
**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 **October 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

(State or Other Jurisdiction of
Incorporation or Organization)

95-1613718

(I.R.S. Employer
Identification No.)

2027 Harpers Way, Torrance, CA

(Address of Principal Executive Offices)

90501

(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

Non-accelerated filer

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 December 9, 2020.

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PART I. Financial Information

Item 1. Financial Statements

Virco Mfg. Corporation

Unaudited Condensed Consolidated Balance Sheets

	10/31/2020	1/31/2020	10/31/2019
	(In thousands)		
Assets			
Current assets			
Cash	\$ 1,202	\$ 1,150	\$ 697
Trade accounts receivables, net	16,877	11,762	17,697
Other receivables	60	57	54
Income tax receivable	322	298	314
Inventories	36,872	43,329	42,907
Prepaid expenses and other current assets	1,608	1,746	1,601
Total current assets	56,941	58,342	63,270
Non-current assets			
Property, plant and equipment			
Land	3,731	3,731	3,731
Land improvements	734	717	694
Buildings and building improvements	51,191	51,200	51,200
Machinery and equipment	111,844	110,610	110,104
Leasehold improvements	1,003	990	978
Total property, plant and equipment	168,503	167,248	166,707
Less accumulated depreciation and amortization	130,808	127,351	126,684
Net property, plant and equipment	37,695	39,897	40,023
Operating lease right-of-use assets	18,645	21,325	22,251
Deferred tax assets, net	10,682	11,230	6,087
Other assets, net	7,949	8,198	8,234
Total assets	\$ 131,912	\$ 138,992	\$ 139,865

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation
Unaudited Condensed Consolidated Balance Sheets

	<u>10/31/2020</u>	<u>1/31/2020</u>	<u>10/31/2019</u>
	(In thousands, except share and par value data)		
Liabilities			
Current liabilities			
Accounts payable	\$ 11,509	\$ 10,587	\$ 10,914
Accrued compensation and employee benefits	5,514	6,392	6,124
Current portion of long-term debt	885	878	872
Current portion operating lease liability	4,662	3,654	3,506
Other accrued liabilities	4,121	3,607	3,976
Total current liabilities	<u>26,691</u>	<u>25,118</u>	<u>25,392</u>
Non-current liabilities			
Accrued self-insurance retention	1,313	1,410	1,617
Accrued pension expenses	21,445	21,310	13,426
Income tax payable	72	70	59
Long-term debt, less current portion	5,185	15,818	13,485
Operating lease liability, less current portion	16,745	19,787	20,778
Other long-term liabilities	655	661	559
Total non-current liabilities	<u>45,415</u>	<u>59,056</u>	<u>49,924</u>
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 10/31/2020 and 15,713,549 at 1/31/2020 and 10/31/2019	159	157	157
Additional paid-in capital	119,402	118,782	118,544
Accumulated deficit	(46,475)	(49,810)	(45,500)
Accumulated other comprehensive loss	(13,280)	(14,311)	(8,652)
Total stockholders' equity	<u>59,806</u>	<u>54,818</u>	<u>64,549</u>
Total liabilities and stockholders' equity	<u>\$ 131,912</u>	<u>\$ 138,992</u>	<u>\$ 139,865</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation

Unaudited Condensed Consolidated Statements of Income

	Three months ended	
	10/31/2020	10/31/2019
	(In thousands, except per share data)	
Net sales	\$ 56,741	\$ 66,998
Costs of goods sold	34,466	40,153
Gross profit	22,275	26,845
Selling, general and administrative expenses	16,457	20,476
(Gain) loss on sale of property, plant & equipment	(7)	—
Operating income	5,825	6,369
Pension expense	542	188
Interest expense	419	603
Income before income taxes	4,864	5,578
Income tax expense	384	1,686
Net income	\$ 4,480	\$ 3,892
Net income per common share:		
Basic	\$ 0.28	\$ 0.25
Diluted	\$ 0.28	\$ 0.25
Weighted average shares of common stock outstanding:		
Basic	15,733	15,654
Diluted	15,767	15,710

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation

Unaudited Condensed Consolidated Statements of Income

	Nine months ended	
	10/31/2020	10/31/2019
	(In thousands, except per share data)	
Net sales	\$ 133,625	\$ 164,250
Costs of goods sold	83,243	99,582
Gross profit	50,382	64,668
Selling, general and administrative expenses	43,876	51,714
(Gain) loss on sale of property, plant & equipment	(7)	3
Operating income	6,513	12,951
Pension expense	1,626	564
Interest expense	1,317	2,210
Income before income taxes	3,570	10,177
Income tax expense	235	3,485
Net income	\$ 3,335	\$ 6,692
Net income per common share:		
Basic	\$ 0.21	\$ 0.43
Diluted	\$ 0.21	\$ 0.43
Weighted average shares of common stock outstanding:		
Basic	15,566	15,568
Diluted	15,586	15,621

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation
Unaudited Condensed Consolidated Statements of Comprehensive Income

Three months ended	
10/31/2020	10/31/2019
(In thousands)	

Net income	\$ 4,480	\$ 3,892
Other comprehensive income:		
Pension adjustments (net of tax expense of \$124 and \$45 at October 31, 2020 and 2019, respectively)	341	130
Net comprehensive income	\$ 4,821	\$ 4,022

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation
Unaudited Condensed Consolidated Statements of Comprehensive Income

Nine months ended	
10/31/2020	10/31/2019

(In thousands)

Net income	\$ 3,335	\$ 6,692
Other comprehensive income:		
Pension adjustments (net of tax expense of \$364 and \$137 at October 31, 2020 and 2019, respectively)	1,031	390
Net comprehensive income	\$ 4,366	\$ 7,082

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation

Unaudited Condensed Consolidated Statements of Cash Flows

	Nine months ended	
	10/31/2020	10/31/2019
	(In thousands)	
Operating activities		
Net income	\$ 3,335	\$ 6,692
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,895	4,350
Non-cash lease expense	645	258
Provision for doubtful accounts	60	60
(Gain) loss on sale of property, plant and equipment	(7)	3
Deferred income taxes	184	3,511
Stock-based compensation	759	686
Defined pension plan settlement	—	—
Amortization of net actuarial loss for pension plans	1,395	528
Changes in operating assets and liabilities:		
Trade accounts receivable	(5,177)	(4,504)
Other receivables	—	(15)
Inventories	6,457	4,382
Income taxes	(23)	(124)
Prepaid expenses and other current assets	388	265
Accounts payable and accrued liabilities	741	(5,869)
Net cash provided by operating activities	12,652	10,223
Investing activities:		
Capital expenditures	(1,900)	(2,963)
Proceeds from sale of property, plant and equipment	82	—
Net cash used in investing activities	(1,818)	(2,963)
Financing activities:		
Borrowing from long-term debt	23,885	30,923
Repayment of long-term debt	(34,512)	(37,980)
Payment on deferred financing costs	—	—
Tax withholding payments on share-based compensation	(155)	(244)
Cash dividends paid	—	—
Net cash used in financing activities	(10,782)	(7,301)
Net increase (decrease) in cash	52	(41)
Cash at beginning of period	1,150	738
Cash at end of period	\$ 1,202	\$ 697

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 October 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 August 1, 2020	15,918,642	\$ 159	\$ 119,149	\$ (50,955)	\$ (13,621)	\$ 54,732
Net income	—	—	—	4,480	—	4,480
Cash dividends	—	—	—	—	—	—
Pension adjustments, net of tax effect of \$124	—	—	—	—	341	341
Shares vested and others	—	—	—	—	—	—
Stock compensation expense	—	—	253	—	—	253
Balance at October 31, 2020	15,918,642	\$ 159	\$ 119,402	\$ (46,475)	\$ (13,280)	\$ 59,806

Three-Month Period Ended October 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 August 1, 2019	15,713,549	\$ 157	\$ 118,282	\$ (49,392)	\$ (8,782)	\$ 60,265
Net income	—	—	—	3,892	—	3,892
Cash dividends	—	—	—	—	—	—
Pension adjustments, net of tax effect of \$45	—	—	—	—	130	130
Shares vested and others	—	—	—	—	—	—
Stock compensation	—	—	262	—	—	262
Balance at October 31, 2019	15,713,549	\$ 157	\$ 118,544	\$ (45,500)	\$ (8,652)	\$ 64,549

Nine-Month Period Ended October 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 income	—	—	—	3,335	—	3,335
Cash dividends	—	—	—	—	—	—
Pension adjustments, net of tax effect of \$364	—	—	—	—	1,031	1,031
Shares vested and others	205,093	2	(139)	—	—	(137)
Stock compensation expense	—	—	759	—	—	759
Balance at October 31, 2020	15,918,642	\$ 159	\$ 119,402	\$ (46,475)	\$ (13,280)	\$ 59,806

Nine-Month Period Ended October 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	—	—	—	\$ 6,692	—	6,692
Cash dividends	—	—	—	—	—	—
Pension adjustments, net of tax effect of \$137	—	—	—	—	390	390
Shares vested and others	171,593	2	(248)	—	—	(246)
Stock compensation expense	—	—	686	—	—	686
Balance at October 31, 2019	15,713,549	\$ 157	\$ 118,544	\$ (45,500)	\$ (8,652)	\$ 64,549

See accompanying notes to unaudited condensed consolidated financial statements.

VIRCO MFG. CORPORATION

Notes to unaudited Condensed Consolidated Financial Statements

October 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 nine months ended October 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 December 31, 2021. The Company has experienced an overall decline in net sales and net income through the first nine-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, prior to an amendment and waiver negotiated to satisfy the event of default that also reduced the ratio required for the rolling four-quarter period ended October 31, 2020 from 1.10:1.00 to 1.00:1.00. However the Company was not in compliance with this amended fixed-charge ratio of 1.00:1.00 as of October 31, 2020 due to the continuing decline in net sales and net income. The Company successfully negotiated a waiver and amendment on December 11, 2020 to the agreement to satisfy the event of default and amend the fixed-charge coverage ratio covenant. The amended covenant allows the Company to add back certain COVID-19 related costs incurred between May 1, 2020 through April 30, 2021, not to exceed \$2 million, to adjusted EBITDA and retains a minimum fixed-charge coverage ratio of 1.10:1.00 beginning with the quarter ending January 31, 2021 (see Note 7).

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, including COVID-19 related costs, 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 October 31, 2020, including those resulting from the continuing 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. In the second fiscal quarter ended July 31, 2020, 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 and third quarters 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 October 31, 2020, January 31, 2020 and October 31, 2019:

	<u>10/31/2020</u>	<u>1/31/2020</u>	<u>10/31/2019</u>
	(in thousands)		
Finished goods	\$ 15,442	\$ 15,401	\$ 15,380
WIP	11,440	15,957	15,567
Raw materials	9,990	11,971	11,960
Total inventories	<u>\$ 36,872</u>	<u>\$ 43,329</u>	<u>\$ 42,907</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:

	<u>Three-Months Ended</u>		<u>Nine-Months Ended</u>	
	<u>10/31/2020</u>	<u>10/31/2019</u>	<u>10/31/2020</u>	<u>10/31/2019</u>
	(in thousands, except lease term and discount rate)			
Operating lease cost	\$ 1,431	\$ 1,365	\$ 4,343	\$ 4,065
Short-term lease cost	55	115	214	251
Short-term sublease income	(10)	(30)	(30)	(60)
Variable lease cost (1)	(18)	340	352	849
Total lease cost	<u>\$ 1,458</u>	<u>\$ 1,790</u>	<u>\$ 4,879</u>	<u>\$ 5,105</u>

Other operating leases information:

Cash paid for amounts included in the measurement of lease liabilities	\$ 3,697	\$ 3,976
Right-of-use assets obtained in exchange for new lease liabilities	\$ 587	\$ 1,420
Weighted-average remaining lease term (years)	4.3	5.2
Weighted-average discount rate	6.40 %	6.37 %

(1) Subsequent to the issuance of the Company's condensed consolidated financial statements as of October 31, 2019, management identified an immaterial correction related to the disclosure of certain variable lease payments. Variable lease expense for the three-months and nine-months ended October 31, 2019 did not previously include \$340,000 and \$849,000, 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 nine-months ended October 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 October 31, 2020, are as follows:

	Operating Lease (in thousands)
Remaining of 2021	\$ 1,476
2022	5,818
2023	5,384
2024	5,251
2025	5,370
Thereafter	1,350
Remaining balance of lease payments	\$ 24,649
Short-term lease liabilities	\$ 4,662
Long-term lease liabilities	16,745
Total lease liabilities	\$ 21,407
Difference between undiscounted cash flows and discounted cash flows	\$ 3,242

Note 7. Debt

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

	10/31/2020	1/31/2020	10/31/2019
	(in thousands)		
Revolving credit line	\$ —	\$ 9,969	\$ 7,412
Other	6,070	6,727	6,945
Total debt	6,070	16,696	14,357
Less current portion	885	878	872
Non-current portion	\$ 5,185	\$ 15,818	\$ 13,485

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 one 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 (ii) 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 1.00 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 ended 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. However the Company was not in compliance with this amended fixed-charge ratio of 1.00:1.00 as of October 31, 2020 due to the continuing decline in net sales and net income. The Company successfully negotiated and entered into Amendment No. 22 on December 11, 2020 to the Revolving Credit and Security Agreement ("Amendment No. 22") with its lender, PNC Bank, National Association. Amendment No. 22 provided a limited waiver of the Fixed-Charge Coverage Ratio for the four fiscal quarter period ended October 31, 2020 and amended the Fixed-Charge Coverage calculation to allow for the add back of certain COVID-19 related costs incurred from May 1, 2020 through April 30, 2021 not to exceed \$2 million to adjusted EBITDA beginning with the four fiscal quarter period ended January 31, 2021, and retains the required minimum coverage ratio of 1.10:1.00. In connection with Amendment No. 22, the Company also agreed to pay PNC Bank a non-refundable fee of \$40,000.

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 October 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. As of October 31, 2020, there were no outstanding amounts under the line of credit and approximately \$14,000,000 was available for borrowing as of October 31, 2020.

Management believes that the carrying value of debt approximated fair value at October 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 \$1,133,000, \$1,183,000 and \$1,918,000 as of October 31, 2020, January 31, 2020 and October 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 third quarter and nine months ended October 31, 2020 is less than the prior year, primarily due to the decrease in pre-tax income and the change of the valuation allowance related to the business interest expense limitation deduction and state net operating losses.

Note 9. Net income per Share

	Three Months Ended		Nine Months Ended	
	10/31/2020	10/31/2019	10/31/2020	10/31/2019
	(In thousands, except per share data)			
Net income	\$ 4,480	\$ 3,892	\$ 3,335	\$ 6,692
Weighted average shares of common stock outstanding	15,733	15,654	15,566	15,568
Net effect of dilutive shares - based on the treasury stock method using average market price	34	56	20	53
Totals	15,767	15,710	15,586	15,621
Net income per share - basic	\$ 0.28	\$ 0.25	\$ 0.21	\$ 0.43
Net income per share - diluted	\$ 0.28	\$ 0.25	\$ 0.21	\$ 0.43

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 nine-month periods ended October 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 October 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 nine-month periods ended October 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 October 31, 2020, there were approximately 32,892 shares available for future issuance under the 2011 Plan.

During the three months ended October 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 \$188,000, respectively. During the three months ended October 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 \$74,000 and \$189,000, respectively.

During the nine months ended October 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 \$193,000 and \$566,000, respectively. During the nine months ended October 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 \$190,000 and \$496,000, respectively.

As of October 31, 2020, there was \$2,178,000 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, 2020, 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 nine months ended October 31, 2020 and 2019 were as follows:

	Combined Employee Retirement Plans			
	Three Months Ended		Nine Months Ended	
	10/31/2020	10/31/2019	10/31/2020	10/31/2019
	(in thousands)			
Service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	301	355	903	1,065
Expected return on plan assets	(224)	(343)	(672)	(1,029)
Plan settlement	—	—	—	—
Amortization of prior service cost	—	—	—	—
Recognized net actuarial loss	465	176	1,395	528
Benefit cost	<u>\$ 542</u>	<u>\$ 188</u>	<u>\$ 1,626</u>	<u>\$ 564</u>

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 October 31, 2020 and 2019, the plan held 893,811 shares and 710,319 shares of Virco stock, respectively. For the three months ended October 31, 2020 and 2019, the compensation costs incurred for employer match was \$182,000 and \$204,000, respectively. For the nine months ended October 31, 2020 and 2019, the compensation costs incurred for employer match was \$587,000 and \$578,000, 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 nine months ended October 31, 2020 and 2019:

	Three Months Ended		Nine Months Ended	
	10/31/2020	10/31/2019	10/31/2020	10/31/2019
	(in thousands)			
Beginning balance	\$ 750	\$ 800	\$ 800	\$ 700
Provision	(46)	71	(3)	387
Costs incurred	(4)	(71)	(97)	(287)
Ending balance	<u>\$ 700</u>	<u>\$ 800</u>	<u>\$ 700</u>	<u>\$ 800</u>

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 October 31, 2020 and 2019, shipping and classroom delivery costs of approximately \$6,014,000 and \$7,897,000, respectively, were included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

For the nine months ended October 31, 2020 and 2019, shipping and classroom delivery costs of approximately 12,999,000 and 17,154,000, 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 December 11, 2020, the Company entered into Amendment No. 22 to the Revolving Credit and Security Agreement ("Amendment No. 22") with its lender, PNC Bank, National Association (see Note 7).

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 nine-month periods ended October 31, 2020 have been significantly impacted by economic conditions driven by the COVID-19 pandemic. 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. Most school districts continued with remote learning for the academic year beginning August 2020, with a minority of districts attempting hybrid or on-site learning. During the third quarter many districts attempted to implement on-site instruction, but most large districts are continuing remote 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 frequently 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. This reduction adversely impacted both second and third quarter sales revenue.

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. Our backlog of orders was slightly less at October 31, 2020 compared to 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 and third quarters, shipments of furniture started to model the traditional seasonal cycle, but at a reduced level of activity due to lower orders. In typical years, shipments of furniture are scheduled to occur prior to Labor Day, when all schools are typically in session. This year did not have the same "hard deadline" and summer deliveries extended into September.

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. The Company did not experience significant disruption to production during the third quarter. Production rates have been moderated in response to reduced unit sales volume and a decision by management to reduce inventory levels. 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. 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 through October 31, 2020 there have been no layoffs or furloughs of our employees. In response to the seasonal nature of our business, the Company traditionally closes or curtails operations for one week during Thanksgiving, and for approximately two weeks during

Christmas and New Year's, mirroring the holidays when schools are closed. For the current year, the Company anticipates adding an additional week of restricted operations at both Thanksgiving and New Year's.

The COVID-19 pandemic 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 in-person 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 in the foreseeable future. While the overall market for school furniture may decline in the fiscal year ending January 31, 2021 and probably beyond, management believes that our domestic manufacturing base provides meaningful opportunities to increase market share due to our flexibility and rapid turnaround rather than by reducing prices.

In September 2020, after consideration of uncertainties tied to COVID-19 pandemic, the Compensation Committee of the Board adopted a flexible strategy that will reduce cash compensation payable to outside directors and executive officers by at least 25% between October 2020 and January 2021.

Three Months Ended October 31, 2020

Order rates for the first nine months have been volatile, with a material reduction in orders corresponding to COVID19. Orders for the first quarter declined by approximately 2.1%, orders for the second quarter declined by nearly 28%, and orders for the third quarter declined by 22.5%. Year-to-date orders through October 31, 2020 have declined by approximately 19.5%.

For the three months ended October 31, 2020, the Company earned a pre-tax income of \$4,864,000 on sales of \$56,741,000 compared to a pre-tax income of \$5,578,000 on sales of \$66,998,000 in the prior year. Net sales for the three months ended October 31, 2020 decreased by \$10,257,000 or 15.3%, compared to the same period last year. The Company began the quarter with an order backlog that was comparable to the prior year. Backlog at October 31, 2020 is approximately \$1.8 million less than the prior year.

Gross Margin for the third quarter was approximately 39.3% of sales compared to 40.1% 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 variances incurred when production rates were moderated in response to the decrease in unit volume and a decision by management to reduce inventory levels.

Selling, general and administrative expenses for the three months ended October 31, 2020 decreased by \$4,025,000 compared to the same period last year and decreased as a percentage of sales to 29.0% from 30.6%. The decrease in selling, general and administrative expenses was primarily attributable to decreased variable freight, service, and selling expense.

Interest expense decreased by \$184,000 for the three months ended October 31, 2020 compared to the same period last year. The Company has borrowed less money to finance seasonal working capital in the third quarter. At October 31, 2020 the Company had completely paid off its revolving line of credit with the bank.

Nine Months Ended October 31, 2020

For the nine months ended October 31, 2020, the Company earned a pre-tax income of \$3,570,000 on net sales of \$133,625,000 compared to a pre-tax income of \$10,177,000 on net sales of \$164,250,000 in the same period last year. Net sales for the nine months ended October 31, 2020 decreased by approximately \$30,625,000 or 18.6% compared to the same period last year. This net decrease was primarily the result of a reduction in unit volume offset by a small increase in selling price.

Gross margin as a percentage of sales decreased to 37.7% for the nine months ended October 31, 2020 compared to 39.4% in the same period last year. The gross margin was favorably affected by the price increase described above, partially offset by unfavorable manufacturing overhead variances incurred when production rates declined in response to the decrease in unit volume and a decision by management to reduce inventory levels.

Selling, general and administrative expenses for the nine months ended October 31, 2020 decreased by approximately \$7,844,000 compared to the same period last year and increased as a percentage of sales by 1.3%. The reduction in selling expense was primarily attributable to reduced variable freight, service, and selling expenses.

Interest expense decreased by \$893,000 for the nine months ended October 31, 2020 compared to the same period last year. The Company has borrowed less money to finance seasonal working capital in the first nine months of the year. At October 31, 2020 the Company had completely paid off its revolving line of credit with the bank.

Income Taxes for the three and nine-months ended October 31, 2020

Income tax expense for the third quarter and nine months ended October 31, 2020 is less than the prior year, primarily due to the decrease in pre-tax income and the change of the valuation allowance related to the business interest expense limitation deduction and state net operating losses.

Liquidity and Capital Resources

Approximately 50% of the Company's annual sales volume is 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. During the current year, the COVID19 pandemic did not have a dramatic impact on the seasonality of shipments but did have an adverse impact on the volume which reduced working capital requirements. In addition, the Company was cautious about building inventory during these uncertain times. During the last two months of the third quarter, the Company typically repays significant portions of the seasonal working capital borrowed to finance the summer activity. Accounts receivable decreased by \$820,000 at October 31, 2020 compared to the prior year. Inventory decreased by \$6,035,000 at October 31, 2020 compared to the prior year. The reduction in working capital enabled the Company to completely pay down its revolving line of credit with PNC Bank as of October 31, 2020. Outstanding debt at October 31, 2020 includes an equipment loan from PNC in the amount of \$944,000 and a seller financed mortgage on a manufacturing facility in Conway, Arkansas.

Interest expense for the three and nine months ended October 31, 2020 is less than the same period last year due to lower average outstanding borrowings under the Company's revolving line of credit with PNC Bank.

Capital spending for the nine months ended October 31, 2020 was \$1,900,000 compared to \$2,963,000 for the same period last year. The reduction in capital spending was a direct result of management controlling the expenditures to preserve cash due to the adverse impact that the COVID-19 pandemic had on the Company's operations. Capital expenditures are being financed through the Company's credit facility with PNC Bank and operating cash flow and restricted to not exceed \$8,000,000 by covenant.

Due to the adverse impact of the COVID-19 pandemic upon the Company's operations, the Company violated its fixed-charge coverage ratio contained in the credit agreement with PNC Bank for the four quarter period ended July 31, 2020 and October 31, 2020. The Company obtained limited waivers and amendments from PNC Bank for both events of default, Amendment No. 21 and 22 (see Note 7 to the condensed consolidated financial statements). Amendment No. 22, amended the ongoing fixed-charge coverage calculation to allow for the add back of certain COVID-19 related costs incurred from May 1, 2020 through April 30, 2021, not to exceed \$2,000,000, to adjusted EBITDA and retained the minimum fixed-charge coverage ratio of 1.10:1.00 beginning with the four quarter period ending January 31, 2021. Based on the add back allowance for certain COVID-19 related costs, and the current forecasts through December 31, 2021, management believes the Company will maintain compliance with its financial covenants.

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 October 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 October 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

None.

Item 6. Exhibits

Exhibit Number	Document
<u>10.3.20</u>	<u>Twenty-First Amendment to Revolving Credit and Security Agreement, dated September 8, 2020, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent (incorporated by reference to Exhibit 10.3.20 to the Company’s Quarterly Report on Form 10-Q filed with the Commission on September 14, 2020).</u>
<u>10.3.21</u>	<u>Twenty-Second Amendment to Revolving Credit and Security Agreement, dated December 11, 2020, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent.</u>
<u>31.1</u>	<u>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.</u>
<u>31.2</u>	<u>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.</u>
<u>32.1</u>	<u>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.</u>

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: December 14, 2020

VIRCO MFG. CORPORATION

By: /s/ Robert E. Dose

Robert E. Dose

Vice President — Finance

(Principal Financial Officer)

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

This **TWENTY-SECOND AMENDMENT TO REVOLVING CREDIT AND SECURITY AGREEMENT AND LIMITED WAIVER** (this “**Amendment**”) is entered into as of December 11, 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 at least 1.00 to 1.00 for the four fiscal quarter period ended October 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-Second Amendment**” means the Twenty-Second Amendment to Revolving Credit and Security Agreement and Limited Waiver dated as of December [___], 2020 among Borrowers, the Lenders party thereto and Agent.

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

1. Section 1.2 of the Credit Agreement is hereby amended to amend and restate in the defined term “**EBITDA**”:

“**EBITDA**” means for any period, with respect to Borrowers on a Consolidated Basis, the sum of (a) Earnings Before Interest and Taxes for such period, plus (b) depreciation expenses for such period, plus (c) amortization expenses for such period, plus (d) reasonable and documented extraordinary expenses directly related to the impacts of the COVID-19 on the business and operations of Borrowers and actually incurred by Borrowers during the period from May 1, 2020 through and including April 30, 2021, to the extent such expenses are approved by Agent and Lenders in their Permitted Discretion, in an amount not to exceed \$2,000,000 for any trailing twelve month period, plus (e) to the extent deducted in determining net income of the Borrowers on a Consolidated Basis, non-cash compensation expense (including deferred non-cash compensation expense), other non-cash expenses, or charges arising from the sale or issuance of stock, the granting of stock options, and the granting of stock appreciation rights and similar arrangements (including any repricing, amendment, modification, substitution or change of any such stock, stock option, stock appreciation rights or similar arrangements) or non-cash interest and accretion charges related to pension plan adjustments.

- a. **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.
- b. **Conditions Precedent.** The obligations of Agent and Lenders hereunder, and this Amendment, will be effective on the date (the “**Twenty-Second 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-Second 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.
- c. **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.
- d. **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.
- e. **Events of Default.** Any failure to comply with the terms of this Amendment will constitute an Event of Default under the Credit Agreement.

- f. **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.
- g. **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.
- h. **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-Second Amendment Effective Date.
- i. **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.
- j. **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.
- k. **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.
- l. **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.
- m. **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.
- n. **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:

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: December 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

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

Date: December 14, 2020

**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 October 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: December 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.