Facility [Line Items]</u>			
<u>Maximum fixed charge coverage ratio</u>			1.10
<u>Amendment No. 21 To Credit Facility [Member] Subsequent Event Consecutive Four Fiscal Quarters Ending October 31, 2020</u>			
<u>Line of Credit Facility [Line Items]</u>			
<u>Maximum fixed charge coverage ratio</u>			1.00
<u>Amendment No. 21 To Credit Facility [Member] Subsequent Event Consecutive Four Fiscal Quarters Ending Thereafter</u>			
<u>Line of Credit Facility [Line Items]</u>			
<u>Maximum fixed charge coverage ratio</u>			1.10

Amendment No. 21 To Credit Facility [Member] Minimum [Member] Consecutive Four Fiscal Quarters Ending Thereafter	
Line of Credit Facility [Line Items]	
Maximum fixed charge coverage ratio	1.00
Amendment No. 21 To Credit Facility [Member] Maximum [Member] Consecutive Four Fiscal Quarters Ending Thereafter	
Line of Credit Facility [Line Items]	
Maximum fixed charge coverage ratio	1.10
PNC [Member] Revolving Credit Facility [Member]	
Line of Credit Facility [Line Items]	
Remaining borrowing capacity	\$ 32,896,000
PNC [Member] Revolving Credit Facility [Member] Amendment No. 19 to Credit Facility [Member]	
Line of Credit Facility [Line Items]	
Line of credit facility, maximum borrowing capacity	65,000,000
PNC [Member] Equipment Loan [Member] Amendment No. 19 to Credit Facility [Member]	
Line of Credit Facility [Line Items]	
Line of credit facility, maximum borrowing capacity	10,000,000
Line of credit facility, Equipment financing	\$ 2,000,000
Eurodollar [Member] Minimum [Member]	
Line of Credit Facility [Line Items]	
Revolving credit facility bears interest range of	2.25%
Eurodollar [Member] Maximum [Member]	
Line of Credit Facility [Line Items]	
Revolving credit facility bears interest range of	2.75%
Alternate Base Rate Loans [Member] London Interbank Offered Rate LIBOR [Member] Minimum [Member]	
Line of Credit Facility [Line Items]	
Revolving credit facility bears interest range of	1.25%
Alternate Base Rate Loans [Member] London Interbank Offered Rate LIBOR [Member] Maximum [Member]	
Line of Credit Facility [Line Items]	
Revolving credit facility bears interest range of	1.75%

Income Taxes (Details) - USD (\$) \$ in Thousands	2 Months Ended				
	Mar. 27, 2020	Mar. 26, 2020	Jul. 31, 2020	Jan. 31, 2020	Jul. 31, 2019
Income Tax Disclosure [Abstract]					
Valuation allowance			\$ 1,186	\$ 1,183	\$ 2,003
Limitation for business interest expense deduction as a percentage of adjusted taxable income	50.00%	30.00%			
Income tax benefit from the CARES Act	\$ 200				

Net Income (Loss) per Share (Details) - USD (\$) \$ / shares in Units, \$ in Thousands	3 Months Ended		6 Months Ended	
	Jul. 31, 2020	Jul. 31, 2019	Jul. 31, 2020	Jul. 31, 2019
<u>Earnings Per Share [Abstract]</u>				
<u>Net income (loss)</u>	\$ 3,553	\$ 5,867	\$ (1,145)	\$ 2,800
<u>Weighted average shares outstanding - basic (shares)</u>	15,733,000	15,561,000	15,694,000	15,524,000
<u>Net effect of dilutive share-based on the treasury stock method using average market price (shares)</u>	13,000	7,000	0	5,000
<u>Totals (shares)</u>	15,746,000	15,568,000	15,694,000	15,529,000
<u>Net income (loss) per share - basic (usd per share)</u>	\$ 0.23	\$ 0.38	\$ (0.07)	\$ 0.18
<u>Net income (loss) per share - diluted (usd per share)</u>	\$ 0.23	\$ 0.38	\$ (0.07)	\$ 0.18
<u>Antidilutive stock options (shares)</u>			5,000	

Stock-Based Compensation (Details) - USD (\$)	3 Months Ended		6 Months Ended	
	Jul. 31, 2020	Jul. 31, 2019	Jul. 31, 2020	Jul. 31, 2019
Cost of Goods Sold [Member]				
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]				
Stock-based compensation expense	\$ 65,000	\$ 57,000	\$ 128,000	\$ 116,000
Selling, General and Administrative Expenses [Member]				
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]				
Stock-based compensation expense	187,000	\$ 180,000	378,000	\$ 307,000
Restricted Stock Units (RSUs) [Member]				
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]				
Unrecognized compensation expense	\$ 2,431,000		\$ 2,431,000	
Unrecognized compensation expense, weighted average period to be recognized			3 years	
Restricted Stock Units (RSUs) [Member] 2019 Plan [Member]				
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]				
Awards authorized (shares)	1,000,000		1,000,000	
Granted in the period (shares)			94,695	
Vested in period (shares)			45,600	
Forfeited in period (shares)			0	
Awards available for future issuance (shares)	677,305		677,305	
Restricted Stock Units (RSUs) [Member] 2011 Plan [Member]				
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]				
Awards authorized (shares)	2,000,000		2,000,000	
Granted in the period (shares)			0	
Vested in period (shares)			119,200	
Forfeited in period (shares)			0	
Awards available for future issuance (shares)	32,892		32,892	
Director [Member] Restricted Stock Awards [Member] 2011 Plan [Member]				
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]				
Granted in the period (shares)			0	
Vested in period (shares)			59,385	

Retirement Plans (Narrative)
(Details) - United States
[Member] - USD (\$)
\$ in Thousands

3 Months Ended		6 Months Ended	
Jul. 31,	Jul. 31,	Jul. 31,	Jul. 31,
2020	2019	2020	2019

Defined Benefit Plans and Other Postretirement Benefit Plans Table

Text Block [Line Items]

<u>Minimum annual contributions per employee, percent</u>			1.00%
<u>Maximum annual contributions per employee, percent</u>			75.00%
<u>Number of common shares held</u>	850,789	708,345	850,789 708,345
<u>Contributions by employer</u>	\$ 195	\$ 187	\$ 405 \$ 374

Retirement Plans (Periodic Pension Cost) (Details) - Pension Plan [Member] - USD (\$)	3 Months Ended		6 Months Ended	
	Jul. 31, 2020	Jul. 31, 2019	Jul. 31, 2020	Jul. 31, 2019
\$ in Thousands				
<u>Components of Net Cost</u>				
<u>Service cost</u>	\$ 0	\$ 0	\$ 0	\$ 0
<u>Interest cost</u>	301	355	602	710
<u>Expected return on plan assets</u>	(224)	(343)	(448)	(686)
<u>Plan settlement</u>	0	0	0	0
<u>Amortization of prior service cost</u>	0	0	0	0
<u>Recognized net actuarial loss</u>	465	176	930	352
<u>Benefit cost</u>	\$ 542	\$ 188	\$ 1,084	\$ 376

Warranty (Details) - USD (\$)	3 Months Ended		6 Months Ended	
\$ in Thousands	Jul. 31, 2020	Jul. 31, 2019	Jul. 31, 2020	Jul. 31, 2019

Warranty claim activity

<u>Beginning balance</u>	\$ 800	\$ 700	\$ 800	\$ 700
<u>Provision</u>	(17)	245	43	316
<u>Costs incurred</u>	(33)	(145)	(93)	(216)
<u>Ending balance</u>	\$ 750	\$ 800	\$ 750	\$ 800

Maximum [Member]

Warranty [Line Items]

Product warranty period 10 years

Contingencies (Details) - Maximum	Jul. 31, 2020 USD (\$)
Loss Liability [Member]	
Loss Contingencies [Line Items]	
Self insurance retention	\$ 30,000,000
Automobile Liability Loss [Member]	
Loss Contingencies [Line Items]	
Self insurance retention	50,000
Workers compensation Liability Insurance [Member]	
Loss Contingencies [Line Items]	
Self insurance retention	250,000
Product and General Liability Insurance [Member]	
Loss Contingencies [Line Items]	
Self insurance retention	\$ 250,000

Delivery Costs (Details) - USD (\$)	3 Months Ended		6 Months Ended	
	Jul. 31, 2020	Jul. 31, 2019	Jul. 31, 2020	Jul. 31, 2019
Other Income and Expenses [Abstract]				
Shipping and classroom delivery costs	\$ 4,907,000	\$ 6,497,000	\$ 6,985,000	\$ 9,258,000

COVID-19 (Details)

Jun. 12, 2020

Unusual or Infrequent Items, or Both [Abstract]

Current staffing level at Torrance facility (percent) 50.00%

Subsequent Events (Details)
- Amendment No. 21 To
Credit Facility [Member] -
Subsequent Event
\$ in Thousands

Sep. 08, 2020
USD (\$)

Subsequent Event [Line Items]

Non-refundable fee \$ 75

Consecutive Four Fiscal Quarters Ending July 31, 2020

Subsequent Event [Line Items]

Maximum fixed charge coverage ratio 1.10

Consecutive Four Fiscal Quarters Ending October 31, 2020

Subsequent Event [Line Items]

Maximum fixed charge coverage ratio 1.00

Consecutive Four Fiscal Quarters Ending Thereafter

Subsequent Event [Line Items]

Maximum fixed charge coverage ratio 1.10

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes the need for transparency and accountability in financial reporting.

2. The second part of the document outlines the various methods used to collect and analyze data. It includes a detailed description of the sampling process and the statistical techniques employed to ensure the reliability of the results.

3. The third part of the document presents the findings of the study. It highlights the key trends and patterns observed in the data, as well as the implications of these findings for the industry and the broader economy.

4. The fourth part of the document discusses the limitations of the study and the potential areas for future research. It acknowledges the challenges faced during the data collection process and offers suggestions for improving the accuracy and scope of future studies.

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1. Introduction
2. Background
3. Methodology
4. Results
5. Discussion
6. Conclusion
7. References
8. Appendix
9. Glossary
10. Index

1. The following table shows the results of a survey of 1000 people in a town. The table shows the number of people who chose each of the following options.

Option	Number of people
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B	200
C	300
D	150
E	200

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