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

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended January 31, 2020.

Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 1-8777

VIRCO MFG. CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

95-1613718

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

2027 Harpers Way, Torrance, California

90501

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (310) 533-0474

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

Title of each class

Trading Symbol

Name of each exchange on which registered:

Common Stock, \$0.01 Par Value

VIRC

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the issuer is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth
company

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant on July 31, 2019, was \$59 million (based upon the closing price of the registrant's common stock on such day, as reported by NASDAQ).

As of April 22, 2020, there were 15,713,549 shares of the registrant's common stock (\$0.01 par value) outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission are incorporated by reference into Part III of this Annual Report on Form 10-K as set forth herein.

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PART I

Cautionary Statement Regarding Forward-Looking Statements

This report on Form 10-K contains a number of “forward-looking statements” that reflect the current views of Virco Mfg. Corporation (the “Company” or “Virco”) with respect to future events and financial performance, including, but not limited to, statements concerning: the impact of the COVID 19 virus on the economy, school funding, the ability to operate our manufacturing and distribution operations and the availability of labor; availability of funding for educational institutions; plans and objectives of management for future operations, including relating to the Company’s future products, pricing, marketing, seasonal fluctuations in demand, expansion, manufacturing processes, and business strategies; the Company’s ability to continue to control costs and inventory levels; availability and cost of raw materials, especially steel and petroleum-based products; the cost and availability of imported components; the availability and cost of labor; transportation costs; the potential impact of the Company’s “Assemble-To-Ship” program on earnings; market demand; the Company’s ability to position itself in the market; current and future investments in and utilization of infrastructure; and management’s beliefs that cash flow from current operations, existing cash reserves, and available lines of credit will be sufficient to support the Company’s working capital requirements to fund existing operations. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Such forward-looking statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties, assumptions and other factors, many of which are out of the Company’s control and difficult to forecast, that may cause actual results to differ materially from those which are expressed or implied in any forward-looking statements. Such factors include, but are not limited to, changes in, or the Company’s ability to predict, general economic conditions, the availability and cost of raw materials, the markets for school and office furniture generally and specifically in areas and with customers with which the Company conducts its principal business activities, the rate of approval of school bonds for the construction of new schools, the extent to which existing schools order replacement furniture, customer confidence, competition, and other factors included in the “Risk Factors” section of this report.

The forward-looking statements contained in this report on Form 10-K are made on the basis of the views and assumptions of management regarding future events and business performance as of the date this report is filed with the SEC. We do not undertake any obligation to update these statements to reflect events or circumstances occurring after the date this report is filed.

In this report, words such as “anticipates,” “believes,” “expects,” “will continue,” “future,” “intends,” “plans,” “estimates,” “projects,” “potential,” “budgets,” “may,” “could” and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof.

Please note that this report includes trademarks of Virco, including, but not limited to, the following: ZUMA®, ZUMAFrd™, Ph.D.®, I.Q.®, Virtuoso®, Classic Series™, Martest 21®, Lunada®, Plateau®, Core-a-Gator®, Future Access®, Sigma®, Metaphor®, Telos®, TEXT®, Parameter®, Sage™, Analogy™ and Civitas™. Solely for convenience, from time to time, we refer to our trademarks in this report without the ® and ™ symbols, but such references are not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights to our trademarks. In addition, other names and brands included in this report may be claimed by us as well or by third parties.

Our fiscal year ends on January 31 of each year and references in this Annual Report on Form 10-K to a year refer to our fiscal year. As such, references in this Annual Report to 2021, 2020, 2019, and 2018 relate to the fiscal years ended January 31, 2021, 2020, 2019, and 2018, respectively.

Item 1. Business

Introduction

Designing, producing and distributing high-value furniture for a diverse family of customers is a 70-year tradition at Virco Mfg. Corporation (“Virco” or the “Company”, or in the first person, “we”, “us” or “our”). Virco was incorporated in California in February 1950 and reincorporated in Delaware in April 1984. Virco started as a local manufacturer of chairs and desks for Los Angeles-area schools, and over the years has become the largest manufacturer and supplier of moveable educational furniture and equipment for the preschool through 12th grade market in the United States. The Company manufactures a wide assortment of products, including mobile tables, mobile storage equipment, desks, computer furniture, chairs, activity tables, folding chairs and folding tables. Additionally, Virco has worked with accomplished designers - such as Peter Glass, Richard Holbrook, and Bob Mills - to develop additional products for contemporary applications. These include the best-selling ZUMA

Series; Analogy and Civitas furniture collections; Metaphor and Sage Series items for educational settings; and the wide-ranging Plateau and Text Series.

Along with serving customers in the education market - which in addition to preschool through 12th grade public and private schools includes: junior and community colleges; four-year colleges and universities; trade, technical and vocational schools - Virco is a furniture and equipment supplier for convention centers and arenas; the hospitality industry with respect to banquet and meeting facilities; government facilities at the federal, state, county and municipal levels; and places of worship. We also sell to wholesalers, distributors, traditional retailers and catalog retailers that serve these same markets.

To meet the furniture and equipment needs of our customers, Virco leases a 560,000 sq. ft. office, manufacturing and warehousing facility located on 23.5 acres of land in Torrance, California; this facility includes our corporate headquarters, West Coast showroom, and our West Coast distribution operations. To complement our Torrance-based operations, Virco owns three manufacturing and distribution facilities in Conway, Arkansas. The primary facility is located on 100 acres of land in Conway, Arkansas, containing 1,200,000 sq. ft. of manufacturing, warehousing, and office space. With high-density storage systems, 70 dock doors dedicated to outbound freight, and substantial yard capacity to store and stage trailers, this facility supports Virco's ability to handle increased sales during our peak summer delivery season and enhances the efficiency with which orders are filled. Virco also operates two other facilities in Conway. The first is a 375,000 sq. ft. factory - acquired in 1954 and expanded and modernized in subsequent years - where a variety of operations take place, including the manufacture of fabricated steel components, chrome plating, and plastic injection-molding; components generated here are transferred to other facilities for assembly into finished goods. The second is a 175,000 sq. ft. manufacturing facility where compression-molded hard plastic components are fabricated and stored. The Company occupied this building under a series of leases for approximately 20 years and purchased this facility in the third quarter of the fiscal year ended January 31, 2018.

New Products and Markets

Because the product needs and preferences of our customers continue to evolve - and in response to competitive furniture and equipment offerings from domestic and offshore suppliers - Virco maintains an active new product development program. We've worked with accomplished designers - such as Peter Glass and Bob Mills - to introduce exciting furniture and equipment solutions for contemporary applications. In addition to new product programs, our domestic factories allow the Company to respond to custom requests or modifications to existing product offerings made by our customers. Often these custom requests are incorporated into our product offering for all customers. Over the past three years, Virco has launched a substantial number of new products, including the products discussed below.

In the fiscal year ended January 31, 2018 ("fiscal" 2018"), Virco further expanded our product offerings to include products that broaden our solutions for technology, collaborative learning, higher education and multi-functional areas of the campus. The new 5700 Series Tables feature built-in wire management and were designed to support technology, training and media-savvy classrooms. Targeting higher-education, business and dining environments, our new Parison™ Series chairs offer an elegant and refined look in 4-leg, mobile and task chairs as well as stools. The Metonymy™ Series fits well in classrooms, commons, libraries and living spaces. With its highly functional and compact design, the Metonymy set offers flexible usage including a sturdy desk with padded seat and footrest as well as a step stool, podium or standing desk. Virco's 4000 and 5000 Series collaborative activity tables continue to fill the need for active, flexible spaces and we further broadened our line to include new shapes and sizes as well as a Floor Table Conversion Kit for the 4000 Series tables. The floor table provides a solution for allowing students to select flexible seating, including having a stable surface while sitting low to the ground.

Many of today's modern classrooms are focusing on creating more dynamic, active and flexible environments for their 21st Century learners. Virco has continued to innovate around its line of *Healthy Movement* furniture and introduced three new lines of flexible seating that take movement and choice to a new level. The *Room to Move* Collection was previewed at the EDspaces show in October 2017 and is based on the idea that today's classrooms are active, dynamic places where students are often given room to move - empowering them with choices of where to sit, how to sit and even when to sit. The *Floor Rocker* (available in Analogy, Sage and ZUMA styles) provides a safe, durable and ergonomic option for floor seating. The C2M (*Choose to Move*) 4-Leg Chair won the EDspaces Innovation in Seating Award and offers an empowering new twist on flexible seating with a patent-pending mode selector that allows the same chair to easily transform from fixed to active seating. Like the C2M chair, the R2M (*Room to Move*) Mobile Task Chair offers movement in all directions - front-to-back and side-to-side - as well as the mobility and adjustability of a task chair. All these products enable healthy movement and flexibility in the classroom while blending with existing Virco furniture.

In the fiscal year ended January 31, 2019 ("fiscal 2019"), Virco continued with the full launch of our *Room to Move* Collection, bringing our new *Floor Rockers* and C2M and R2M chairs to market, further supporting today's varied classroom and student needs. Adding additional comfort and design appeal to the *Floor Rocker* family, we introduced the Sage *Floor Rocker* with Padded Seat, now available in nine coordinating colors. Also new to our *Healthy Movement* seating is the Adjust-Right Stool.

Designed for use in one-on-one settings, this stool adapts to each user as they develop and strengthen their core and sense of balance. Understanding that collaboration and engagement take place beyond the walls of a classroom, Virco introduced the Plateau Series Media Tables. With collaborative environments in mind, these tables were designed to bring groups of people together in schools and the workplace. Featuring a TV mount for screens and built-in USB and Power Ports, students and colleagues can easily exchange ideas and share content. To address changing preferences and meet the needs of designers, Virco added to our robust color program by introducing two new soft plastic colors with vibrant, modern tones, Kelly Green and Lemon Yellow, as well as expanding our edge banding color offering for our 4000 and 5000 series tables. We also added new upholstery colors to complement our existing pallet.

For the fiscal year ended January 31, 2020 (“fiscal 2020”), we continued to refine and enhance our product lines to further address the needs of today’s modern classrooms. We extended our line of 5000 Series stand-up height activity tables broadening the selection for this option popular in flexible classrooms. To address the needs of lower elementary classrooms, adjustable-height low legs were introduced for the 5000 series activity tables as well. Providing color choices is also important to our customers. As such, we added additional colors to our edge banding offerings for our various table lines. Because mobility is essential in dynamic classrooms, we introduced our Tetra Series Student desk with casters. Keeping up with technology, we updated our power and data ports to better accommodate modern devices. Looking beyond our K-12 market, the Virco Tilt-Top Training Table provides a simple and effective solution to setting up and storing multi-use tables.

As of January 31, 2020, the Company employed approximately 825 full-time employees, manufacturing its products in 1.1 million square feet of fabrication facilities and 1.2 million square feet of assembly and warehousing facilities in Torrance, California and Conway, Arkansas. Additionally, the Company's PlanSCAPE® project management software allows its sales representatives to provide CAD layouts of classrooms, as well as classroom-by-classroom planning documents for the budgeting, acquisition and delivery of furniture, fixtures and equipment (“FF&E”).

In the past decade, due to budgetary constraints, many schools reduced or eliminated central warehouses, janitorial services, and professional purchasing functions. As a result, fewer school districts administer their own bids, and are more likely to use regional, state, or national contracts. A shift to site-based management combined with reductions in professional purchasing personnel has increased the reliance of schools on suppliers that provide for a variety of needs from one source rather than administering different vendor relationships for each item. In response to these changes, the Company has expanded both the products and the services it provides to its educational customers. Now, in addition to buying furniture FOB Factory, customers can purchase furniture for delivery to warehouses and school sites and can also purchase full-service furniture delivery that includes the delivery of the furniture in classrooms. Because the Company has been aggressively developing new furniture lines to enhance the range of products it manufactures - and by purchasing furniture and equipment from other companies for re-sale with Virco products - the Company is now able to provide “one-stop shopping” for all FF&E needs in our educational market.

The expansion of the Company's product line combined with the expansion of its services over the years has provided Virco with the ability to serve various markets including the education market (the Company's primary market), which is made up of public and private schools (preschool through 12th grade), junior and community colleges; four-year colleges and universities; and trade, technical and vocational schools. Virco also serves convention centers and arenas; the hospitality industry with respect to banquet and meeting facilities; government facilities at the federal, state, county and municipal levels; and places of worship. In addition, the Company also sells to wholesalers, distributors, internet and catalog retailers that serve these same markets.

Manufacturing and Distribution

Virco serves its customers through a well-trained, nationwide sales and support team. Virco's educational product line is marketed through an extensive direct sales force, as well as through a dealer network. In addition, Virco has a Corporate Sales Group to pursue international business wholesalers, mail order accounts and national chains. The Company also has an array of support services, including complete package solutions for the FF&E line item on school budgets; computer-assisted layout planning; transportation planning; and product delivery. Virco also now offers registered customers the ability to purchase products online through our shop.virco.com website.

Another important element of Virco's business model is the Company's emphasis on developing and maintaining key manufacturing, assembly, distribution, and service capabilities. For example, Virco has developed competencies in several manufacturing processes that are important to the markets the Company serves, such as finishing systems, plastic molding, metal fabrication and woodworking. Virco's physical facilities are designed to support its Assemble to Ship ("ATS") strategy. Warehouses have substantial staging areas combined with a large number of dock doors to support the seasonal peak in shipments during summer months.

During the last decade, many furniture manufacturers closed their domestic manufacturing facilities and began importing increasing quantities of furniture from international sources. During this same period, Virco elected to significantly reduce its work force, but retain its domestic factory locations. The Company believes that its domestic manufacturing capabilities are a significant strength. The Company has effectively used product selection, color selection, and dependable execution of delivery to customers to enhance its market position. With increasing costs from international sources and increasing freight costs, our factories are cost-competitive for bulky educational furniture and equipment items. The Company's ATS strategy allows for low-cube component parts to be sourced globally, with fabrication of bulky welded steel frames, wood tops, and larger molded-plastic components to be performed locally. Domestic production of laminated wood tops and molded plastic enables the Company to market a color palette that cannot be matched in a short delivery window by imported finished goods.

Domestic assembly allows the Company to use standard ATS components to assemble customer-specific product and color combinations shortly prior to delivery.

Finally, management continues to hone Virco's ability to finance, manufacture and warehouse furniture within the relatively narrow delivery window associated with the highly seasonal demand for education sales. In fiscal 2020 and 2019, approximately 50- 55% of the Company's total sales were delivered in June, July, and August. Shipments of furniture during peak weeks in July and August can be six times greater than in the seasonally slow winter months. Virco's substantial warehouse space allows the Company to build adequate inventories to service this narrow delivery window for the education market.

Principal Products

Virco produces the broadest line of furniture for the K-12 market of any manufacturer in the United States. By supplementing products manufactured by Virco with products from other manufacturers, Virco provides a comprehensive product assortment that covers substantially all products and price points that are traditionally included on the FF&E line item on a new school project or school budget. Virco also provides a variety of products for preschool markets and has developed products that are targeted for college, university, and corporate learning center environments. The Company has an ambitious and on-going product development program featuring products developed in-house as well as products developed with accomplished designers. The Company's primary furniture lines are constructed of tubular metal legs and frames, combined with wood and plastic tops, plastic seats and backs, upholstered seats and backs, and upholstered rigid polyethylene and polypropylene shells. Virco also has flat metal forming capabilities to enable the production of desks, returns, bookcases, filing cabinets, mobile pedestals and related items.

Virco's principal manufactured products include:

SEATING - Virco offers a full line of classroom seating in a variety of price points providing high value and quality across all types of seating, from traditional to modern solutions. The ergonomically supportive ZUMA® line designed by Peter Glass and Bob Mills was launched in 2004 and continues to show year-over-year growth. In addition to fixed-height 4-leg chairs, the ZUMA line includes cantilever chairs; tablet armchairs with a fixed or articulating work surface and a compact footprint; steel-frame rockers, and floor rockers. The Sage™ line, originally designed to serve students in college, university and other adult education settings - and on high school campuses - now offers a 13" and a 15" 4-leg chair and a corresponding pair of cantilever chairs for younger or smaller students; there's also a selection of Sage rockers for K-12 applications and several tablet arm units. Selected adult-height Sage models can also now be ordered with a padded, upholstered seat. The Analogy seating line includes fixed-height 4-leg chairs, cantilever chairs; tablet armchairs with a fixed or articulating work surface and a compact footprint; steel-frame rockers, and floor rockers. Other Virco seating choices include the Metaphor® Series - an updated sequel to Virco's best-selling Classic Series™ furniture with improvements in comfort, ergonomics, stackability, and manufacturing efficiencies. The Sage Contract line is targeted for offices and reception areas, colleges, hospitality venues and other adult environments. Virco expanded the Sage Contract line with the addition of a mobile tablet-arm workstation that includes an integrated bookrack to further penetrate the higher education market. Civitas™ chairs and stools are intended for foodservice, libraries, media centers, circulation areas, and related areas where people gather. Additional Virco seating alternatives range from 120, 121 and 122 Series stools to contoured I.Q.® Series classroom chairs by Richard Holbrook; comfortable, attractive Virtuoso® chairs by Charles Perry; and Analogy™ Series chairs by Peter Glass and Bob Mills. The N2 Series was designed by Virco as a comprehensive, ergonomic seating line that specifically caters to the budget conscious consumer. Classic Series™ stack chairs and Martest 21® hard plastic seating models are popular choices in schools across America. Along with this range of seating, Virco serves additional markets such as event venues and training spaces with a line of folding chairs and upholstered stack chairs, as well as additional plastic stack chairs and upholstered ergonomic chairs.

TABLES - Our broad collection of tables offer solutions for K-12 classrooms and multi-use areas across the entire campus as well as serving higher learning, event, training and administrative spaces. Our 4000 and 5000 Series Activity Tables provide a broad range of shapes, sizes and heights ideal for collaborative learning. Virco's TEXT® table collection for learning

environments - designed by Peter Glass and Bob Mills- features heavy-gauge tubular steel and proven Virco construction for extended product life, and elliptical legs, swooping yokes and arched feet for exceptional elegance. Selected TEXT models can be equipped with a variety of technology-support and storage accessories. TEXT Tilt-Top Height Adjustable Table further expand Virco's reach into the seminar, training room, and higher education markets by enhancing the functionality and flexibility of the table while strengthening the Virco and TEXT brands. The Tetra™ Series is a versatile collection of tables and student desks suitable for various environments. From classrooms to open-office spaces, the Tetra is simple enough to serve as an everyday workstation but can be customized to suit the needs of a fast-paced computer lab or seminar training room. Lunada® tables, combining Virco's popular Lunada bi-point bases with a selection of 20 top sizes, make great choices for seminar, conference and related settings. Designed for Virco by Peter Glass, Plateau® tables bring exceptional versatility, sturdy construction and great styling to working and learning environments. For durable, easy-to-use lightweight folding tables, Virco's Core-a-Gator® models are unsurpassed. When paired with attractive, durable Virco cafe tops, Lunada bases by Peter Glass provide eye-catching table solutions for hospitality settings. Civitas tops and bases provide excellent furniture solutions for casual spaces where people gather. Virco's Makerspace tables are designed specifically for hands-on learning environments most commonly found in vocational classes, makerspace areas and STEM / STEAM centered education. Virco also carries traditional folding tables, CT Series tables with a hand crank mechanism for top height adjustment, and office tables, as well as the computer tables and mobile tables described below.

COMPUTER FURNITURE - The TEXT and Tetra Series table collections described in the preceding paragraph provides an array of computer furniture choices for learning or business environments; Virco's Flip-Top Technology tables and HWT (Hinged Wire Trough) Technology tables also deliver popular computer furniture solutions. Future Access® computer tables come with an integral wire management panel and all rectangular models have a smooth post-formed front and rear edge. Like our Future Access models, 8700 Series computer tables can be equipped with Virco's functional computing accessories, such as keyboard mouse trays, CPU holders and support columns for optional elevated shelves. To address the demand for collaborative solutions in a computer lab environment, Virco added the Quarter Round 8700 Series Computer Table that allows multiple tables to be grouped together while maintaining a technology-based environment. The 5700 Series features the thick profile leg of the 5000 Series with integrated technology for a modern look. The Plateau Office Solutions collection offers desks and workstations with technology-support capabilities, while the Plateau Library/Technology Solutions line has specialty tables and other products for computing applications. Virco offers Instructor Media Stations and Towers that include several options for media storage and presentation.

DESKS/CHAIR DESKS - From the ergonomic and collaborative-learning strengths of our best-selling ZUMA® student desks to the continuing popularity of our traditional Classic Series™ chair desks and combo units, Virco's wide-ranging furniture models can be found in thousands of America's schools. To expand on the popularity of the 785 Student Desk, Virco added a Collaborative Top work surface as an option on all 785 desk models, which facilitates convenient grouping of desks for break-out sessions and classroom collaboration. The Sage Contract saw the addition of an optional bookrack, which combined with the tablet arm and caster options, creates a complete mobile workstation for a variety of environments. The Molecule is a student desk with a unique shaped collaborative work surface that can be used by a single student or grouped together with multiple Molecules to create various arrangements and group settings. Related products include an array of tablet arm units, new Agile Combo models and new Analogy™ Series combo chair desks. Selected models are available with durable, colorfast Martest 21® or Fortified Recycled Wood™ hard plastic components. For teachers, principals and district administrators - and for business environments - Virco offers an extensive range of Parameter® desks, returns and credenzas designed by Peter Glass and Bob Mills. Textameter™ mobile workstations provide additional furniture choices for educators.

ADMINISTRATIVE OFFICE FURNITURE - In addition to the Plateau® Office Solutions, Parameter®, and Textameter™ product lines, Virco manufactures a selection of desks, returns, bookcases and other items that employ the Company's flat metal forming capabilities. These products include 53 Series steel storage cabinets, an expanded range of 53 Series lateral files, and special versions of 543 and 546 Series desks with wire management capabilities. Other products range from 53 Series wardrobe tower cabinets and Parameter file credenzas to Parameter mobile pedestals and Plateau bookcases in popular 36" wide and 48" wide models that work in classroom settings and related educational environments as well as administrative offices.

LABORATORY FURNITURE - For biology and chemistry classes, and other school- and college-based lab settings, Virco offers a variety of steel-based science tables. Virco manufactures the table bases of these items and equips them with specialty Chemsurf® and epoxy resin tops. Virco's ZUMA®, Sage™, Analogy™, N2, Telos®, Metaphor®, I.Q.®, Classic Series™, and 3000 Series collections include pneumatically adjustable lab stools with high-range seat-height adjustment and a steel foot-ring. Virco also carries a selection of wood-frame science tables with Chemsurf and epoxy resin tops.

MOBILE FURNITURE - Cafeterias are perfect venues for the ever-popular Virco mobile tables - including a selection of oval mobile tables with attached benches or stools - while classrooms benefit from the spacious storage capacity of Virco mobile cabinets; additional mobile cabinet models with a magnetic marker back are available. ADA compliant Mobile Bench & Stool

Tables were also introduced to the Virco line of mobile products to expand on our wheelchair accessible solutions. An array of Virco product lines includes mobile chairs for school settings and offices.

STORAGE EQUIPMENT - For moving selected Virco chairs and folding tables, the Company carries a wide range of handling and storage equipment. For our convention center, arena, and auditorium customers, Virco also manufactures stackable storage trucks that work with Virco upholstered stack chairs, folding chairs and folding tables.

Virco's wide-ranging product selection includes hundreds of furniture models that are certified the Greenguard® Children & Schools Program for indoor air quality. Virco's ZUMA and ZUMAFrd™ products earned the distinction of being the first classroom furniture models to be certified by the Greenguard Children & Schools Program, now known as Greenguard Gold certification. All of the models in the Company's most recently introduced product lines - including Analogy™ furniture models and Textameter™ instructor workstations - are Greenguard-certified. Along with Virco's leadership relative to Greenguard-certified furniture, the Company also introduced the classroom furniture industry's first Take-Back program in, enabling qualifying schools, colleges, universities, and other organizations and customers to return selected out-of-service furniture components for recycling rather than sending these items to a landfill.

To provide a comprehensive product offering for the education market, the Company supplements Virco-manufactured products with items purchased for re-sale, including wood and steel office furniture, early learning products for pre-school and kindergarten classrooms, science laboratory furniture, and library tables, chairs and equipment. Virco now offers customized, space-efficient workstations by Interior Concepts™ for technology and language labs, media centers, computer classrooms, reception areas and offices. Interior Concepts is one of the many vendors with which the Company partners to effectively position Virco as the preferred one-stop furniture and equipment source for K-12 schools. None of the products from vendor partners accounted for more than 10% of consolidated net sales in fiscal 2020.

To complement Virco's extensive selection of furniture and equipment, we offer customers a variety of valuable services in connection with the purchase of Virco products; revenues from these service levels are included in the purchase price of the furniture items. In addition to giving customers the option of purchasing Virco products and making their own delivery arrangements, Virco provides three levels of delivery service. When customers choose Standard Delivery - also known as tailgate delivery - the delivery driver is responsible for moving the customer's goods to the tailgate of the truck only; therefore, the customer must have personnel on hand to unload the truck. Virco also offers Inside Delivery (to an inside location), or Full-Service Delivery (delivered and placed in the classroom).

Customers

Virco's major customers include educational institutions, convention centers and arenas, hospitality providers, government facilities, and places of worship. No customer accounted for more than 10% of Virco's consolidated revenues during fiscal 2020 and 2019.

Raw Materials

Virco purchases steel, aluminum, plastic, polyurethane, polyethylene, polypropylene, plywood, particleboard, medium density fiberboard ("MDF"), cartons and other raw materials from many different sources for the manufacture of its principal products. Management believes the Company is not more vulnerable with respect to the sources and availability of these raw materials than other manufacturers of similar products. The Company's largest raw material cost is for steel, followed by plastics and wood.

The price of these commodities, particularly steel and plastic, can be volatile. Historically the Company has experienced years where the price of steel, plastic, and wood have spiked significantly; often because of global demand or tariffs on international supply but also in response to domestic supply interruptions. In fiscal 2020, the Company incurred a 15% increase in tariffs related to components sourced from China. Other than the tariffs on these products, the cost of commodities was stable, and in some cases decreased slightly. In fiscal 2019, the Company was significantly affected by cost increases in commodities. In the third quarter of fiscal 2019, a 10% tariff on steel was enacted by the federal government. While Virco sources most of its steel domestically, domestic prices increased concurrently with the effective date of the tariff on foreign steel. In addition to increased steel costs, the Company incurred a 10% increase in the cost of certain plastics and an 8% increase in the cost of cartons.

In addition to the raw materials described above, the Company purchases components used in the fabrication and assembly of furniture from a variety of overseas locations, primarily from China, and certain components from domestic suppliers. These components are classified as raw materials in the financial statements until such time that the components are consumed in a fabrication or assembly processes. These components are sourced from a variety of factories, none of which are owned or operated by the Company. Costs for these imported components increased by approximately 10% in July 2018, and these

components were subject to an additional 10% tariff in October 2018. Costs for these components further increased by approximately 15% due to increased tariffs during second quarter ended July 2019.

The supply chain for components from China is typically interrupted for a short period of time each year during the Chinese New Year in January or February. As this is in a seasonally slow period of the Company's business cycle and is predictable, it has not created supply chain disruptions. In 2020 the COVID-19 pandemic caused several weeks of additional supply chain disruption following the 2020 Chinese New Year. Starting in April 2020, our sources in China have been operating at a capacity level adequate to supply our requirements, and as the entire period of disruption occurred in our slow season, the Company was not materially affected. However, there can be no assurance that our suppliers in China will not experience material disruptions in the future, whether due to COVID-19 or otherwise. In addition, our domestic suppliers of components, services and consumables used in the manufacturing process have been disrupted due to COVID-19 and may continue to be disrupted, which could result in a slowdown of our manufacturing processes and result in increased costs to us.

With respect to the Company's annual pricing contracts (or those contracts that have longer terms), the Company may have limited ability to increase prices during the term of the contract. The Company has, however, negotiated increased flexibility under many of these contracts, allowing the Company to increase prices on future orders. Nevertheless, even with respect to these more flexible contracts, the Company does not have the ability to increase prices on orders received prior to any announced price increases in commodities. Due to the intensely seasonal nature of our business, the Company may receive significant orders during the first and second quarters for delivery in the second and third quarters of its fiscal year. With respect to any of the contracts described above, if the costs of raw materials increase suddenly or unexpectedly, the Company cannot be certain that it will be able to implement corresponding increases in its sales prices to offset such increased costs. Significant cost increases in providing products during a given contract period can adversely impact operating results and have done so during prior years. The Company typically benefits from any decreases in raw material costs under the contracts described above.

Marketing and Distribution

Virco serves its customers through a well-trained, nationwide sales and support team, as well as a dealer network. In addition, Virco has a Corporate Sales Group to pursue international sales, wholesalers, mail order accounts and national chains where management believes it would be more efficient to have a single sales representative or group approach, as they tend to have needs that transcend the geographic boundaries established for Virco's local accounts.

Virco's educational product line is marketed through what management believes to be the largest direct sales force of any education furniture manufacturer. The Company's approach to servicing its customer base is very flexible and is tailored to best meet the needs of individual customers and regions. When considered to be most efficient, the sales force will call directly upon school business officials, who may include purchasing agents or individual school principals where site-based management is practiced. Where it is considered advantageous, the Company will use large exclusive distributors and full-service dealer partners. The Company's direct sales force is considered to be an important competitive advantage over competitors who rely primarily upon dealer networks for distribution of their products.

Virco's sales force is assisted by the Company's proprietary PlanSCAPE® software and experienced PlanSCAPE support team when preparing complete package solutions for the FF&E segment of bond-funded public-school construction projects. PlanSCAPE software also enables the entire Virco sales force to prepare quotations for less complicated projects.

A significant portion of Virco's business is awarded through annual bids with school districts or other buying groups used by school districts. These bids are typically valid for one year. Many contracts contain penalty, performance, and debarment provisions that can result in debarment for several years, a financial penalty, or calling of performance bonds.

Sales of commercial and contract furniture are made throughout the United States by distributorships and by Company sales representatives who service the distributorship network. Virco representatives call directly upon state and local governments, convention centers, individual hospitality venues, and places of worship. This market includes colleges and universities, preschools, private schools, and office training facilities, which typically purchase furniture through commercial channels.

The Company sells to thousands of customers, and, as such no single customer represented more than 10 percent of the Company's consolidated net sales in fiscal 2020. Significant purchases of furniture using public funds often require annual bids or some form of "authorization" to purchase goods or services from a vendor. This authorization can include state contracts, local and national buying groups, or local school districts that "piggyback" on the bid of a larger district. In virtually all cases, purchase orders and payments are processed by the individual school districts, even though the contract pricing may be determined by a state contract, national or local buying group, or consortium of school districts. Schools usually can purchase from more than one contract or purchasing vehicle if they are participants in buying groups as well as being eligible for a state or national contract.

Virco is the exclusive supplier of movable classroom furniture for one nationwide purchasing organization under which many of our customers price their furniture. See “**Item 1A. Risk Factors: *Approximately 60% to 70% of our sales are priced through one contract, under which we are the exclusive supplier of classroom furniture.***” Sales priced under this contract represented approximately 66% of sales in fiscal 2020 and 61% of sales in fiscal 2019. We have had a history of contracts with the purchasing organization and was most recently awarded in fiscal 2018, a five-year contract with this organization that extends through December 2022, with two two-year extensions extending through 2026. If Virco were unable to sell under this contract, we believe we would be able to sell to the vast majority of our customers under alternative contracts.

The Company’s education customers typically do not have logistic capabilities and more than 75% of sales are FOB destination and include freight to customer. 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. Approximately 90% of the Company’s freight is supplied by third-party carriers. Utilizing third-party carriers is an effective method of addressing the significant seasonal peak in summer and moderating excess capacity issues in the slow season. Reliance on third-party carriers can expose the Company to freight rate volatility, fuel surcharges, and to capacity constraints in the transportation industry. Historically, the Company has been able to obtain adequate capacity from freight vendors to service the summer season.

Seasonality

The educational sales market is extremely seasonal. Approximately 53% of net sales in fiscal 2020 and 52% of net sales in fiscal 2019 were delivered in June, July and August. Shipments during peak weeks in July and August can be as great as six times the level of shipments in the winter months.

Working Capital Requirements During Our “Peak” Summer Season

As discussed above, the market for educational furniture and equipment is marked by extreme seasonality, with the majority of shipments occurring from June to August each year, which is the Company's peak season. Because of this seasonality, Virco builds and carries significant amounts of inventory during the peak summer season to facilitate the rapid delivery requirements of customers in the educational market. This requires a large up-front investment in raw materials and components, 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, Virco has historically relied on bank financing to meet cash flow requirements during the build-up period immediately preceding the peak season. Currently, the Company has a line of credit with PNC Bank to assist in meeting cash flow requirements as inventory is built for, and business is transacted during the peak summer season.

In addition, Virco typically is faced with a large balance of accounts receivable during the peak season. This occurs for three primary reasons. First, accounts receivable balances naturally increase during the peak season as product shipments increase. Second, many customers during this period are government institutions, which tend to pay accounts receivable more slowly than commercial customers. Third, many summer deliveries may be “projects” where the Company provides furniture for a new school or significant refurbishment of an existing school. Projects may require architect sign off, school board approval prior to payment, or punch list completion, all of which can delay payment. Virco has historically enjoyed high levels of collectability on these accounts receivable due to the low-credit risk associated with such customers. Nevertheless, due to the time differential between inventory build-up in anticipation of the peak season and the collection on accounts receivable throughout the peak season, the Company must rely on external sources of financing.

As a result of the seasonality of our business, our manufacturing capacity is dictated by the capacity requirement during the months of June, July and August. Because of this seasonality, factory utilization is lower during the slow season. The Company utilizes a variety of tactics to address this seasonal business. During the summer months, which comprise our second and third fiscal quarters, our full-time personnel utilization generally is at or exceeds full capacity. The Company utilizes temporary labor and significant overtime to meet these seasonal requirements. During the slow portions of the year, temporary labor and overtime are eliminated to moderate the off-season costs. Our manufacturing facility capacity utilization generally remains less than 100% during these off-season months; because physical structure capacity cannot be adjusted as readily as personnel capacity, we have secured sufficient physical structure capacity to accommodate our current needs as well as for anticipated future growth. Our physical structure utilization is significantly lower during the first and fourth quarters of each year than it is during the second and third quarters.

The Company utilizes a comparable strategy to address warehousing and distribution requirements. During summer months, temporary labor is hired to supplement experienced warehouse and distribution personnel. More than 90% of the Company's freight is provided by third-party carriers. Utilizing third-party carriers is an effective method of addressing the significant seasonal peak in summer and moderating excess capacity issues in the slow season. Reliance on third-party carriers can expose the Company to freight rate volatility, fuel surcharges, and to capacity constraints in the transportation industry. The Company has secured sufficient warehouse capacity to accommodate our current needs as well as anticipated future growth.

Virco'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. For example, management expends a significant amount of time in the first quarter of each year developing a stocking plan and estimating the number of temporary summer employees, the amount of raw materials, and the types of components and products that will be required during the peak season. If management underestimates any of these requirements, Virco's ability to meet customer orders in a timely manner or to provide adequate customer service may be diminished. If management overestimates any of these requirements, the Company may have to absorb higher storage, labor and related costs, each of which may negatively affect the Company's results of operations. On an on-going basis, management evaluates and adjusts its estimates, including those related to market demand, labor costs, and stocking inventory. Moreover, management continually strives to improve its ability to correctly forecast the requirements of the Company's business during the peak season each year based in part on annual contracts which are in place and management's experience with respect to the market.

As part of Virco's efforts to balance seasonality, financial performance and quality without sacrificing service or market share, management has been refining the Company's ATS operating model. ATS is Virco's version of mass-customization, which assembles standardized, stocked components into customized configurations before shipment. The ATS program reduces the total amount of inventory and working capital needed to support a given level of sales. It does this by increasing the inventory's versatility, delaying assembly until the customer's specific product and color requests are identified, and reducing the amount of warehouse space needed to store finished goods. As part of the ATS stocking program, Virco has endeavored to create a more flexible work force. The Company has developed compensation programs to reward employees who are willing to move from fabrication to assembly to the warehouse as seasonal demands evolve.

Other Matters

Competition

Virco has numerous competitors in each of its markets. In the educational furniture market, Virco manufactures furniture and sells direct to educational customers. Competitors typically fall into two categories (1) furniture manufacturers that sell to dealers which re-sell furniture to the end user, and (2) dealers that purchase product from these manufacturers and re-sell to educational customers. The manufacturers that Virco competes with include Artco-Bell, KI Inc., Smith System (owned by Steelcase), V/S America, Scholarcraft, Academia, Alumni, Columbia, Paragon, SICO, and Hon ("HNI"). Our competitors that purchase and re-sells furniture include School Outfitters, School Specialty ("SCHS"), MeTEOR (formerly Contrax), and Hertz. There are numerous catalogers, internet resellers, and smaller local education furniture dealers that sell into local markets. Competitors in contract and hospitality furniture vary depending upon the specific product line or sales market and include Falcon Products, National Public Seating, MTS and Mity Enterprises, Inc.

The educational furniture market is characterized by price competition, as many sales occur on a bid basis. Management compensates for this market characteristic through a combination of methods that include emphasizing the value of Virco's products and product assortment, the convenience of one-stop shopping for "Equipment for Educators™", the value of Virco's project management capabilities, the value of Virco's distribution and delivery capabilities, and the value of Virco's customer support capabilities and other intangibles. In addition, management believes that the streamlining of costs assists the Company in compensating for this market characteristic by allowing Virco to offer a higher value product at a lower price. For example, as discussed above, Virco has decreased distribution costs by avoiding re-sellers, and management believes that the Company's large direct sales force and the Company's sizeable manufacturing and warehousing capabilities facilitate these efforts. Although management prefers to compete on the value of Virco products and services, when market conditions warrant, the Company will compete based on direct prices and may reduce its prices to build or maintain its market share.

Backlog

Sales order backlog at January 31, 2020, totaled approximately \$20.7 million and approximated eight weeks of sales, compared to \$21.4 million at January 31, 2019. Substantially all of the backlog will ship during the fiscal year ending January 31, 2021.

Patents and Trademarks

In the last 15 years, the United States Patent and Trademark Office ("USPTO") has issued to Virco more than 50 patents on its various new product lines. These patents cover various design and utility features in Ph.D.® chairs, I.Q.® Series furniture, the ZUMAFrd™ family of products, and the ZUMA® family of products, among others.

Virco has a number of other design and utility patents in the United States and other countries that provide protection for Virco's intellectual property as well. These patents expire over the next one to 19 years. Virco maintains an active program to protect its investment in technology and patents by monitoring and enforcing its intellectual property rights. While Virco's patents are an important element of its success, Virco's business as a whole is not believed to be materially dependent on any

one patent. See “**Item 1A. Risk Factors: An inability to protect our intellectual property could have a significant impact on our business.**”

To distinguish genuine Virco products from competitors' products, Virco has obtained the rights to certain trademarks and trade names for its products and engages in advertising and sales campaigns to promote its brands and to identify genuine Virco products. While Virco's trademarks and trade names play an important role in its success, Virco's business as a whole is not believed to be materially dependent on any one trademark or trade name, except perhaps “Virco,” which the Company has protected and enhanced as an emblem of quality educational furniture for over 70 years.

Virco has no franchises or concessions that are considered to be of material importance to the conduct of its business and has not appraised or established a value for its patents or trademarks.

Employees

As of January 31, 2020, Virco and its subsidiaries employed approximately 825 full-time employees across our facilities. Of this number, approximately 645 are involved in manufacturing and distribution, approximately 115 in sales and marketing and approximately 65 in administration. The Company also utilizes temporary workers as necessary to meet seasonal production, warehousing or distribution requirements that cannot be filled by its full-time workforce. During 2020, the Company employed a range of 200 - 300 temporary workers during the months of May, June, and July, with smaller numbers immediately preceding and following these months.

Environmental Compliance

Virco is subject to numerous federal, state and local environmental laws and regulations in the various jurisdictions in which it operates that (a) govern operations that may have adverse environmental effects, such as the discharge of materials into the environment, as well as handling, storage, transportation and disposal practices for solid and hazardous wastes, and (b) impose liability for response costs and certain damages resulting from past and current spills, disposals or other releases of hazardous materials. In this context, Virco works diligently to remain in compliance with all such environmental laws and regulations as these affect the Company's operations. Moreover, Virco has enacted policies for recycling and resource recovery that have earned repeated commendations, including: recognition by the California Department of Resources Recycling and Recovery ("CalRecycle") in 2012 and 2011 as a Waste Reduction Awards Program (WRAP) honoree; recognition by the United States Environmental Protection Agency in 2004 as a WasteWise Hall of Fame Charter Member, in 2003 as a WasteWise Partner of the Year and in 2002 as a WasteWise Program Champion for Large Businesses; and recognition by the Sanitation Districts of Los Angeles County for compliance with industrial waste water discharge guidelines in 2008 through 2011. In addition to these awards and commendations, Virco's ZUMA® and ZUMAFrd™ product lines were the first classroom furniture collections to earn indoor air quality certification through the stringent GREENGUARD® Children & Schools Program, now known as Greenguard Gold certification. As a follow-up to the certification of ZUMA and ZUMAFrd models in 2006, hundreds of other Virco furniture items - including Analogy™ furniture models and Textameter™ instructor workstations - have earned GREENGUARD certification. Moreover, all Virco products covered by the Consumer Product Safety Improvement Act of 2008 are in compliance with this legislation. All affected Virco models are also in compliance with the California Air Resources Board rule and Toxic Substances Control Act rule concerning formaldehyde emissions from composite wood products. Environmental laws have changed rapidly in recent years, and Virco may be subject to more stringent environmental laws in the future. The Company has expended, and may be expected to continue to expend, significant amounts in the future for compliance with environmental rules and regulations, for the investigation of environmental conditions, for the installation of environmental control equipment, or remediation of environmental contamination. Normal recurring expenses relating to operating our factories in a manner that meets or exceeds environmental laws are matched to the cost of producing inventory. It is possible that the Company's operations may result in noncompliance with, or liability for remediation pursuant to, environmental laws. Should such eventualities occur, the Company records liabilities for remediation costs when remediation costs are probable and can be reasonably estimated. See **Item 1A. Risk Factors: We could be required to incur substantial costs to comply with environmental requirements.** Violations of, and liabilities under, environmental laws and regulations may increase our costs or require us to change our business practices.

Financial Information About Industry Segment and Geographic Areas

Virco operates in a single industry segment. For information regarding the Company's revenues, gross profit and total assets for each of the last two fiscal years, see the Company's consolidated financial statements.

During fiscal 2020, Virco derived approximately 6.4% of its revenues from customers located outside of the United States (primarily Canada).

During fiscal 2019, Virco derived approximately 6.7% of its revenues from customers located outside of the United States (primarily Canada).

The Company determines sales to these markets based upon the customers' principal place of business.

During fiscal 2020 and 2019, the Company did not have any long-lived assets outside of the United States.

Executive Officers of the Registrant

As of April 1, 2020, the executive officers of the Company, who are elected by and serve at the discretion of the Company's Board of Directors, were as follows:

<u>Name</u>	<u>Office</u>	<u>Age at January 31, 2020</u>	<u>Has Held Office Since</u>
Robert A. Virtue (1)	Chairman of the Board and Chief Executive Officer	87	1990
Douglas A. Virtue (2)	President	61	2014
Robert E. Dose (3)	Senior Vice President - Chief Financial Officer, Secretary and Treasurer	63	1995

- (1) Appointed Chairman in 1990; has been employed by the Company for 63 years and served as the President from 1982 until 2014 and Chief Executive Officer since 1988.
- (2) Appointed President in 2014; has been employed by the Company for 34 years and has served in Production Control, as Contract Administrator, as Manager of Marketing Services, as General Manager of the Torrance Division, as Corporate Executive Vice President and currently as President.
- (3) Appointed in 1995; has been employed by the Company for 29 years and has served as the Corporate Controller, and currently as Senior Vice President of Finance, Secretary and Treasurer.

None of the Company's executive officers have written employment contracts.

Available Information

Virco files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Stockholders may also obtain copies of this information by mail from the Public Reference Room at the address set forth above, at prescribed rates.

The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers like Virco who file electronically with the SEC. The address of that site is www.sec.gov.

In addition, Virco makes available to its stockholders, free of charge through its Internet website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed, or furnished pursuant to, Section 13(a) or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act"), as soon as reasonably practicable after Virco electronically files such material with, or furnishes it to, the SEC. The address of that site is www.virco.com

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also adversely affect our business, operating results, cash flows and financial condition. If any of the following risks actually occur, our business, operating results, cash flows and financial condition could be materially adversely affected.

The current health pandemic from the novel coronavirus (COVID-19) has adversely affected our operations and may have material adverse effects on our future business, financial condition and results of operations.

The COVID-19 pandemic has had an immediate impact on the Company's operating activities. In March 2020, most school districts that we serve have closed their doors to students and initiated remote learning.

Virco has determined that the Company is considered to be an essential manufacturer under the California public health order issued in March 2020, and with the exception of a six-day closure of our Torrance operations, all facilities in California and Arkansas have been operating. While the Company is considered to be an essential manufacturer, not all of our domestic suppliers meet this criterion, and the Company may experience supply chain challenges from domestic suppliers depending upon the length and severity of state and local orders to shelter in place in California. In addition, there can be no assurance that our suppliers in China will not experience material disruptions in the future, whether due to COVID-19 or otherwise. The Company believes that it is not more subject to supply chain disruptions than our competitors and is substantially less dependent upon a supply chain extending to China than many competitors in the industry.

Our sales force has been working remotely as of the date of this Annual Report, and as a general matter only physically calls on school sites when specifically invited by the district. Most school districts in the United States have closed campuses to students, and it is anticipated that many schools will remain closed for the remainder of the 2019-2020 academic year. Although schools are currently closed to instruction, district business officials are typically operating, frequently from home offices. Transactional sales of consumable supplies and smaller orders of furniture were immediately and severely impacted by the school closing and are not expected to recover until schools reopen. In addition, new school construction and renovation may be delayed due to COVID-19, although the Company is not aware of any projects scheduled for this summer that have been cancelled. With no students on campus, many school facilities may accept deliveries of furniture that otherwise may have been deferred to later dates.

The COVID-19 pandemic has materially adversely impacted the U.S. economy and the education system and is expected to continue to do so for at least the next fiscal year. The education system and education budgets are typically highly dependent on state and local tax revenues. The severity of this pandemic will materially adversely impact state and local tax revenues and result in changes in spending priorities for state and local governments, which will likely have a material adverse effect on future school budgets. The loss of state and local revenues may be substantially or partially offset by federal programs providing assistance to state governments, local governments and schools, although there can be no assurance that any federal funds could be used for capital expenditures or that the level of federal funding, if any, will be sufficient to maintain our historic order rates for school furniture. In addition, there can be no assurance that school systems in the United States will reopen or resume normal operations for the 2020-2021 academic year.

These events, among others, related to the COVID-19 pandemic could cause demand for our products to decline and competitive pricing pressures to increase, any of which would likely have a material adverse effect to our business, operating results, cash flows and financial condition.

Our product sales are significantly affected by education funding, which is a function of tax revenues and general economic conditions. If the economy weakens, funding for education may fail to improve or decrease, which would adversely affect our business and results of operations.

Our sales are significantly impacted by the level of education funding primarily in North America, which, in turn is a function of the general economic environment. In a weak economy, state and local tax revenues for many of our customers are flat or decline, restricting funding for K-12 education spending, which typically leads to a decrease in demand for school furniture. Sustained declines in the per-student funding levels provided for in state and local budgets in the future could have a materially adverse impact on our business, financial condition and results of operations as they have in the past.

In addition, medical pandemics including COVID-19, geopolitical uncertainties, terrorist attacks, acts of war, natural disasters, increases in energy and other costs or combinations of such factors and other factors that are outside of our control could at any time have a significant effect on the economy, which in turn would affect government revenues and allocations of government spending. The occurrence of any of these or similar events in the future could cause demand for our products to decline or competitive pricing pressures to increase, any of which would likely adversely affect our business, operating results, cash flows and financial condition.

Gaps in state budgets may adversely affect our revenue and results of operations.

Virtually all states are required to balance their operating budgets either on an annual or biannual basis. Unlike the federal government, states cannot maintain services during an economic downturn by running a deficit. Many states are adversely impacted by underfunded retirement and health insurance obligations and face competing requests for available funding. Tax revenues and other state funds may be allocated to underfunded benefit obligations instead of education. If states in which we do business cut spending for education to address such budgetary shortfalls or for other reasons including the potential impact of COVID-19 funding, our sales in those states will likely decline and our revenue and results of operations will be adversely affected.

Reduced levels of spending on education may significantly impact spending on furniture and increase price competition in the furniture market. If price competition increases, we may need to reduce our prices to build or maintain our market share, which in turn could lower our profit margins.

The educational furniture market is characterized by price competition, as many sales occur on a bid basis and are based on demand related to educational funding available to schools. When funding for education declines, schools typically reduce spending on all budget line items prior to reducing teacher and administrator salaries and benefits. This in turn can result in reduced demand for school furniture, which in turn can intensify price competition in our industry. This price competition could impact our ability to implement price increases or, in some cases, such as during an industry downturn, maintain prices. In addition, when market conditions warrant, we may need to reduce prices to build or maintain our market share. If we are unable to increase or maintain prices for our products, our profit margins could decline. Such decline will be compounded to the extent we are unable to maintain or reduce the cost of our products, which may be especially difficult in the current environment given the volatility of the commodities markets.

Our efforts to introduce new products that meet customer requirements may not be successful, which could limit our sales growth or cause our sales to decline.

To keep pace with industry trends, such as changes in education curriculum and increases in the use of technology, and with evolving regulatory and industry requirements, including environmental, health, safety and other standards for the education environment and for product performance, we must periodically introduce new products or modify existing ones. The introduction of new or modification of existing products requires the coordination of the design, manufacturing and marketing of such products, which may be affected by factors beyond our control. The design and engineering of certain of our new products can take a year or more, and further time may be required to achieve customer acceptance. Accordingly, the launch of any product may be later or less successful than we originally anticipated. Additionally, our competitors may develop new product designs that achieve a high level of customer acceptance, which could give them a competitive advantage over us in making future sales. Difficulties or delays in introducing new or modified products or lack of customer acceptance of such products could limit our sales growth or cause our sales to decline.

The majority of our sales are generated under annual contracts, which combined with the seasonal nature of our business, may limit our ability to raise prices on a timely basis during a given year in response to increases in costs.

We commit to annual contracts that determine selling prices for goods and services for periods of one year, and occasionally longer. Though the Company has negotiated increased flexibility under many of these contracts that may allow the Company to increase prices on future orders, the Company does not have the ability to raise prices on orders received prior to any announced price increase. Due to the intensely seasonal nature of our business, the Company may receive significant orders during the first and second quarters for delivery in the second and third quarters. With respect to any of the contracts described above, if the costs of providing our products or services increase between the date the orders are received and the shipping date, we will likely not be able to implement corresponding increases in our sales prices for such products or services to offset the related increased costs. Significant cost increases in providing either the services or products during a given contract period could therefore lower our profit margins.

We depend on outside suppliers who may be unable to meet our volume and quality requirements, and we may be unable to obtain alternative sources.

We require substantial amounts of raw materials and components to manufacture our products, which we purchase from outside sources. Materials comprised our single largest total cost. Contracts with most of our suppliers are short-term. These suppliers may not continue to provide raw materials and components to us at attractive prices, or at all, and we may not be able to obtain the raw materials we need in the future from these or other providers on the scale and within the time frames we require. In a deteriorating economic environment, including the current economic disruption caused by COVID-19, many of the Company's suppliers may experience difficulty obtaining financing and may go out of business. The Company may have difficulty replacing these suppliers, especially if the supplier fails as the Company is entering the seasonal summer shipping season. Moreover, we do not carry significant inventories of raw materials, components or finished goods that could mitigate an interruption or delay in the availability of raw materials and components. In addition, because we purchase components from international sources, primarily China, we are subject to tariffs, fluctuations in currency exchange rates as well as the impact of natural disasters, war and other factors that may disrupt the transportation systems, ports, or shipping lines used by our suppliers, and other uncontrollable factors such as changes in foreign regulation or economic conditions. Any failure to obtain raw materials and components on a timely basis, or any significant delays or interruptions in the supply of raw materials, could prevent us from being able to manufacture products ordered by our customers in a timely fashion, which could have a negative impact on our reputation and could cause our sales to decline.

Increases in basic commodity, raw material and component costs could adversely affect our profitability.

Fluctuations in the price, availability and quality of the commodities, raw materials and components used in manufacturing our products could have an adverse effect on our costs of sales, profitability and our ability to meet customers' demand. The price of commodities, raw materials and components, including steel and plastics, our largest raw material categories, have been volatile in prior years, and the cost, quality and availability of such commodities have been significantly affected in recent years by, among other things, changes in global supply and demand, changes in laws and regulations (including tariffs and duties), changes in exchange rates and worldwide price levels, natural disasters, public health issues such as the current COVID-19 pandemic (or other future pandemics), labor disputes, terrorism and political unrest or instability. These factors could lead to further price increases or supply interruptions in the future. As discussed above, in the short term, rapid changes in raw material costs can be very difficult for us to offset with price increases because, in the case of many of our contracts, we have committed to selling prices for goods and services for periods of one year, and occasionally longer. Our profit margins could be adversely affected if commodity, raw material and component costs remain high or escalate further, and, we are unable to pass along a portion of the higher costs to our customers.

In fiscal 2020, the Company incurred a 15% increase in tariffs on product imported from China. Other than the increased tariffs, commodity costs were stable, and in some cases slightly reduced.

The Company has increased list prices for its products in fiscal 2021 in an effort to recover all reasonable anticipated increases in material costs.

We are affected by the cost of petroleum-based products and increases in petroleum prices could reduce our margins and profits.

The profitability of our operations is sensitive to the cost of fuel, which materially affects our transportation costs, the costs of petroleum-based materials (like plastics) and the costs of energy (including electricity and natural gas) used in operating our manufacturing facilities. Petroleum prices have fluctuated significantly in recent years and are expected to rise from current levels. Prices and availability of petroleum products are subject to political, economic and market factors that are generally outside our control. Political events in petroleum-producing regions, as well as hurricanes and other weather-related events may cause petroleum prices to increase. If such prices increase, our transportation costs may be adversely affected in the form of increased operation costs for our fleet and surcharges on freight paid to third-party carriers. If our transportation costs increase, and/or the price of petroleum-based products and cost of operating our manufacturing facilities increase, these increases could have a negative impact on our gross margins and profitability.

Cost and availability of third-party freight can adversely affect profitability and results of operations.

The majority of our sales are FOB destination and include freight from Virco's facilities to the customer location. Virco depends upon third-party carriers for more than 90% of customer deliveries. The size of many carriers' fleets varies due to economic conditions. Increased regulation and more stringent enforcement of federal regulations governing the transportation industry (especially regarding drivers) have adversely impacted the cost and availability of transportation services. Further, there may be a lack of available trained and licensed drivers, which may reduce the availability of transportation services. Inability to obtain adequate third-party freight on a timely basis during the summer delivery season can adversely affect cost to deliver products to customers and the level of customer service, which can in turn adversely impact future sales.

As of the date of this Annual Report, the Company has not been adversely impacted by either the availability or cost of third-party freight as a result of the COVID-19 pandemic. However, there can be no assurance that COVID-19 will not in the future adversely affect the availability or cost to us of third-party freight, among other potential adverse effects.

The Company imports component parts from international sources (primarily China). Disruptions in the cost or availability of ocean freight or disruptions in port operations, may adversely impact the Company's ability to obtain adequate component parts to support sales, particularly in the busy summer season.

Approximately 60% of our sales are priced through one contract, under which we are the exclusive supplier of classroom furniture.

A nationwide contract/price list, which allows schools and school districts to purchase furniture without bidding, accounts for the pricing of a significant portion of our sales. This contract/price list is sponsored by a nationwide purchasing organization that does not purchase products from the Company. By providing a public bid specification and authorization service to publicly funded agencies, the organization's contract/price list enables such agencies to make authorized expenditures of taxpayer funds. For all sales under this contract/price list, Virco has a direct selling relationship with the purchaser, whether it is a school, a district, or another publicly funded agency. In addition, Virco can ship directly to the purchaser; perform delivery services at the purchaser's location; and finally bill directly to, and collect from, the purchaser. Although Virco sells direct to hundreds of individual schools and school districts, these schools and school districts can purchase our products and services

under several bids and contracts available to them. Approximately 66% of Virco's sales in fiscal 2020 and 61% of Virco's sales in fiscal 2019 were priced under this nationwide contract/price list. In November 2017, the Company was awarded a five-year contract extending through December 2022 along with two two-year extensions through 2026. If Virco were to lose its exclusive supplier status under this contract/price list, and other manufacturers were allowed to sell under this contract/price list, it could cause Virco's sales, or growth in sales, to decline.

We operate in a seasonal business and require significant amounts of working capital through our existing credit facility to fund acquisitions of inventory, fund expenses for freight and classroom delivery and finance receivables during the summer delivery season. Restrictions imposed by the terms of our existing credit facility may limit our operating and financial flexibility. In addition, there can be no assurance that the Company will meet the requirements of its financial covenants on an ongoing basis or that should it fail to meet such covenants in the future, the agent and lender under the Credit Agreement will agree to waivers or amendments with respect thereto.

Our credit facility with PNC, among other things, largely prevents us from incurring any additional indebtedness, limits capital expenditures, limits dividends and stock repurchases, and provides for seasonal variations in the maximum borrowing amount, including a reduced maximum level of borrowing during the fourth fiscal quarter. Our credit facility also provides for periodic financial covenants, which currently include a minimum fixed charge coverage ratio requirement. As a result of the foregoing, our operational and financial flexibility may be limited, which may prevent us from engaging in transactions that might further our growth strategy or otherwise be considered beneficial to us.

Under our credit facility, substantially all of our accounts receivable is automatically and promptly swept to repay amounts outstanding under the credit facility upon our receipt. Due to this automatic liquidating nature, if we breach any covenant, violate any representation or warranty or suffer any deterioration in our ability to borrow pursuant to the borrowing base calculation contained in the credit facility, we may not have access to cash liquidity unless provided by the lender in its discretion. If the indebtedness under our credit facility were to be accelerated, we cannot be certain that we will have sufficient funds available to pay such indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. Any such acceleration could also result in a foreclosure on all or substantially all of our assets, which would have a negative impact on the value of our common stock and jeopardize our ability to continue as a going concern. In addition, certain of the covenants and representations and warranties set forth in our credit facility contain limited or no materiality thresholds, and many of the representations and warranties must be true and correct in all material respects upon each borrowing, which we expect to occur on an ongoing basis. There can be no assurance that we will be able to comply with all such covenants and be able to continue to make such representations and warranties on an ongoing basis. There can be no assurance that the Company will meet the requirements of its financial covenants on an ongoing basis or that, should it fail to meet such covenants, the Agent and Lender under our credit facility will agree to waivers or amendments with respect thereto. If we breach any of our financial covenants without receiving a corresponding waiver or amendment, the Agent and Lender may accelerate our credit facility and impose default interest and other fees, any of which could have a material adverse effect on our financial condition and results of operations.

We may not be able to renew our credit facility on favorable terms, or at all, which would adversely affect our results of operations.

We have historically relied on third-party bank financing to meet our seasonal cash flow requirements. Our current credit facility with PNC Bank matures on March 19, 2023. On an annual basis, we prepare a lender-approved forecast of seasonal working capital requirements and use borrowings under our credit facility with PNC Bank to help meet these seasonal cash flow and working capital requirements. Disruptions in the U.S. credit markets have caused the interest rate on prospective debt financing to widen considerably and have made financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing. Uncertainty in the credit markets may negatively impact our ability to obtain approval of our annual forecast, make changes in our forecast or renew our credit facility upon its maturity in 2023 on favorable terms or at all. If we are unable to access or renew our credit facility on favorable terms (including available borrowing line and the rate of interest charged thereunder), or at all, our ability to fund our operations would be impaired, which would have a material adverse effect on our results of operations.

If management does not accurately forecast the Company's requirements for the peak summer season, the Company's results of operations could be adversely affected.

The Company's business is highly seasonal and requires significant working capital in anticipation of and during the peak summer season. This requires management to make estimates and judgments with respect to the Company's working capital requirements during, and in anticipation of, the peak summer season. These estimates are complicated by the economic impacts of the COVID-19 pandemic, particularly with respect to anticipated future demand and the ability to maintain our supply chain.

Management expends a significant amount of time in the fourth quarter of the prior year and the first quarter of each year developing a stocking plan and estimating the number of temporary summer employees, the amount of raw materials and the types of components and products that will be required during the peak season. If management does not accurately forecast the Company's requirements, the Company's results of operations could be adversely affected. For example, if management underestimates any of these requirements, Virco's ability to meet customer orders in a timely manner or to provide adequate customer service may be diminished. If management overestimates any of these requirements, the Company may be required to absorb higher storage, labor and related costs, each of which may negatively affect the Company's results of operations.

We may require additional capital in the future, which may not be available or may be available only on unfavorable terms.

Our capital requirements depend on many factors, including capital improvements, tooling and new product development. To the extent that our existing capital is insufficient to meet these requirements and cover any losses, we may need to raise additional funds through financings or curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could result in dilution to our stockholders, and the securities may have rights, preferences and privileges that are senior to those of our common stock. If our need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for us to raise the necessary capital.

An inability to protect our intellectual property could have a significant impact on our business.

We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws. Our ability to compete effectively with our competitors depends, to a significant extent, on our ability to maintain the proprietary nature of our intellectual property. The degree of protection offered by the claims of the various patents, trademarks and service marks may not be broad enough to provide significant proprietary protection or competitive advantages to us, and patents, trademarks or service marks may not be issued on our pending or contemplated applications. In addition, not all of our products are covered by patents. It is also possible that our patents, trademarks and service marks may be challenged, invalidated, cancelled, narrowed or circumvented. If we are unable to maintain the proprietary nature of our intellectual property with respect to our significant current or proposed products, our competitors may be able to sell copies of our products, which could adversely affect our ability to sell our original products and could also result in competitive pricing pressures.

If third parties claim that we infringe upon their intellectual property rights, we may incur liability and costs and may have to redesign or discontinue an infringing product.

We face the risk of claims that we have infringed third parties' intellectual property rights. Companies operating in the furniture industry routinely seek protection of the intellectual property for their product designs, and our principal competitors may have large intellectual property portfolios. Our efforts to identify and avoid infringing third parties' intellectual property rights may not be successful. Any claims of intellectual property infringement, even those without merit, could (i) be expensive and time-consuming to defend; (ii) cause us to cease making, licensing or using products that incorporate the challenged intellectual property; (iii) require us to redesign, reengineer, or rebrand our products or packaging, if feasible; or (iv) require us to enter into royalty or licensing agreements in order to obtain the right to use a third party's intellectual property. Such claims could have a negative impact on our sales and results of operations.

We could be required to incur substantial costs to comply with environmental and other legal requirements. Violations of, and liabilities under, these laws and regulations may increase our costs or require us to change our business practices.

Our past and present ownership and operation of manufacturing plants are subject to extensive and changing federal, state and local environmental laws and regulations, including those relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste and the cleanup of properties affected by hazardous substances. As a result, we are involved from time to time in administrative and judicial proceedings and inquiries relating to environmental matters and could become subject to fines or penalties related thereto. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist. Compliance with more stringent laws or regulations, or stricter interpretation of existing laws, may require additional expenditures by us, some of which may be material. If new environmental laws and regulations are introduced and enforced domestically, but not implemented or enforced internationally, we will operate at a competitive disadvantage compared to competitors who source product primarily from international sources. In addition, in the past we have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") for remediation costs associated with waste disposal sites previously used by us. In general, CERCLA can impose liability for costs to investigate and remediate contamination without regard to fault or the legality of

disposal and, under certain circumstances, liability may be joint and several, resulting in one party being held responsible for the entire obligation. Liability may also include damages for harm to natural resources. We may also be subject to claims for personal injury or contribution relating to CERCLA sites. We reserve amounts for such matters when expenditures are probable and reasonably estimable.

In addition to environmental laws and regulations affecting our manufacturing activities, the Company is subject to laws and regulations related to consumer product regulation. The Company sells products that are subject to the Consumer Product Safety Improvement Act of 2008 and the California Air Resources Board rule and Toxic Control Substances Act rule, concerning formaldehyde emissions from composite wood products.

We may not be able to manage our business effectively if we are unable to retain our experienced management team or recruit other key personnel.

The success of our operations is highly dependent upon our ability to attract and retain qualified employees and upon the ability of our senior management and other key employees to implement our business strategy. We believe there are only a limited number of qualified executives in the industry in which we compete. The loss of the services of key members of our management team could seriously harm our efforts to successfully implement our business strategy.

We are subject to potential labor disruptions, which could have a significant impact on our business.

None of our work force is represented by unions, and while we believe that we have good relations with our work force, we may experience work stoppages or other labor problems in the future. Any prolonged work stoppage could have an adverse effect on our reputation, our vendor relations and our customers.

Our insurance coverage may not adequately cover for any product liability claims.

We maintain product liability and other insurance coverage that we believe to be generally in accordance with industry practices. Our insurance coverage may not be adequate to protect us fully against substantial claims and costs that may arise from product defects, particularly if we have a large number of defective products that we must repair, retrofit, replace or recall.

Volatility in the equity markets or interest rates could substantially increase our pension costs and have a negative impact on our operating results.

We sponsor one qualified defined benefit pension plan, the Virco Employee Retirement Plan (“Employee Plan”), and one nonqualified pension plan. The difference between plan obligations and assets, or the funded status of the Employee Plan, significantly affects net periodic benefit costs of our Employee Plan and our ongoing funding requirements with respect to the Employee Plan. The Employee Plan is funded with trust assets invested in a diversified portfolio of debt and equity securities and other investments. Among other factors, changes in interest rates, investment returns, and the market value of plan assets can (i) affect the level of plan funding; (ii) cause volatility in the net periodic pension cost; and (iii) increase our future contribution requirements. Because the current economic environment is characterized by historically low interest rates, we may be required to make additional cash contributions to the Employee Plan and recognize further increases in our net pension cost to satisfy our funding requirements. A significant decrease in investment returns or the market value of plan assets or a significant decrease in interest rates could increase our net periodic pension costs and adversely affect our results of operations. These factors are further complicated by the substantial intervention in the U.S. credit markets by the Federal Reserve Board and Treasury Department in response to the COVID-19 pandemic, which could have the effect of artificially reducing market interest rates.

Holders of approximately 35% of the shares of our stock have entered into an agreement restricting the sale of the stock.

Certain shares of the Company's common stock received by the holders thereof as gifts from Julian A. Virtue, including shares received in subsequent stock dividends, are subject to an agreement that restricts the sale or transfer of those shares. Because of the share ownership and representation on the board and in management, the parties to the agreement have significant influence on affairs and actions of the Company, including matters requiring stockholder approval such as the election of directors and approval of significant corporate transactions. In addition, these transfer restrictions and concentration of ownership could have the effect of impeding an acquisition of the Company.

Our corporate documents and Delaware law contain provisions that could discourage, delay or prevent a change in control of our company.

Provisions in our certificate of incorporation and our amended and restated bylaws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our certificate of incorporation

currently provides for a staggered board of directors, whereby directors serve for three-year terms, with approximately one-third of the directors coming up for reelection each year. Having a staggered board will make it more difficult for a third party to obtain control of our board of directors through a proxy contest, which may be a necessary step in an acquisition of us that is not favored by our board of directors.

We are also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. Under these provisions, if anyone becomes an “interested stockholder,” we may not enter into a “business combination” with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 203, “interested stockholder” means, generally, someone owning 15% or more of our outstanding voting stock or an affiliate of ours that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203.

Our stock price has historically been volatile, and investors in our common stock could suffer a decline in value.

There has been significant volatility in the market price and trading volume of equity securities, which may be unrelated to the financial performance of the companies issuing the securities. The economic impact and uncertainty of the COVID-19 pandemic has exacerbated this volatility in both our common stock and the overall stock markets. The limited “float” of shares available for purchase or sale of Virco stock can magnify this volatility. These broad market fluctuations may negatively affect the market price of our common stock. Some specific factors that may have a significant effect on our common stock market price include:

- actual or anticipated fluctuations in our operating results or future prospects;
- our announcements or our competitors’ announcements of new products;
- the public’s reaction to our press releases, our other public announcements and our filings with the SEC;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in our growth rates or our competitors’ growth rates;
- our inability to raise additional capital;
- conditions of the school furniture industry as a result of changes in funding or general economic conditions, including those resulting from war, incidents of terrorism and responses to such events; and
- changes in stock market analyst recommendations or earnings estimates regarding our common stock, other comparable companies or the education furniture industry generally.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Torrance, California

Virco leases a 560,000 sq. ft. office, manufacturing and warehousing facility located on 23.5 acres of land in Torrance, California. This facility is occupied under a lease expiring on April 30, 2025. This facility also includes the corporate headquarters, the West Coast showroom, and all West Coast distribution operations.

Conway, Arkansas

The Company owns 100 acres of land in Conway, Arkansas, containing 1,200,000 sq. ft. of manufacturing, warehousing, and office space. This facility - which is equipped with high-density storage systems, features 70 dock doors dedicated to outbound freight, and has substantial yard capacity to store and stage trailers - has enabled the Company to consolidate the warehousing function and implement the Assemble-to-Ship inventory stocking program. Management believes that this facility supports Virco's ability to handle increased sales during the peak delivery season and enhances the efficiency with which orders are

filled. This facility and the underlying real estate, along with the rest of the Company's assets, secure the Company's obligations under its credit facility.

In addition to the complex described above, the Company operates two other facilities in Conway, Arkansas. The first is a 375,000 sq. ft. fabrication facility that was acquired in 1954 and expanded and modernized over subsequent years. The Company manufactures fabricated steel components, chrome plates, and fabricates injection-molded plastic components at this facility. These components are transferred to other facilities for assembly into finished goods. The second is a 175,000 sq. ft. manufacturing facility that is used to fabricate and store compression-molded components. This building was occupied under a series of leases for approximately 20 years. In August 2017, the Company purchased this building.

Item 3. Legal Proceedings

Virco is involved in legal proceedings from time to time in the ordinary course of business. In the opinion of the Company, such legal proceedings are not material in amount or management expects that the Company will be successful on the merits in pending cases against the Company or any liabilities resulting from such cases will be substantially covered by insurance. While it is impossible to estimate with certainty the ultimate legal and financial liability with respect to these suits and claims, management believes that the aggregate amount of such liabilities will not be material to the results of operations, financial position, or cash flows of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The NASDAQ Global Market is the principal market on which Virco Mfg. Corporation (VIRC) stock is traded. As of April 22, 2020, there were approximately 155 registered stockholders according to the Company's transfer agent records. As of such date, there were approximately 1,121 beneficial stockholders.

Dividend Policy

Historically it has been the board of directors' policy to periodically review the payment of cash and stock dividends in light of the Company's earnings and liquidity. In March 2018, the Company entered into Amendment No. 17 to the PNC line of credit. This amendment, among other modifications, allows the Company to pay dividends or conduct stock repurchases in an amount up to \$2.0 million per year. The Company paid four quarterly cash dividends of \$0.015 per share in 2018. In April 2019, the Company entered into Amendment No. 20 to the PNC Revolving Credit and Security Agreement. This amendment, among other modifications, prohibits the Company from paying cash dividends or repurchasing stock commencing on February 1, 2019.

Stock Repurchases

The Company did not repurchase any shares of its stock during 2020 and 2019.

Item 6. Selected Financial Data

The Company is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act as of our second quarter of fiscal 2019 and are not required to provide the information under this item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Effects of COVID-19 Pandemic

The COVID-19 pandemic has had an immediate impact on the Company's operating activities. In March 2020 most school districts we serve closed their doors to students and initiated remote learning. Many schools are not anticipated to re-open until the 2020-2021 academic year, although there can be no assurance that school systems in the United States will reopen or resume normal operations for the 2020-2021 academic year.

Virco has determined that the Company is considered to be an essential manufacturer under the California public health order issued in March 2020, and with the exception of a six-day closure of our Torrance operations, all facilities in California and Arkansas have been operating. While the Company is considered to be an essential manufacturer, not all of our domestic suppliers meet this criterion, and the Company may experience supply chain challenges from domestic suppliers depending upon the length and severity of state and local orders to shelter in place in California. In addition, there can be no assurance that our suppliers in China will not experience material disruptions in the future, whether due to COVID-19 or otherwise. The Company believes that it is not more subject to supply chain disruptions than our competitors and is substantially less dependent upon a supply chain extending to China than many competitors in the industry.

As of the date of this Annual Report, the Company is operating its Torrance manufacturing and distribution facility 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 will continue to do so. Additional measures are being taken to insure adequate social distancing among employees performing essential on-site operations. Management estimates that the Torrance facility will be staffed at approximately 50% of its normal level during the next few weeks. In addition, the Company's Conway, Arkansas facility will continue operating at full capacity to support the many school districts in the eastern two-third of the country that are still taking delivery of school furniture. As with schools in western states, many districts serviced by the Company's Conway facility have determined it is safer to accept deliveries while students and credentialed employees are not on campus. As with the Torrance facility, additional social distancing and sanitation protocols are in force. Our sales force has been working remotely as of the date of this Annual Report, and as a general matter only physically calls on school sites when specifically invited by the district. The Company has implemented appropriate social distancing protocols throughout its facilities, and all personnel that can effectively work from home are doing so. Most school districts in the United States have closed campuses to students, and it is anticipated that many schools will remain closed for the remainder of the 2019-2020 academic year. Although schools are currently closed to instruction, district

business officials are typically operating, frequently from home offices. The Company anticipates that the short-term demand for school furniture could be adversely impacted by COVID-19, but believes that demand will eventually recover as stay at home and shelter in place requirements abate and States begin to transition back to work. Transactional sales of consumable supplies and smaller orders of furniture were immediately and severely impacted by the school closing and are not expected to recover until school district offices reopen. In addition, new school construction and renovation may be delayed due to COVID-19, although the Company is not aware of any projects scheduled for this summer that have been cancelled. Our order rates through March 2020 have been comparable to the prior year. Production levels have been moderated to match demand generated by orders as received. Backlog at March 31, 2020 is slightly higher than the prior year. With no students on campus, many school facilities may accept deliveries of furniture that otherwise may have been deferred to later dates.

Executive Overview

The market for school furniture is traditionally seasonal, with approximately 50% of annual sales occurring in the months of June, July, and August. The Company has traditionally met the seasonal needs with significant overtime and by hiring seasonal temporary labor. The COVID-19 pandemic may make hiring seasonal labor more challenging than in recent years. Exceedingly generous Federal supplements to state unemployment benefits may exacerbate this challenge.

The markets that Virco serves include the education market (the Company's primary market), which is made up of public and private schools (preschool through 12th grade), junior and community colleges, four-year colleges and universities; and trade, technical and vocational schools. Virco also serves convention centers and arenas; the hospitality industry, with respect to their banquet and meeting facilities; government facilities at the federal, state, county and municipal levels; and places of worship. In addition, the Company sells to wholesalers, distributors, retailers, catalog retailers, and internet retailers that serve these same markets. These institutions are frequently characterized by extreme seasonality and/or a bid-based purchasing function. The Company's business model, which is designed to support this strategy, is highly integrated. The Company purchases coils of steel, plastic resin, particle board, and other raw materials and fabricated finished goods for education market. The Company markets and sells direct to the schools and provides project management and logistics. The Company primarily sells to schools FOB destination, with more than 75% of sales delivered FOB classroom.

As part of this integrated business model, the Company has developed several competencies to enable superior service to the markets in which Virco competes. An important element of Virco's business model is the Company's emphasis on developing and maintaining key manufacturing, warehousing, distribution, delivery, project management and service capabilities. The Company has developed a comprehensive product offering for the furniture, fixtures and equipment ("FF&E") needs of the K-12 education market, enabling a school to procure all of its FF&E requirements from one source.

Virco's product offering consists primarily of items manufactured by Virco, complemented with products sourced from other furniture manufacturers. Our product offerings are continually enhanced with an ongoing new product development program that incorporates internally developed products as well as product lines developed with accomplished designers. Finally, management continues to hone Virco's ability to forecast, finance, manufacture, warehouse, deliver and install furniture within the relatively narrow delivery window associated with the highly seasonal demand for education sales. In fiscal 2020 and 2019, approximately 53% and 52% respectively of the Company's total sales were delivered in June, July and August. Average weekly shipments during July and August can be as great as six times the level of average weekly shipments in the winter months. Virco's substantial warehouse space allows the Company to build and ship adequate inventories to service this narrow delivery window for the education market.

The market and operating environment for school FF&E has been challenging for the last 18 years. The Company has seen moderate improvement in its primary market in the last four years, but spending on FF&E is well below the level experienced prior to the recession beginning in 2008. Schools suffered significant budgetary pressures from 2002 to 2005 following the "dot com" bust and post "9/11" era, followed by a recovery from 2006 - 2007. Following the recession in 2008, the industry suffered from reduced funding and severe budget shortfalls impacting years from 2010 through 2014.

The budgetary pressures directly impact the demand for the Company's products, as the demand for educational furniture largely depends upon: (1) available funding in a school's general operating fund and (2) the completion of bond-funded projects, which is directly impacted by the amount of bond financing issued to fund new school construction, to renovate older schools, and to fully equip new and renovated schools.

Approximately 80-85% of a school's operating budget is for the salaries and benefits for school teachers and administrators. Increasing costs for medical insurance, combined with pressures from unfunded post-retirement medical and pension obligations reduces funds available for other purposes. In response to these budgetary pressures, schools typically elect to retain teachers and spend less on repairs, maintenance and replacement furniture, which in turn reduces the demand for, and

sales of, the Company's products. In recent years, there has been an improvement in state and local tax collections, and most state and local governments have seen their tax receipts return to the pre-2008 levels.

In response to the 2008 recession, passage of new bond issuances declined, and the related bond-funded project completions decreased materially for several years. In recent years, the completions of bond-funded projects have recovered from the low point subsequent to 2008, but projects remain well below the pre-2008 levels. In the recent elections, we observed an increase in bond passages. Due to the time requirement to plan and construct a new school or major remodel, there is a time lag frequently ranging from one to three years between bond passage and when the bond funding translates into furniture sales.

While the current operating environment continues to show moderate year-over-year improvement, under-funding of our education system continues to be an on-going concern. A 2016 report from the National Council on School Facilities estimates that on every school day, approximately 50 million students and six million adults use publicly funded K-12 facilities. For state and local governments, spending on these facilities is the largest capital expenditure outside of highways. It was estimated that public schools spend approximately \$99 billion per year on maintenance, operations and capital spending. The study estimates that a desirable level of spending would be \$145 billion, leaving an annual shortfall of \$46 billion.

The significant budgetary challenges faced by the education industry have had an impact on the Company's business model over this time frame and have created opportunities as well. In the 1990's, the Company's primary customers were the school business officials at a school district, and deliveries of furniture typically were to a district warehouse. In response to their budgetary challenges, many school districts closed warehouses and reduced janitorial and support staff in order to retain accredited teachers. Selling efforts must now reach school principals and administrative staff in addition to the district business offices. Sales priced under national contracts or buying groups are displacing competitive bids administered by professional purchasing departments. Distribution has become a more meaningful component of our business as most deliveries are to school sites, and often include inside delivery to the classroom. This evolution adds to the seasonal challenges of our business, but also creates opportunities to suppliers that can execute during the short summer delivery window.

The furniture industry in general, including the market for school furniture, has been significantly impacted by low cost competition from manufacturers based in China. Competition from China increased dramatically after admission of China to the World Trade Organization in 2001. Subsequent to this date, many of our domestic manufacturing competitors closed their factories and sourced product from China. To our knowledge, no new factories or significant manufacturing enhancements were constructed to support the school furniture market during this period. Virco pursued a different strategy which exacerbated operating challenges following these events, but now leave us with what we believe to be a significant competitive advantage. During a period of robust education spending during the 1990's, the Company expanded and modernized its manufacturing and distribution facilities at the Torrance, CA and Conway, AR locations. During the last 15 years, the Company has worked continuously to significantly reduce and control its cost structure while concurrently expanding its product offering, expanding manufacturing process capabilities and more fully automating its facilities. For example, headcount of permanent employees as of January 31, 2020, was approximately 825 compared to a peak of nearly 2,950 in August 2000. Factory overhead in fiscal 2020 declined by more than 50% compared to fiscal 2001. The Company accomplished this without closing a factory and while continuing to add new production processes, including flat metal forming, and other capabilities to support its ambitious product development program. Our domestic fabrication allowed the Company to develop significant product variety, color choices and custom products that are very difficult to replicate with a supply chain extending to China. Finally, many education furniture products are bulky, with a large cube relative to the selling price. The cost of ocean freight from overseas for these bulky items offsets the cost advantages for overseas production.

The Company's operating results can be impacted significantly by cost and volatility of commodities, especially steel, plastic, wood and energy. Because a majority of the Company's sales are generated under annual contracts in which the Company has limited ability to raise the price of its products during the term of the contract, if the costs of the Company's raw materials increase suddenly or unexpectedly, the Company cannot be certain that it will be able to implement corresponding increases in its sales prices in order to offset such increased costs. The Company moderates this exposure by building significant quantities of finished goods and component parts during the first and second quarters. During the year ended January 31, 2018 ("fiscal 2018"), commodity costs increased throughout the year, but without volatile spikes. In the year ended January 31, 2019 ("fiscal 2019"), commodity costs were volatile, in large part due to 10% tariffs on imported steel and Chinese furniture components. During the year ended January 31, 2020 ("fiscal 2020"), the Company incurred an additional 15% increase tariffs on components sourced from China, but other commodities were stable, and in some cases slightly lower. The majority of Virco's sales include freight to the customer facility and the cost or availability of transportation equipment can adversely impact both profitability and customer service. Significant cost increases in manufacturing or distributing products during a given contract period can adversely impact operating results and have done so during prior years. The Company typically benefits from any decreases in raw material or distribution costs under the contracts described above.

During the year ending January 31, 2021("fiscal 2021"), the Company anticipates continued uncertainty and volatility in commodity costs, particularly with respect to certain raw materials, transportation and energy. Although unknown at this time, the global pandemic related to COVID-19 is expected to impact commodity costs and disrupt global and domestic supply chains.

While the Company anticipates challenging economic conditions to continue to impact its core customer base in the near term, there are certain underlying demographics, customer responses and changes in the competitive landscape that provide opportunities. First, the underlying demographics of the student population are stable compared to the volatility of school budgets and the related level of furniture and equipment purchases. This volatility is attributable to the financial health of the school systems. Virco management believes that there is a pent-up demand for quality school furniture (though it is unclear when and to what extent that pent-up demand will be converted into a meaningful increase in purchases). Second, management believes that parents and voters will make quality education an ongoing priority for future government spending. Third, many schools have responded to the budget strains by reducing their support infrastructure. This change provides opportunities to provide services to schools, such as project management for new or renovated schools, delivery to individual school sites rather than truckload deliveries to central warehouses and delivery of furniture into classrooms. Moreover, this change offers opportunities for Virco to promote its complete product assortment which allows one-stop shopping as opposed to sourcing furniture needs from a variety of suppliers. Fourth, many suppliers previously shut down or dramatically curtailed their domestic manufacturing capabilities, making it difficult for competitors to adapt to dynamic fluctuations in demand or provide custom colors or finishes during a narrow seasonal summer delivery window when they are reliant upon a supply chain extending to Asia or elsewhere. Meanwhile, Virco has continued to invest in automation at its domestic manufacturing facilities, adding flat metal forming processes to its manufacturing capabilities and bringing production into its factories of items formerly sourced from other suppliers (both domestic and international). Domestic production facilitates our product development process, enabling the Company to more rapidly develop new products, release extensions of product families and offer customized variants of our product offering. Virco views its domestic factories as a strategic resource for providing its customers with timely delivery of a broad selection of colors, finishes, laminates, and product styles.

Critical Accounting Policies and Estimates

This discussion and analysis of Virco's financial condition and results of operations is based upon the Company's consolidated financial statements ("financial statements"), which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires Virco management to make estimates and judgments that affect the Company's reported assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, management evaluates such estimates, including those related to valuation of inventory and related excess and obsolescence reserves, self-insured retention for workers' compensation insurance, liabilities under defined benefit and other compensation programs, and estimates related to deferred tax assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. This forms the basis of judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Factors that could cause or contribute to these differences include the factors discussed above under **Item 1, Business**, and elsewhere in this Annual Report on Form 10-K. Virco's critical accounting policies are as follows:

Inventory Valuation: Inventory is valued at the lower of cost or net realizable value (determined on a first-in, first-out basis) and includes material, labor and factory overhead. The Company estimated slow-moving and obsolete inventory to reflect the difference between the cost of inventory and the estimated net realizable value. Valuation adjustments to inventory 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 adjustments 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.

Self-Insured Retention: For fiscal 2020 and 2019 the Company was self-insured for product and general liability losses ranging up to \$250,000 per occurrence, workers' compensation losses up to \$250,000 per occurrence and auto liability up to \$50,000 per occurrence. The Company obtains annual actuarial valuations for the self-insured retentions. Product liability, workers' compensation and auto reserves for known and unknown incurred but not reported ("IBNR") losses are recorded at the net present value of the estimated losses using a risk-free discount rate of 4% for fiscal 2020 and 2019. Given the relatively short term over which the IBNR losses are discounted, the sensitivity to the discount rate is not significant. Estimated workers' compensation losses were funded during the insurance year and subject to retroactive loss adjustments. The Company's

exposure to self-insured retentions varies depending upon the market conditions in the insurance industry and the availability of cost-effective insurance coverage. Self-insured retentions for fiscal 2021 will be comparable to the retention levels for fiscal 2020.

Defined Benefit Obligations: The Company has two defined benefit plans, the Virco Employees Retirement Plan (“Employee Plan”) and the Virco Important Performers Plan (“VIP Plan”), which provide retirement benefits to employees. Virco discounted the pension obligations for the various plans using the following discount rates for the fiscal years ended January 31:

	2020	2019
Employee Plan	3.00%	3.75%
VIP Plan	3.05%	4.00%

Because new benefit accruals for both plans were frozen by the Company effective December 31, 2003, the assumed rate of increase in compensation has no effect on the accounting for the plans. For the Employee Plan, the Company estimated a 6.5% return on plan assets for 2020 and 6.5% for fiscal 2019. The VIP Plan is unfunded and has no plan assets. These rate assumptions can vary due to changes in interest rates and expected returns in the stock market. In prior years, the discount rate has decreased, causing pension expense and pension obligations to increase.

Because the plans have been frozen for many years, there is no service cost related to the plans. In fiscal 2019, due to a large number of lump-sum benefits paid to retired and terminated employees, the Company has incurred settlement costs for the Employee Plan. In effort to “de-risk” the Employee Plan, the Company intends to continue to reach out to and offer lump sum benefits to terminated and retired employees, which may result in settlement costs in the future. The Company did not incur settlement costs in fiscal 2020.

Due to the size of the Company's pension obligations, a one percent change in discount rates can cause a material change in the pension obligations. A one percent reduction in discount rates would cause obligations under the Plans to increase by approximately \$6.6 million. The retirement obligations would decrease by similar amounts if discount rate were to increase by a comparable percentage. The Company obtains annual actuarial valuations for all plans.

Deferred Tax Assets and Liabilities: The Company recognizes deferred income taxes under the asset and liability method of accounting for income taxes in accordance with the provisions of FASB ASC Topic 740 *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 whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. 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 considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. The Company has a valuation allowance of \$1,183,000 against certain state deferred tax assets that the Company does not believe it is more-likely-than-not to realize. At January 31, 2020, the Company has net operating loss carryforwards of approximately \$9,499,000 for federal and \$26,098,000 for state income tax purposes, expiring at various dates through January 31, 2039.

Results of Operations (fiscal 2020 vs. 2019)

Financial Highlights

The Company earned a pre-tax profit of \$2,727,000 on net sales of \$191,063,000 for fiscal 2020, compared to pre-tax loss of (\$1,117,000) on net sales of \$200,716,000 in fiscal 2019. Pre-tax profit improved by \$3,844,000. Net income / (loss) per diluted share improved to a profit of \$0.15 for fiscal 2020, compared to a loss of (\$0.10) in the prior year. Cash flow provided by operations was \$9,759,000 in fiscal 2020, compared to \$2,363,000 in fiscal 2019.

Net Sales

Virco's net sales decreased by 4.8% in fiscal 2020 to \$191,063,000 compared to \$200,716,000 in fiscal 2019. The decrease in net sales was attributable to a 18% reduction in volume partially offset by an increase in selling prices.

In fiscal 2019, Virco incurred significant cost increases related to increased raw material costs, primarily driven by tariffs on steel and imported components sourced from China. In addition, the Company increased compensation for factory employees

in response to minimum wage and other market conditions. At the beginning of fiscal 2020, the Company raised prices in order to recover these cost increases in addition to anticipated tariff and cost increases in fiscal 2020.

For fiscal 2021, the COVID-19 pandemic is creating significant uncertainty as state and local government revenues will be severely impacted and spending priorities will be re-evaluated. The revenue shortfall may be offset significantly or in part by a variety of federal government programs. The Company anticipates that the budgetary challenges for state and local governments will continue to affect our growth in net sales. The Company intends to modestly increase selling prices to recover increased commodity costs and the costs related to employee compensation and benefits. The increased costs may have an adverse impact on our sales volume. As we have throughout this economic cycle, the Company continues to focus on strategies to develop and strengthen its brand with an aggressive product development campaign. We will continue to use our domestic factories to provide greater flexibility for custom specifications such as laminates, colors and on-time delivery. The Company will continue to emphasize the value, design, variety of its products, the value of its distribution, delivery, classroom delivery and project management capabilities, and the importance of timely deliveries during the peak-seasonal delivery period. The Company plans to increase selling prices to recover increased costs of commodities and to improve gross margins. To increase or maintain market share during fiscal 2021, when market conditions warrant, the Company may selectively compete based on direct prices to build or maintain its market share. Estimates of sales volume for the next year will be impacted by the COVID-19 pandemic. Demand for project business is anticipated to be stable. Short term transactional business may decline while schools are closed. The potential impact of Government stimulus programs and possible failures of competitors cannot be reasonably estimated as of the date of this report.

Cost of Sales

Cost of sales was 62.5% of net sales in fiscal 2020 and 66.6% of sales in fiscal 2019. The decrease in cost of sales as a percentage of sales was primarily attributable to increased selling prices, partially offset by an increase in manufacturing overhead variances related to reduced levels of production. In the first quarter of fiscal 2020, the Company increased selling prices to recover increased costs incurred in fiscal 2019. With the exception of an additional 15% tariff on Chinese raw material components in fiscal 2020, the cost of commodities was reasonably stable. The Company incurred a reduction in unit sales volume, which increased manufacturing overhead variances offsetting a portion of the price increase.

During fiscal 2021, the Company anticipates continued uncertainty and volatility in commodity costs, particularly with respect to certain raw materials, transportation, energy and tariffs due to potential macroeconomic events, including the global pandemic caused by COVID-19. Due in part to volatile transportation and energy costs, we may incur higher commodity costs in fiscal 2021. For more information, please see the section below entitled “**Inflation and Future Change in Prices.**”

Selling, General and Administrative and Other Expenses

Selling, general and administrative expenses for fiscal 2020, increased as a percentage of net sales by approximately 2.1% to \$65,726,000 compared to \$64,751,000 in fiscal 2019 and increased as a percentage of net sales to 34.4% in fiscal 2020 from 32.3% in fiscal 2019. Service costs, including warehousing, freight and classroom delivery costs decreased \$1,201,000 but increased by 0.1% as a percentage of net sales. The slight increase in costs as a percentage of net sales was driven by the Company's efforts to improve upon service levels provided to our customers. Selling costs increased in dollars and as a percentage of sales compared to the prior year. Increased selling costs were attributable to additional selling and support resources. G&A spending decreased in terms of dollars but increased slightly as a percentage of net sales. G&A spending included a management bonus provision of approximately \$714,000 in fiscal 2020. No bonus was paid in fiscal 2019. Interest expense was \$271,000 higher in fiscal 2020 compared to fiscal 2019 because of increased interest rates.

Provision for Income Taxes

The Company has a partial valuation allowance of \$1,183,000 against certain state deferred tax assets that the Company does not believe is more-likely-than-not to be realized. At January 31, 2020, the Company has net operating loss carryforwards of approximately \$9,499,000 for federal and \$26,098,000 for state income tax purposes, expiring at various dates through January 31, 2039.

For fiscal 2020 the effective tax rate was 12.7%. This rate was primarily attributable to an adjustment to valuation allowance on certain components for the federal and state net operating loss.

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The Company has performed an initial analysis of the impact of the CARES Act and have determined that the impact would not be significant. There were several provisions of the CARES Act that impact Company's fiscal 2020 tax filings, but were not included in the determination of the tax provision due to the date of enactment after January 31, 2020. The CARES Act provides single-employer pension companies additional time to meet the funding obligations. The Company intends to defer

the timing of finding contributions to a new due date of January 1, 2021. Consequently, the tax deduction related to such contributions will be deferred until the funding payment is made. The CARES Act also modifies the limitation for business interest expense deduction. The new limitation has increased from 30 to 50 percent of adjusted taxable income. As of the issuance of this report, the Company continues to evaluate the impact of the CARES Act.

Inflation and Future Change in Prices

We commit to annual contracts that determine selling prices for goods and services for periods of one year and occasionally longer. Though the Company has negotiated flexibility under many of these contracts that may allow the Company to increase prices on future orders, the Company does not have the ability to raise prices on orders received prior to any announced price increase. Due to the intensely seasonal nature of our business, the Company may receive significant orders during the first and second quarters for delivery in the second and third quarters. With respect to any of the contracts described above, if the costs of providing our products or services increase between the date the orders are received and the shipping date, we may not be able to implement corresponding increases in our sales prices for such products or services to offset the related increased costs. In fiscal 2019, the Company incurred severe and sudden increase in material and component costs. In the third quarter, the federal government imposed a total 10% tariff on imported steel. The Company purchases the majority of its steel from domestic sources, but the cost of domestic steel increased concurrently with the effective date of the tariffs on foreign steel. During the summer, the cost of imported components increased by as much as 15%, primarily due to increased costs incurred by suppliers in China. In October 2018, a 10% tariff was imposed on Chinese furniture and raw material components. In fiscal 2020 the Company incurred an additional 15% tariff on components sourced from China, but other commodity costs were stable, and in some cases slightly reduced.

For fiscal 2021, the Company anticipates continued volatility in costs, particularly with respect to certain raw materials, transportation, and energy. Anticipated adverse volatility for fiscal 2021 could be severe in light of tariffs imposed or threatened on imported commodities and disruptions caused by COVID-19 upon our suppliers. There is continued uncertainty with respect to steel and other raw material costs, including plastics, that are affected by the price of oil. Transportation costs may be adversely affected by increased oil prices, in the form of increased operation costs for our fleet, and surcharges on freight paid to third-party carriers. Virco depends upon third-party carriers for more than 90% of customer deliveries. Subsequent to 2010, many carriers went out of business or were required to reduce the size of their fleets due to economic conditions and have not increased their fleets as the economy has improved. Recent regulation and more stringent enforcement of federal regulations governing the transportation industry (especially regarding drivers) have adversely impacted the cost and availability of freight services. Virco expects to incur continued pressure on employee benefit costs. The Company has renewed health insurance contracts for its employees through December 2020, but costs after that date may be adversely impacted by current legislation, claim costs and industry consolidation. Virco has aggressively addressed these costs by controlling headcount, freezing pension benefits and passing on a portion of increased medical costs to employees.

To recover the cumulative impact of increased costs, the Company has increased published list prices for fiscal 2021. Due to current economic conditions, the Company anticipates continued significant price competition in fiscal 2021 and may not be able to raise prices without risk of losing market share. As a significant portion of Virco's business is obtained through competitive bids, the Company is carefully considering material and transportation costs as part of the bidding process. Total material costs for fiscal 2021, as a percentage of sales, could be higher than in fiscal 2020. The Company is working to control and reduce costs by improving production and distribution methodologies, investigating new packaging and shipping materials and searching for new sources of purchased components and raw materials.

Liquidity and Capital Resources

Working Capital Requirements

Virco addresses liquidity and working capital requirements in the context of short-term seasonal requirements and long-term capital requirements of the business. The Company's core business of selling furniture to publicly-funded educational institutions is extremely seasonal. The seasonal nature of this business permeates most of Virco's operational, capital and financing decisions.

The Company's working capital requirements during and in anticipation of the peak summer season oblige management to make estimates and judgments that affect Virco's assets, liabilities, revenues and expenses. Management expends a significant amount of time during the year, and especially in the fourth quarter of the prior year and first quarter of current year, developing a stocking plan and estimating the number of employees, the amount of raw materials and the types of components and products that will be required during the peak season. If management underestimates any of these requirements, Virco's ability to fill customer orders on a timely basis or to provide adequate customer service may be diminished. If management overestimates any of these requirements, the Company may be required to absorb higher storage, labor and related costs, each

of which may affect profitability. On an on-going basis, management evaluates such estimates, including those related to market demand, labor costs and inventory levels, and continually strives to improve Virco's ability to correctly forecast business requirements during the peak season each year.

As part of Virco's efforts to address seasonality, financial performance and quality without sacrificing service or market share, management has been refining the Company's ATS operating model. ATS is Virco's version of mass-customization, which assembles standard, stocked components into customized configurations before shipment. The Company's ATS program reduces the total amount of inventory and working capital needed to support a given level of sales. It does this by increasing the inventory's versatility, delaying assembly until the last moment and reducing the amount of warehouse space needed to store finished goods. In order to provide "one-stop shopping" for all FF&E needs, Virco purchases and re-sells certain finished goods from other furniture manufacturers. When practical, these furniture items are drop shipped from the Company's supplier. Where cost effective, the Company will bring the item into the Virco warehouse and the third-party products will be shipped along with product manufactured by Virco. The Company did not carry material amounts of vendor inventory during the fiscal years ended January 31, 2020 and 2019.

In addition, Virco finances its largest balance of accounts receivable during the peak season. This occurs for three primary reasons. First, accounts receivable balances naturally increase during the peak season as shipments of products increase. Second, many customers during this period are government institutions, which tend to pay accounts receivable more slowly than commercial customers. Third, many summer deliveries may be "projects" where the Company fulfills large orders of furniture for a new school or significant refurbishment of an existing school. Customers with large projects may require architect sign off, school board approval prior to payment or punch list completion, all of which can delay payment.

Because of the seasonality of our business, our manufacturing and distribution capacity is dictated by the capacity requirement during the months of June, July and August. Because of this seasonality, factory utilization is lower during the slow season. The Company utilizes a variety of tactics to address the seasonality of its business. During the summer months, which comprise our second and third fiscal quarters, our personnel utilization generally is at or close to full capacity. The Company utilizes temporary labor and significant overtime to meet the seasonal requirements. During the slow portions of the year, temporary labor and overtime are eliminated to moderate the off-season costs. Our manufacturing facility capacity utilization generally remains less than 100% during these off-season months; because physical structure capacity cannot be adjusted as readily as personnel capacity, we have secured sufficient physical structure capacity to accommodate our current needs as well as for anticipated future growth. Our physical structure utilization is significantly lower during the first and fourth quarters of each year than it is during the second and third quarters.

The Company utilizes a comparable strategy to address warehousing and distribution requirements. During summer months, temporary labor is hired to supplement experienced warehouse and distribution personnel. More than 90% of the Company's freight is provided by third-party carriers. The Company has secured sufficient warehouse capacity to accommodate our current needs as well as anticipated future growth.

Line of Credit

As the capital required for the summer season generally exceeds cash available from operations, Virco has historically relied on third-party bank financing to meet seasonal cash flow requirements. On December 22, 2011 ("Closing Date"), the Company and Virco Inc., a wholly owned subsidiary of the Company ("Virco" and, together with the Company, the "Borrowers") entered into a Revolving Credit and Security Agreement ("Credit Agreement") with PNC Bank, National Association, as administrative agent and lender ("PNC"). The credit agreement has been amended a number of times subsequent, including through Amendment No. 19 in March 2019, which, among other things, extended the maturity date of the Credit Agreement for three years until March 19, 2023, increased the maximum availability under the Credit Agreement to \$65,000,000, modified, eliminated or waived covenants, amended seasonal advances and established a \$2,000,000 line for equipment financing.

The Credit Agreement provides the Borrowers with a secured revolving line of credit ("Revolving Credit Facility") of up to \$65,000,000, with seasonal adjustments to the credit limit and subject to borrowing base limitations and includes a sub-limit of up to \$3,000,000 for issuances of letters of credit. In addition, the Credit Agreement provides an Equipment Line for purchases of equipment up to \$2,000,000. The Revolving Credit Facility is an asset-based line of credit that is subject to a borrowing base limitation and generally provides for advances of up to 85% of eligible accounts receivable, plus a percentage equal to the lesser of 60% of the value of eligible inventory or 85% of the liquidation value of eligible inventory, plus \$15,000,000 for the period from December to July of each year minus undrawn amounts of letters of credit and reserves. The Revolving Credit Facility is secured by substantially all of the Borrowers' personal property and certain of the Borrowers' real property. The principal amount outstanding under the Credit Agreement and any accrued and unpaid interest is due no later than March 19, 2023, and the Revolving Credit Facility is subject to certain prepayment penalties upon earlier termination of the Revolving Credit Facility. Prior to the maturity date, principal amounts outstanding under the Credit Agreement may be repaid and

reborrowed at the option of the Borrowers without premium or penalty, subject to borrowing base limitations, seasonal adjustments and certain other conditions.

The Revolving Credit Facility bears interest, at the Borrowers' option, at either the Alternate Base Rate (as defined in the Credit Agreement) or the Eurodollar Currency Rate (as defined in the Credit Agreement), in each case plus an applicable margin. The applicable margin for Alternate Base Rate loans is a percentage within a range of 0.75% to 1.25%, and the applicable margin for Eurodollar Currency Rate loans is a percentage within a range of 1.75% to 2.25%, in each case based on the adjusted EBITDA (as defined in the Credit Agreement, "EBITDA") of the Borrowers at the end of each fiscal quarter and may be increased at PNC's option by 2.0% during the continuance of an event of default. Accrued interest with respect to principal amounts outstanding under the Credit Agreement is payable in arrears on a monthly basis for Alternative Base Rate loans, and at the end of the applicable interest period but at most every three months for Eurodollar Currency Rate loans. The interest rate at January 31, 2020 was 6.0%.

In March 2018, the Company amended the Credit Agreement increasing the limit on dividends and stock repurchases to \$2.0 million. As the result of the Company's non-compliance with certain covenants of the Credit Agreement at January 31, 2019, described below, the Company entered into Amendment No. 20 in April 2019 that eliminated the Company's ability to pay dividends or repurchase stock commencing on February 1, 2019 and ending January 31, 2020. In addition, the Credit Agreement contains numerous other covenants that limit under certain circumstances the ability of the Borrowers and their subsidiaries to, among other things, merge with or acquire other entities, incur new liens, incur additional indebtedness, sell assets outside of the ordinary course of business, enter into transactions with affiliates, or substantially change the general nature of the business of the Borrowers, taken as a whole.

The Credit Agreement requires the Company to maintain compliance with a minimum fixed charge coverage ratio. As of January 31, 2019, the Credit Agreement required the Company to maintain: (i) a minimum fixed charge coverage ratio of at least 1.10 to 1.00 for the four consecutive fiscal quarters ended January 31, 2019. The actual results of the Company with respect to the foregoing financial covenant for the period ended January 31, 2019 were as follows: (i) the Company maintained a fixed charge coverage ratio of greater than 0.96 to 1.00 for the four consecutive fiscal quarters ended January 31, 2019. Because the actual fixed charge coverage ratio did not meet the covenant, the Company violated its covenant at January 31, 2019. In April 2019, the Company entered into Amendment No. 20 to the Credit Agreement that waived the event of default at January 31, 2019 and amended the future minimum fixed charge coverage ratio covenant (as defined by the Credit Agreement) for fiscal 2020 and amended the minimum EBITDA covenant for the quarter ended April 30, 2019. The amended agreement requires the Company to maintain: (i) a minimum fixed charge coverage ratio as follows: (a) for the consecutive two fiscal quarter period ended July 31, 2019, 2.25 to 1.00, and (b) for each consecutive four fiscal quarter period ending thereafter, 1.10 to 1.00; and (ii) EBITDA of not less than negative \$5,000,000 for the three consecutive fiscal month period ended on April 30, 2019. In addition, certain restrictions were placed upon the Company's capital expenditures limiting the amount: (a) in the first fiscal quarter ended April 30, 2019 in an aggregate amount in excess of \$900,000, (b) in the consecutive two fiscal quarter periods ended July 31, 2019 in an aggregate amount in excess of \$1,900,000, (c) in the consecutive three fiscal quarter period ended October 31, 2019 in an aggregate amount in excess of (i) \$3,900,000, if an only if, the Borrowers' EBITDA for the consecutive two fiscal quarter period ended July 31, 2019 exceeds \$8,500,000 or (ii) \$2,900,000 if Borrowers' EBITDA for such period is less than or equal to \$8,500,000 and (d) in the consecutive four fiscal quarter period ended January 31, 2020 or any fiscal year thereafter, in an aggregate amount for all Borrowers in excess of \$8,000,000. The Company was in compliance with all quarterly debt covenants for the fiscal year ended January 31, 2020. We anticipate that based on our current operating plan for the next twelve months, we will remain in compliance with the covenants under the Credit Agreement. However, we are not able to estimate the full impact of the COVID-19 outbreak on our financial condition and results of operations given the inherent uncertainty as to when the COVID-19 pandemic will end, and businesses and schools will begin operations.

In addition, the Credit Agreement, in effect as of January 31, 2020, contains a clean-down provision that requires the Company to reduce borrowings under the line of credit to less than \$10,000,000 for a period of 30 consecutive days during the Company's fourth fiscal quarter of each fiscal year. The clean-down provision allows the Company to maintain the minimum outstanding balance of \$10,000,000 to be carried on an uninterrupted period extending beyond one year and ultimately due at the schedule maturity date in March 2023. The Company believes that normal operating cash flow will allow it to meet the clean-down requirement with no adverse impact on the Company's liquidity.

Events of default (subject to certain cure periods and other limitations) under the Credit Agreement include, but are not limited to, (i) non-payment of principal, interest or other amounts due under the Credit Agreement, (ii) the violation of terms, covenants, representations or warranties in the Credit Agreement or related loan documents, (iii) any event of default under agreements governing certain indebtedness of the Borrowers and certain defaults by the Borrowers under other agreements that would materially adversely affect the Borrowers, (iv) certain events of bankruptcy, insolvency or liquidation involving the Borrowers, (v) judgments or judicial actions against the Borrowers in excess of \$250,000, subject to certain conditions, (vi) the failure of the Company to comply with Pension Benefit Plans (as defined in the Credit Agreement), (vii) the invalidity of loan

documents pertaining to the Credit Agreement, (viii) a change of control of the Borrowers and (ix) the interruption of operations of any of the Borrowers' manufacturing facilities for five consecutive days during the peak season or 15 consecutive days during any other time, subject to certain conditions.

Pursuant to the Credit Agreement, substantially all of the Borrowers' accounts receivable are automatically and promptly swept to repay amounts outstanding under the Revolving Credit Facility upon receipt by the Borrowers. Due to this automatic liquidating nature of the Revolving Credit Facility, if the Borrowers breach any covenant, violate any representation or warranty or suffer a deterioration in their ability to borrow pursuant to the borrowing base calculation, the Borrowers may not have access to cash liquidity unless provided by PNC at its discretion. In addition, certain of the covenants and representations and warranties set forth in the Credit Agreement contain limited or no materiality thresholds, and many of the representations and warranties must be true and correct in all material respects upon each borrowing, which the Borrowers expect to occur on an ongoing basis. There can be no assurance that the Borrowers will be able to comply with all such covenants and be able to continue to make such representations and warranties on an ongoing basis.

The Company's line of credit with PNC is structured to provide seasonal credit availability during the Company's peak summer season. Approximately \$19,936,000 was available for borrowing as of January 31, 2020.

Long-Term Capital Requirements

In addition to short-term liquidity considerations, the Company continually evaluates long-term capital requirements.

The Company dramatically reduced capital spending and capital expenditures below depreciation from 2002 through 2017. Capital expenditures increased materially in fiscal 2018, primarily due to the \$7.2 million acquisition of a component manufacturing facility. This facility had previously been occupied under operating leases. Upon purchase of the building, annual depreciation expense for the building is anticipated to be approximately \$300,000 per year less than current rent expense. Annual debt service payments are anticipated to be approximately \$300,000 per year less than current rent expense. Capital expenditures will continue to focus on automation, both in the factory and software applications, and new product development along with the tooling and new processes required to produce new products. The Company has identified several opportunities for capital expenditures during the next five years. The Company anticipates capital spending of no more than \$5,000,000 for fiscal 2021. Our Revolving Credit Facility with PNC Bank provides a line for equipment and covenants allow for anticipated capital expenditures for fiscal 2021.

Retirement Obligations

The Company provides retirement benefits to employees under two defined benefit retirement plans; the Employee Plan and the VIP Plan. The Employee Plan is a qualified retirement plan that is funded through a trust held at PNC Bank ("Trustee"). The other plan is non-qualified retirement plan. Benefits payable under the VIP Plan are secured by life insurance policies and securities held in a rabbi trust. The Company obtains annual actuarial valuations for retirement plans.

Because the plans have been frozen for many years, there is no service cost related to the plans. In recent years, due to a large number of lump sum benefits paid to retired and terminated employees, the Company has incurred settlement costs for the Employee Plan. In effort to "de-risk" the Employee Plan, the Company intends to continue to reach out to and offer lump sum benefits to terminated and retired employees, which may result in settlement costs in the future. The Company incurred \$538,000 of settlement costs in fiscal 2019. The Company did not incur settlement costs in fiscal 2020. It is the Company's policy to contribute adequate funds to the trust accounts to cover benefit payments under the VIP Plan and to maintain the funded status of the Employee Plan at a level which is adequate to avoid significant restrictions to the Employee Plan under the Pension Protection Act of 2006. Contributions to the Qualified Plan Trust and benefit payments under the VIP Plan totaled \$954,000 in 2020 and \$1,080,000 in 2019.

Contributions during fiscal 2021 will depend upon actual investment results and benefit payments but are anticipated to be approximately \$1.0 million. At January 31, 2020, accumulated other comprehensive loss of approximately \$14.3 million, net of tax, is attributable to the pension plans.

The Company does not anticipate making any significant changes to the pension assumptions in the near future. If the Company were to have used different assumptions in the fiscal year ended January 31, 2020, a 1% reduction in investment return would have increased expense by approximately \$221,000, a 1% change in the rate of compensation increase would have no impact, and a 1% reduction in the discount rate would have increased expense by \$167,000.

Stockholders' Equity

The Company entered into a credit facility with PNC Bank in December 2011 that prohibited the Company from paying dividends and repurchasing any shares of its stock except in cases where a repurchase is financed by a substantially concurrent issuance of new shares of the Company's common stock. In March 2018, the Company entered into Amendment No. 17 which allows the Company to pay dividends or conduct stock repurchases in an amount up to \$2.0 million. Subsequent to January 31, 2019 the Company entered into Amendment No. 20 suspending the Company's ability to pay cash dividends or repurchase stock.

Virco issued a 10% stock dividend or 3/2 stock split every year beginning in 1983 through 2003. Although the stock dividend had no cash consequences to the Company, the accounting methodology required for 10% dividends has affected the equity section of the balance sheet. When the Company records a 10% stock dividend, 10% of the market capitalization of the Company on the date of the declaration is reclassified from retained earnings to additional paid-in capital. During the period from 1983 through 2003, the cumulative effect of the stock dividends has been to reclassify over \$122 million from retained earnings to additional paid-in capital. The equity section of the balance sheet on January 31, 2020 reflects additional paid-in capital of approximately \$119 million and accumulated deficit of approximately \$50 million. Other than the losses incurred during 2004-2006, 2011-2014 and 2018-2019 the accumulated deficit is a result of the accounting reclassification and is not the result of accumulated losses.

Environmental and Contingent Liabilities

Environmental Compliance

Virco is subject to numerous federal, state and local environmental laws and regulations in the various jurisdictions in which it operates that (a) govern operations that may have adverse environmental effects, such as the discharge of materials into the environment, as well as handling, storage, transportation and disposal practices for solid and hazardous wastes, and (b) impose liability for response costs and certain damages resulting from past and current spills, disposals or other releases of hazardous materials. In this context, Virco works diligently to remain in compliance with all such environmental laws and regulations as these affect the Company's operations. Moreover, Virco has enacted policies for recycling and resource recovery that have earned repeated commendations, including: recognition by the California Department of Resources Recycling and Recovery ("CalRecycle") in 2012 and 2011 as a Waste Reduction Awards Program ("WRAP") honoree; recognition by the United States Environmental Protection Agency in 2004 as a WasteWise Hall of Fame Charter Member, in 2003 as a WasteWise Partner of the Year and in 2002 as a WasteWise Program Champion for Large Businesses; and recognition by the Sanitation Districts of Los Angeles County for compliance with industrial waste water discharge guidelines in 2008 through 2011. This is only a partial list of Virco's environmental awards and commendations; for a more complete list, go to www.virco.com.

In addition to these awards and commendations, Virco's ZUMA and ZUMAFrd product lines were the first classroom furniture collections to earn indoor air quality certification through the stringent GREENGUARD® Children & Schools Program, now known as Greenguard Gold certification. As a follow-up to the certification of ZUMA and ZUMAFrd models in 2006, hundreds of other Virco furniture items - including Analogy furniture models and Textameter instructor workstations - have earned GREENGUARD certification. Moreover, all Virco products covered by the Consumer Product Safety Improvement Act of 2008 are in compliance with this legislation. All affected Virco models are also in compliance with the California Air Resources Board rule and Toxic Control Substances Act rule concerning formaldehyde emissions from composite wood products. Environmental laws have changed rapidly in recent years, and Virco may be subject to more stringent environmental laws in the future. The Company has expended, and may be expected to continue to expend, significant amounts in the future for compliance with environmental rules and regulations, for the investigation of environmental conditions, for the installation of environmental control equipment or remediation of environmental contamination. Normal recurring expenses relating to operating our factories in a manner that meets or exceeds environmental laws are matched to the cost of producing inventory. It is possible that the Company's operations may result in noncompliance with, or liability for remediation pursuant to, environmental laws. Should such eventualities occur, the Company records liabilities for remediation costs when remediation costs are probable and can be reasonably estimated. See **"Item 1A. Risk Factors: We could be required to incur substantial costs to comply with environmental requirements."** Violations of, and liabilities under, environmental laws and regulations may increase our costs or require us to change our business practices.

In fiscal 2020 and 2019, the Company was self-insured for product liability losses of up to \$250,000 per occurrence, general liability losses of up to \$250,000 per occurrence, workers' compensation losses up to \$250,000 per occurrence and auto liability up to \$50,000 per occurrence. In prior years the Company has been self-insured for workers' compensation, automobile, product, and general liability losses. The Company has purchased insurance to cover losses in excess of the self-insured retention or deductible up to a limit of \$30,000,000. For the insurance year beginning April 1, 2020, the Company will be self-insured for product liability losses up to \$250,000 per occurrence, general liability losses up to \$50,000 per occurrence, workers' compensation losses up to \$250,000 per occurrence, and auto liability up to \$50,000 per occurrence. In future years,

the Company's exposure to self-insured retentions will vary depending upon the market conditions in the insurance industry and the availability of cost-effective insurance coverage.

The Company has aggressively pursued a program to improve product quality, reduce product liability claims and losses and to aggressively defend product liability cases. This program has continued through fiscal 2020 and has resulted in reductions in product liability claims and litigated product liability cases. In addition, the Company has active safety programs to improve plant safety and control workers' compensation losses. Management does not anticipate that any related settlement, after consideration of the existing reserves for claims and potential insurance recovery, would have a material adverse effect on the Company's financial position, results of operations or cash flows.

Off-Balance Sheet Arrangements & Contractual Obligations

The Company did not enter into any material off-balance sheet arrangements during fiscal 2020, nor did the Company have any material off-balance sheet arrangements outstanding at January 31, 2020.

New Accounting Pronouncements

See disclosure of recently adopted and recently issued but not yet adopted accounting standards in **Note 2** to the Consolidated Financial Statements contained in **Item 8. Financial Statements and Supplementary Data** to this Annual Report on Form 10-K.

Item 7A. 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 2020 and are not required to provide the information under this item.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Virco Mfg. Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Virco Mfg. Corporation and subsidiaries (the "Company") as of January 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows, for each of the two fiscal years in the period ended January 31, 2020, and the related notes and the schedule listed in the Index at Item 15 (2) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two fiscal years in the period ended January 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective February 1, 2019, the Company adopted ASC 842, *Leases*, using the modified retrospective approach.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Los Angeles, California

April 30, 2020

We have served as the Company's auditor since 2018.

Virco Mfg. Corporation
Consolidated Balance Sheets

	January 31,	
	2020	2019
	(In thousands, except share and par value data)	
Assets		
Current assets		
Cash	\$ 1,150	\$ 738
Trade accounts receivables (net of allowance for doubtful accounts of \$200 at January 31, 2020 and 2019)	11,762	13,253
Other receivables	57	40
Income tax receivable	298	175
Inventories, net	43,329	47,289
Prepaid expenses and other current assets	1,746	1,616
Total current assets	58,342	63,111
Property, plant and equipment		
Land	3,731	3,731
Land improvements	717	688
Buildings and building improvements	51,200	51,176
Machinery and equipment	110,610	108,253
Leasehold improvements	990	830
Total property, plant and equipment	167,248	164,678
Less accumulated depreciation and amortization	127,351	122,758
Net property, plant and equipment	39,897	41,920
Operating lease right-of-use assets	21,325	—
Deferred income tax assets, net	11,230	9,598
Other assets	8,198	8,484
Total assets	\$ 138,992	\$ 123,113

See accompanying notes to consolidated financial statements.

Virco Mfg. Corporation
Consolidated Balance Sheets

	January 31,	
	2020	2019
	(In thousands, except share and par value data)	
Liabilities		
Current liabilities		
Accounts payable	\$ 10,587	\$ 17,760
Accrued compensation and employee benefits	6,392	4,568
Current portion of long-term debt	878	5,504
Current portion operating lease liability	3,654	—
Other accrued liabilities	3,607	4,293
Total current liabilities	<u>25,118</u>	<u>32,125</u>
Non-current liabilities		
Accrued self-insurance	1,410	1,190
Accrued retirement benefits	21,310	14,487
Income tax payable	70	45
Long-term debt, less current portion	15,818	15,910
Operating lease liability, less current portion	19,787	—
Other long-term liabilities	661	2,329
Total non-current liabilities	<u>59,056</u>	<u>33,961</u>
Commitments and contingencies		
Stockholders' equity		
Preferred stock:		
Authorized 3,000,000 shares, \$.01 par value; none issued or outstanding	—	—
Common stock:		
Authorized 25,000,000 shares, \$.01 par value; issued and outstanding 15,713,549 shares in 2020 and 15,541,956 shares in 2019	157	155
Additional paid-in capital	118,782	118,106
Accumulated deficit	(49,810)	(52,192)
Accumulated other comprehensive loss	(14,311)	(9,042)
Total stockholders' equity	<u>54,818</u>	<u>57,027</u>
Total liabilities and stockholders' equity	<u>\$ 138,992</u>	<u>\$ 123,113</u>

See accompanying notes to consolidated financial statements.

Virco Mfg. Corporation
Consolidated Statements of Operation

	Year ended January 31,	
	2020	2019
(In thousands, except per share data)		
Net sales	\$ 191,063	\$ 200,716
Costs of goods sold	119,388	133,635
Gross profit	71,675	67,081
Selling, general and administrative expenses	65,726	64,751
Loss (gain) on sale of property, plant & equipment	34	(1)
Operating income	5,915	2,331
Pension expense	726	1,257
Interest expense, net	2,462	2,191
Income (loss) before income taxes	2,727	(1,117)
Income tax expense	345	497
Net income (loss)	<u>\$ 2,382</u>	<u>\$ (1,614)</u>
Net income (loss) per common share:		
Basic	\$ 0.15	\$ (0.10)
Diluted	\$ 0.15	\$ (0.10)
Weighted average shares outstanding:		
Basic	15,590	15,421
Diluted	15,694	15,421

See accompanying notes to consolidated financial statements.

Virco Mfg. Corporation
Consolidated Statements of Comprehensive Loss

	Years ended January 31,	
	2020	2019
	(In thousands)	
Net income (loss)	\$ 2,382	\$ (1,614)
Other comprehensive (loss) income		
Pension adjustments (net of tax benefit (expense) \$1,840 and (\$76) in 2020 and 2019, respectively)	(5,269)	217
Comprehensive loss	\$ (2,887)	\$ (1,397)

See accompanying notes to consolidated financial statements.

Virco Mfg. Corporation
Consolidated Statements of Stockholders' Equity

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, 2018	15,357,457	\$ 154	\$ 117,465	\$ (49,648)	\$ (9,259)	\$ 58,712
Net loss	—			(1,614)	—	(1,614)
Pension adjustments, net of tax expense of \$76	—	—	—	—	217	217
Cash dividends	—			(930)	—	(930)
Shares vested	184,499	1	(267)	—	—	(266)
Stock compensation expense	—	—	908	—	—	908
Balance at January 31, 2019	15,541,956	\$ 155	\$ 118,106	\$ (52,192)	\$ (9,042)	\$ 57,027
Net income	—	—	—	2,382	—	2,382
Pension adjustments, net of tax benefit of \$1,840	—	—	—	—	(5,269)	(5,269)
Shares vested	171,593	2	(248)	—	—	(246)
Stock compensation expense	—	—	924	—	—	924
Balance at January 31, 2020	15,713,549	\$ 157	\$ 118,782	\$ (49,810)	\$ (14,311)	\$ 54,818

See accompanying notes to consolidated financial statements.

Virco Mfg. Corporation
Consolidated Statements of Cash Flows

	Year Ended January 31,	
	2020	2019
(In thousands)		
Operating activities		
Net income (loss)	\$ 2,382	\$ (1,614)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,769	5,791
Non-cash lease expense	341	—
Provision for doubtful accounts	83	(3)
Loss (gain) on sale of property, plant and equipment	34	(1)
Deferred income taxes	209	419
Stock-based compensation	924	908
Defined benefit plan, recognized net loss due to settlements	—	538
Amortization of net actuarial loss for pension plans	776	795
Changes in operating assets and liabilities:		
Trade accounts receivable	1,408	(1,868)
Other receivables	(17)	(10)
Inventories	3,960	(5,232)
Income taxes	(97)	(3)
Prepaid expenses and other current assets	215	(79)
Accounts payable and accrued liabilities	(6,228)	2,722
Net cash provided by operating activities	9,759	2,363
Investing activities		
Capital expenditures	(4,216)	(5,395)
Proceeds from sale of property, plant and equipment	17	3
Proceeds for life insurance	5	5
Investments in life insurance	(64)	(61)
Net cash used in investing activities	(4,258)	(5,448)
Financing activities		
Proceeds from long-term debt	39,770	54,711
Repayment of long-term debt	(44,488)	(49,978)
Tax withholding payments on share-based compensation	(246)	(265)
Payment on deferred financing costs	(125)	(249)
Cash dividend paid	—	(930)
Net cash (used in) provided by financing activities	(5,089)	3,289
Net increase in cash	412	204
Cash at beginning of year	738	534
Cash at end of year	\$ 1,150	\$ 738
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	\$ 2,462	\$ 2,191
Income tax, net of refunds	81	96

See accompanying notes to consolidated financial statements.

VIRCO MFG. CORPORATION

Notes to Consolidated Financial Statements

January 31, 2020

1. Summary of Business and Significant Accounting Policies

Business

Virco Mfg. Corporation (the “Company”), which operates in one business segment, is engaged in the design, production and distribution of quality furniture for the commercial and education markets. Over 70 years of manufacturing operations have resulted in a wide product assortment. Major products include mobile tables, mobile storage equipment, desks, computer furniture, chairs, activity tables, folding chairs and folding tables. The Company manufactures its products in Torrance, California, and Conway, Arkansas, for sale primarily in the United States.

The Company operates in a seasonal business and requires significant amounts of working capital under its credit facility to fund acquisitions of inventory and finance receivables during the summer delivery season. Restrictions imposed by the terms of the Company’s credit facility may limit the Company’s operating and financial flexibility (see Note 3).

Principles of Consolidation

The consolidated financial statements include the accounts of Virco Mfg. Corporation and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Management Use of Estimates

Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities - and disclosure of contingent assets and liabilities - at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. 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. Actual results could differ from these estimates.

Fiscal Year End

Fiscal years 2020 and 2019 refer to the fiscal years ended January 31, 2020 and 2019, respectively.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. Sales to the Company’s recurring customers are generally made on open account with terms consistent with the industry. Credit is extended based on an evaluation of the customer’s financial condition and payment history. Past due accounts are determined based on how recently payments have been made in relation to the terms granted. Amounts are written off against the allowance in the period that the Company determines that the receivable is not collectable. The Company purchases insurance on receivables from certain commercial customers to minimize the Company’s credit risk. The Company does not typically obtain collateral to secure credit risk. Customers with inadequate credit are required to provide cash in advance or letters of credit. The Company does not assess interest on receivable balances. A substantial percentage of the Company’s receivables come from low-risk government entities. No customer exceeded 10% of the Company’s net sales for fiscal years ended January 31, 2020 and 2019. Foreign net sales were approximately 6.4% and 6.7% of the Company’s net sales for fiscal years 2020 and 2019, respectively.

No single customer accounted for more than 10% of the Company’s accounts receivable at January 31, 2020 or 2019. Because of the short time between shipment and collection, the net carrying value of receivables approximates the fair value for these assets.

Cash

Cash consists of cash on hand, and the Company has no cash equivalents. Outstanding checks, representing a book overdraft, are classified in accounts payable on the accompanying consolidated balance sheets and in operating activities in the accompanying consolidated statements of cash flows.

Fair Values of Financial Instruments

The fair values of the Company's cash, accounts receivable, and accounts payable approximate their carrying amounts due to their short-term nature.

Financial assets and liabilities measured at fair value on a recurring basis are classified in one of the three following categories, which are described below:

Level 1 — Valuations based on unadjusted quoted prices for identical assets in an active market.

Level 2 — Valuations based on quoted prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets.

Level 3 — Valuations based on inputs that are unobservable and involve management judgment and our own assumptions about market participants and pricing.

Financial assets measured at fair value on a recurring basis include assets associated with the Virco Employees Retirement Plan (see **Note 4**).

Inventories

Inventory is valued at the lower of cost or net realizable value (determined on a first-in, first-out basis) and includes material, labor and factory overhead. The Company maintains valuation allowances to write off estimated slow moving and obsolete inventory to reflect the difference between the lower of cost of inventory and the net realizable value. 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 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 an updated breakdown of the Company's net inventory (in thousands) as of January 31:

	2020	2019
Finished goods	\$ 15,401	\$ 15,908
Work In Process	15,957	18,820
Raw materials	11,971	12,561
Inventories, net	<u>\$ 43,329</u>	<u>\$ 47,289</u>

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation and amortization are computed on the straight-line method for financial reporting purposes based upon the following estimated useful lives:

Land improvements	5 to 25 years
Buildings and building improvements	5 to 40 years
Machinery and equipment	3 to 10 years
Leasehold improvements	shorter of lease or useful life

The Company capitalizes the cost of betterments that extend the life of an asset. Repairs and maintenance that do not extend the life of an asset are expensed as incurred. Repair and maintenance expense were \$1,960,000 and \$2,145,000 for fiscal years ended January 31, 2020 and 2019, respectively. Property, plant and equipment purchased during the year that remains unpaid as of January 31, 2020 and 2019 was \$173,000 and \$593,000, respectively.

The Company has established asset retirement obligations related to leased manufacturing facilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 410, *Asset Retirement and Environmental Obligations*. Accrued asset retirement obligations are recorded at net present value and discounted over the life of the lease. Asset retirement obligations, included in other non-current liabilities were \$186,000 and \$179,000 at January 31, 2020 and 2019, respectively.

	January 31,	
	2020	2019
Balance at beginning of period	\$ 179,000	\$ 170,000
Decrease in obligation	—	—
Accretion expense	7,000	9,000
Balance at end of period	<u>\$ 186,000</u>	<u>\$ 179,000</u>

Impairment of Long-Lived Assets

An impairment loss is recognized in the event facts and circumstances indicate the carrying amount of a long-lived asset may not be recoverable, and an estimate of future undiscounted cash flows is less than the carrying amount of the asset. Impairment is recorded based on the excess of the carrying amount of the impaired asset over the fair value. Generally, fair value represents the Company's expected future cash flows from the use of an asset or group of assets, discounted at a rate commensurate with the risks involved. There were no impairments for fiscal years ended January 31, 2020 and 2019.

Net Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding. Diluted net income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding plus the dilutive effect of stock award grants. The following table sets forth the computation of basic and diluted loss per share:

	January 31,	
	2020	2019
	(In thousands, except per share)	
Numerator		
Net income (loss)	\$ 2,382	\$ (1,614)
Denominator		
Weighted-average shares — basic	15,590	15,421
Dilutive effect of common stock equivalents from equity incentive plans	104	—
Weighted-average shares — diluted (a)	<u>\$ 15,694</u>	<u>\$ 15,421</u>
Net income (loss) per common share		
Basic	\$ 0.15	\$ (0.10)
Diluted	0.15	(0.10)

(a) For fiscal year 2019, approximately 149,000 shares of common stock equivalents were excluded in the computation of diluted net income per share, as the effect would be anti-dilutive since the Company reported a net loss.

Environmental Costs

The Company is subject to numerous environmental laws and regulations in the various jurisdictions in which it operates that (a) govern operations that may have adverse environmental effects, such as the discharge of materials into the environment, as well as handling, storage, transportation and disposal practices for solid and hazardous wastes, and (b) impose liability for response costs and certain damages resulting from past and current spills, disposals or other releases of hazardous materials.

Normal, recurring expenses related to operating the Company's factories in a manner that meets or exceeds environmental laws and regulations are matched to the cost of producing inventory.

Despite our efforts to comply with existing laws and regulations, compliance with more stringent laws or regulations or stricter interpretation of existing laws, may require additional expenditures by us, some of which may be material. We reserve amounts for such matters when expenditures are probable and reasonably estimable.

Costs incurred to investigate and remediate environmental waste are expensed, unless the remediation extends the useful life of the assets employed at the site. At January 31, 2020 and 2019, the Company had not capitalized any remediation costs and had not recorded any amortization expense in fiscal years 2020 and 2019.

Advertising Costs

Advertising costs are expensed in the period during which the advertising space is run. Selling, general and administrative expenses include advertising costs for the years ended January 31, 2020 and 2019 of \$1,030,000 and \$1,134,000, respectively, and are expensed as incurred. Prepaid advertising costs reported as a prepaid asset on the accompanying consolidated balance sheet at January 31, 2020 and 2019, were \$300,000 and \$254,000, respectively.

Product Warranty Expense

The Company provides a product warranty on most products. The standard warranty offered on products sold through January 31, 2013 is ten years. Effective February 1, 2014 through December 31, 2016, the Company modified its warranty to a limited lifetime warranty. Effective January 1, 2017, the Company modified the warranty offered to provide specific warranty periods by product component, with no warranty period longer than ten years. The Company generally provides that customers can return a defective product during the specified warranty period following purchase in exchange for a replacement product or the repair of the product by the Company at no charge to the customer. The Company determines whether replacement or repair is appropriate in each circumstance. The Company uses historic data to estimate appropriate levels of warranty reserves. Because product mix, production methods and raw material sources change over time, historic data may not always provide precise estimates for future warranty expense. The Company recorded warranty reserves of \$800,000 and \$700,000 as of January 31, 2020 and 2019, respectively, as other long-term liabilities in the accompanying consolidated balance sheets. The current portion of the warranty reserve was \$325,000 as of January 31, 2020 and 2019 and included in other accrued liabilities in the accompanying consolidated balance sheets.

Self-Insurance

In fiscal 2020 and 2019, the Company was self-insured for product and general liability losses up to \$250,000 per occurrence, workers' compensation losses up to \$250,000 per occurrence, and auto liability up to \$50,000 per occurrence. Actuaries assist the Company in determining its liability for the self-insured component of claims, which have been discounted to their net present value utilizing a discount rate of 4.00% in fiscal 2020 and 4.00% in fiscal 2019.

Stock-Based Compensation Plans

The Company recognizes stock-based compensation cost for shares that are expected to vest, on a straight-line basis, over the requisite service period of the award.

Virco issued a 10% stock dividend or 3/2 stock split every year beginning in 1983 through 2003. Although the stock dividend had no cash consequences to the Company, the accounting methodology required for 10% dividends affected the equity section of the balance sheet. When the Company recorded a 10% stock dividend, 10% of the market capitalization of the Company on the date of the declaration was reclassified from retained earnings to additional paid-in capital. During the period from 1983 through 2003, the cumulative effect of the stock dividends has been to reclassify over \$122 million from retained earnings to additional paid-in capital. The equity section of the balance sheet on January 31, 2020 reflects additional paid-in capital of approximately \$119 million and accumulated deficit of approximately \$50 million. Other than the losses incurred during 2004-2006, 2011-2014 and 2018-2019, the accumulated deficit is a result of the accounting reclassification and is not the result of accumulated losses.

Accumulated Other Comprehensive (Loss) Income, Net of Tax

The following table summarizes the changes in accumulated balances of other comprehensive (loss) income for the years ended January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
Balance as of beginning of year	\$ (9,042)	\$ (9,259)
Other comprehensive (loss) income before reclassifications	(6,045)	(1,116)
Amounts reclassified from AOCI	776	1,333
Net current period other comprehensive income	(5,269)	217
Balance as of end of year	<u>\$ (14,311)</u>	<u>\$ (9,042)</u>

The reclassifications out of accumulated other comprehensive (loss) income of \$776,000 and \$1,333,000 for the years ended January 31, 2020 and 2019, respectively, related to amortization of actuarial losses and settlements.

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.

The Company generates revenue primarily by manufacturing and distributing products through resellers and direct-to-customers. Control transfers to both resellers and direct customers at a point in time when the delivery process is complete as determined by the corresponding shipping terms. Therefore, we do not consider them 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.

For product produced by and sourced from third parties, management has determined that it is the principal in all cases, since it (i) bears primary responsibility for fulfilling the promise to the customer; (ii) bears inventory risk before and/or after the good or service is transferred to the customer; and (iii) has discretion in establishing the price for the sale of good or service to the customer.

Delivery Costs

For the fiscal years ended January 31, 2020 and 2019, shipping and classroom delivery costs of approximately \$20,552,000, \$22,150,000, respectively, were included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Accounting for 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 FASB ASC Topic 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. A valuation allowance against deferred tax assets is recorded when it is determined to be more likely than not that the asset will not be realized.

2. New Accounting Pronouncements

Recently Adopted Accounting Updates:

The Company adopted Accounting Standards Codification (“ASC”) 842 - *Leases*, as of February 1, 2019, using transition relief to the modified retrospective approach. The transition relief to the modified retrospective approach allows the recording of existing leases at adoption and recognizing a cumulative-effect adjustment to the opening balance of retained earnings on the adoption date. As a result, the Company did not restate comparative periods in transition to ASC 842 and instead reported comparative periods under ASC 840 - *Leases*. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification. Further, the Company did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment of right-of-use (“ROU”) assets. The Company has elected to account for leases with an original term of 12 months or less that do not contain a purchase option as short-term leases.

Adoption of the new standard resulted in the recording of ROU assets and lease liabilities of approximately \$23.9 million and \$25.6 million respectively, as of February 1, 2019. The difference between the ROU assets and lease liabilities was due to previous deferred rent balances that were removed and offset against the ROU asset under ASC 842. The adoption of this standard did not materially impact our consolidated statement of operations, shareholders’ equity or cash flows. See **Note 7** for additional disclosures.

The Company determines if an arrangement is a lease at inception. Operating leases in which the Company is the lessee are included in operating lease ROU assets and operating lease liabilities in the consolidated balance sheet. The Company does not have any finance leases, as a lessee, and no long-term leases for which it is the lessor.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the reasonably certain lease term. As most of the Company’s leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date, such as the lease term and Company specific risk premium, in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made and reduced by lease incentives, such as tenant improvement allowances. 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 lease payments is recognized on a straight-line basis over the lease term.

The Company has elected the practical expedient to account for non-lease components and the lease components to which they relate, as a single lease component for the following asset classes: (i) Buildings, (ii) Equipment, and (iii) Automobiles.

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock compensation (Topic 718)* which simplifies several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. Some of the areas for simplification apply only to nonpublic entities. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers*. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company adopted this ASU effective February 1, 2019. The adoption of the standard did not materially impact the Condensed Consolidated Statements of Operations, Comprehensive Income or Cash Flows and Statement of Stockholders' Equity and Comprehensive Income (Loss).

Recently Issued Accounting Updates But Not Yet Adopted:

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 new standard becomes effective for the Corporation in fiscal 2021. The Corporation is currently evaluating the effect the standard will have on consolidated financial statements and related disclosures.

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. We do not expect this new standard to have a significant impact to our 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 does not believe there will be a material impact to the financial statements as a result of adopting this ASU.

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.

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 amendments in this update are effective for all entities for fiscal years beginning after December 15, 2019 including interim periods within that fiscal year. Early adoption is permitted. The Company does not believe there will be a material impact to the financial statements as a result of adopting this ASU.

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

3. Debt

Outstanding balances (in thousands) for the Company’s long-term debt were as follows:

	January 31,	
	2020	2019
Revolving credit line	\$ 9,969	\$ 14,858
Other	6,727	6,556
Total debt	16,696	21,414
Less current portion	878	5,504
Non-current portion	\$ 15,818	\$ 15,910

The Company has a Revolving Credit and Security Agreement (the “Credit Agreement”) with PNC Bank, National Association, as administrative agent and lender (“PNC”). The credit agreement has been amended twenty times since it’s 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 line of credit that is subject to a borrowing base limitation and generally provides for advances of up to 85% of eligible accounts receivable, plus a percentage equal to the lesser of 60% of the value of eligible inventory or 85% of the liquidation value of eligible inventory, plus \$15,000,000 from January 1 through July 31 of each year, minus undrawn amounts of letters of credit and reserves. The Credit Agreement is secured by substantially all of the Borrowers' personal property and certain of the Borrowers' real property. The principal amount outstanding under the Credit Agreement and any accrued and unpaid interest is due no later than 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.

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 0.75% to 1.25%, and the applicable margin for Eurodollar Currency Rate loans is a percentage within a range of 1.75% to 2.25%, in each case based on the adjusted EBITDA (as defined in the Credit Agreement, "EBITDA") of the Borrowers at the end of each fiscal quarter and may be increased at PNC's option by 2.0% during the continuance of an event of default. Accrued interest with respect to principal amounts outstanding under the Credit Agreement is payable in arrears on a monthly basis for Alternative Base Rate loans, and at the end of the applicable interest period but at most every three months for Eurodollar Currency Rate loans. The interest rate at January 31, 2020 was 6.00%.

In March 2019, the Company entered into Amendment No. 19 which, among other things, (i) increased the Maximum Revolving Advance Amount to \$65,000,000 with seasonal adjustments to the credit limit and subject to borrowing base limitations, (ii) increased seasonal advance to \$15,000,000 from January to July of each year, (iii) increased equipment loan to \$2,000,000, (iv) to reduce borrowings under the line to less than or equal to \$10,000,000 for a period of 30 consecutive days during the fourth quarter of each fiscal year ("clean-down provision"). In connection with Amendment No. 19, the Borrowers also agreed to pay to PNC Bank a non-refundable fee of \$24,000. The clean-down provision allows the Company to maintain a minimum outstanding balance to be carried on an uninterrupted period extending beyond one year and ultimately due at the schedule maturity date in March 2023. The Company believes that normal operating cash flow will allow it to meet the clean-down provision requirement with no adverse impact on the Company's liquidity.

Events of default (subject to certain cure periods and other limitations) under the Credit Agreement include, but are not limited to, (i) non-payment of principal, interest or other amounts due under the Credit Agreement, (ii) the violation of terms, covenants, representations or warranties in the Credit Agreement or related loan documents, (iii) any event of default under agreements governing certain indebtedness of the Borrowers and certain defaults by the Borrowers under other agreements that would materially adversely affect the Borrowers, (iv) certain events of bankruptcy, insolvency or liquidation involving the Borrowers, (v) judgments or judicial actions against the Borrowers in excess of \$250,000, subject to certain conditions, (vi) the failure of the Company to comply with Pension Benefit Plans (as defined in the Credit Agreement), (vii) the invalidity of loan documents pertaining to the Credit Agreement, (viii) a change of control of the Borrowers and (ix) the interruption of operations of any of the Borrowers' manufacturing facilities for five consecutive days during the peak season or fifteen consecutive days during any other time, subject to certain conditions. For the year ended January 31, 2020, the Company was in compliance with the covenants. For the year ended January 31, 2019, the Company was in violation of the minimum fixed charge coverage ratio resulting in an Event of Default.

In April 2019, the Company entered into Amendment No. 20 which, among other things, waived a covenant violation for the fourth quarter of fiscal 2019, amended the minimum EBITDA covenant and the fixed charge coverage ratio for fiscal 2020, and eliminated the Company's ability to pay dividends or repurchase stock commencing on February 1, 2019. The fixed charge coverage ratio is as follows: (i) for the consecutive two fiscal quarter period ended July 31, 2019, 2.25 to 1.00, and (ii) for each consecutive four fiscal quarter period of Borrowers ending thereafter, 1.10 to 1.00. Minimum EBITDA for the three consecutive fiscal month period ended on April 30, 2019, may not be less than (negative) \$5,000,000. In addition, certain restrictions were placed upon the Company's capital expenditures limiting the amount: (a) in the first fiscal quarter ended April 30, 2019 in an aggregate amount in excess of \$900,000, (b) in the consecutive two fiscal quarter periods ended July 31, 2019 in an aggregate amount in excess of \$1,900,000, (c) in the consecutive three fiscal quarter period ended October 31, 2019 in an aggregate amount in excess of (i) \$3,900,000, if an only if, the Borrowers' EBITDA for the consecutive two fiscal quarter period ended July 31, 2019 exceeds \$8,500,000 or (ii) \$2,900,000 if Borrowers' EBITDA for such period is less than or equal to \$8,500,000 and (d) in the consecutive four fiscal quarter period ended January 31, 2020 or any fiscal year thereafter, in an aggregate amount for all Borrowers in excess of \$8,000,000. In connection with Amendment No. 20 the Borrowers also agreed to pay to PNC Bank a non-refundable fee of \$125,000. As of January 31, 2020, the Company was in compliance with these covenants.

Pursuant to the Credit Agreement, 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. In addition, certain of the covenants and representations and warranties set forth in the Credit Agreement contain limited or no materiality thresholds, and many of the representations and warranties must be true and correct in all material respects upon each borrowing, which the Borrowers expect to occur on an ongoing basis. There can be no assurance that the Borrowers will be able to comply with all such covenants and be able to continue to make such representations and warranties on an ongoing basis.

The Company's line of credit with PNC is structured to provide seasonal credit availability during the Company's peak summer season. Approximately \$19,936,000 was available for borrowing as of January 31, 2020.

As of January 31, 2020, long-term debt repayments are approximately as follows (in thousands):

Year ending January 31,	
2021	\$ 878
2022	10,967
2023	229
2024	238
2025	248
Thereafter	4,136

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

4. Retirement Plans

Pension Plans

The Company maintains two defined benefit pension plans, the Virco Employees Retirement Plan ("Employee Plan"), and the Virco Important Performers Retirement Plan ("VIP Plan"). The annual measurement date for both plans is January 31. The Company and its subsidiaries cover all employees hired prior to December 31, 2003 under the Employee Plan, which is a qualified noncontributory defined benefit retirement plan. Benefits under the Employee Plan are based on years of service and career average earnings. Benefit accruals under the Employee Plan were frozen effective December 31, 2003. All benefits were fully vested on January 31, 2020 and 2019.

The Company also provides a supplementary retirement plan for certain key employees, the VIP Plan. The VIP Plan provides a benefit up to 50% of average compensation for the last five years in the VIP Plan offset by benefits earned under the Employee Plan. Benefit accruals under the VIP Plan were frozen effective December 31, 2003. Substantially all assets, consisting of life insurance contracts, securing the VIP Plan are held in a rabbi trust. The cash surrender values of the life insurance policies are included in other assets and money market funds in the accompanying consolidated balance sheets. The cash surrender values of the life insurance policies securing the VIP Plan were \$3,384,000 and \$3,469,000 at January 31, 2020 and 2019, respectively. Death benefits payable under life insurance policies held by the Plan were approximately \$8,919,000 and \$9,102,000 at January 31, 2020 and 2019, respectively.

Accounting policy regarding pensions requires management to make complex and subjective estimates and assumptions relating to amounts which are inherently uncertain. Three primary economic assumptions influence the reported values of plan liabilities and pension costs. The Company takes the following factors into consideration: discount rate, assumed rate of return and rate of increase in compensation.

The discount rate represents an estimate of the rate of return on a portfolio of high-quality, fixed-income securities that would provide cash flows that match the expected benefit payment stream from the plans. When setting the discount rate, the Company utilizes a spot-rate yield curve developed from high-quality bonds currently available which reflects changes in rates that have occurred over the past year. This assumption is sensitive to movements in market rates that have occurred since the preceding valuation date, and therefore, may change from year to year. Discount rate ranges for the Employee Plan and the VIP Plan 3.0% - 3.05% and 3.75% - 4.0% at January 31, 2020 and 2019, respectively.

Because the Company's future benefit accruals for both benefit plans were frozen in 2013, the compensation increase assumption had no impact on pension expense, accumulated benefit obligation or projected benefit obligation for the period ended January 31, 2020 or 2019.

The assumed rate of return on plan assets represents an estimate of long-term returns available to investors who hold a mixture of stocks, bonds and cash equivalent securities. When setting its expected return on plan asset assumptions, the Company considers long-term rates of return on various asset classes (both historical and forecasted, using data collected from various sources generally regarded as authoritative) in the context of expected long-term average asset allocations for its defined benefit pension plan.

The Company maintains a trust for and funds the pension obligations for the Employee Plan. The Board of Directors appoints a Retirement Plan Committee that establishes a policy for investment and funding strategies. Approximately 50% of the trust assets are managed by investment advisors and held in common trust funds with the balance managed by the Retirement Plan Committee. The Retirement Plan Committee has established target asset allocations for its investment advisors, who invest the trust assets in a variety of institutional collective trust funds. The Company's investment advisors have developed a funding strategy that moves fund asset allocation from equity and other investments to fixed income instruments designed to mirror the changes in discount rates as the Plan becomes more fully funded. At January 31, 2020, approximately 12% of the trust assets were held in these investments. The Retirement Plan Committee receives quarterly reports addressing investment returns, funded status of the plan and progress on the glidepath to fully funded status from the investment advisors and meets periodically with them to discuss investment performance. At January 31, 2020 and 2019, the amount of the plan assets invested in bond or short-term investment funds was 16% and 16%, respectively, and the balance of the trust was held in equity funds or other investments. The trust does not hold any Company stock.

It is the Company's policy to contribute adequate funds to the trust accounts to cover benefit payments under the VIP Plan and to maintain the funded status of the Employee Plan at a level which is adequate to avoid significant restrictions to the Employee Plan under the Pension Protection Act of 2006. Contributions to the Qualified Plan Trust and benefit payments under the VIP Plan totaled \$954,000 in fiscal 2020 and \$1,080,000 in fiscal 2019. Contributions during fiscal 2021 will depend upon actual investment results and benefit payments but are anticipated to be approximately \$0.6 million. At January 31, 2020, accumulated other comprehensive loss of approximately \$14.3 million, net of tax, is attributable to the pension plans.

The Company does not anticipate making any significant changes to the pension assumptions in the near future. If the Company were to have used different assumptions in the fiscal year ended January 31, 2020, a 1% reduction in investment return would have increased expense by approximately \$221,000, a 1% change in the rate of compensation increase would have no impact, and a 1% reduction in the discount rate would have increased expense by \$167,000.

The following tables set forth (in thousands) the combined funded status of the Company's pension plans at January 31, 2020 and 2019:

	Combined Employee Retirement Plans	
	1/31/2020	1/31/2019
Change in Benefit Obligation		
Benefit obligation at beg. of year	\$ 36,299	\$ 40,181
Service cost	—	—
Interest cost	1,382	1,459
Participant contributions	—	—
Amendments	—	—
Actuarial losses (gains)	8,280	(2,044)
Plan settlement	—	(2,176)
Benefits paid	(2,669)	(1,121)
Benefit obligation at end of year	<u>\$ 43,292</u>	<u>\$ 36,299</u>
Change in Plan Assets		
Fair value at beg. of year	\$ 23,527	\$ 27,259
Actual return on plan assets	1,806	(1,557)
Company contributions	990	1,122
Settlements	—	(2,176)
Benefits paid	(2,669)	(1,121)
Fair value at end of year	<u>\$ 23,654</u>	<u>\$ 23,527</u>
Funded Status		
Unfunded status of the plans	<u>\$ (19,638)</u>	<u>\$ (12,772)</u>
Amounts Recognized in Statement of Financial Position		
Current liabilities	\$ (314)	\$ (322)
Non-current liabilities	(19,324)	(12,450)
Accrued benefit cost	<u>\$ (19,638)</u>	<u>\$ (12,772)</u>
Amounts Recognized in Statement of Financial Position and Operations		
Accrued benefit liability	(19,638)	(12,772)
Accumulated other compensation loss	15,427	8,319
Net amount recognized	<u>\$ (4,211)</u>	<u>\$ (4,453)</u>
Items not yet Recognized as a Component of Net Periodic Pension Expense, Included in AOCI		
Unrecognized net actuarial loss	\$ 15,427	\$ 8,319
Unamortized prior service costs	—	—
Net initial asset recognition	—	—
	<u>\$ 15,427</u>	<u>\$ 8,319</u>

	Combined Employee Retirement Plans	
	1/31/2020	1/31/2019
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income		
Net loss	\$ 7,885	\$ 1,039
Prior service cost	—	—
Amortization of loss	(776)	(1,333)
Amortization of prior service cost (credit)	—	—
Amortization of initial asset	—	—
Total recognized in other comprehensive income (loss)	<u>\$ 7,109</u>	<u>\$ (294)</u>
Items to be Recognized as a Component of Periodic Pension Cost for next fiscal year		
Prior service cost	\$ —	\$ —
Net actuarial loss	1,872	706
	<u>\$ 1,872</u>	<u>\$ 706</u>
Supplemental Data		
Projected benefit obligation	\$ 43,292	\$ 36,299
Accumulated benefit obligation	43,292	36,299
Fair value of plan assets	23,654	23,527
Components of Net Cost		
Service cost	\$ —	\$ —
Interest cost	1,382	1,459
Expected return on plan assets	(1,432)	(1,535)
Amortization of transition amount	—	—
Recognized (gain) loss due to settlement	—	—
Amortization of prior service cost	—	—
Recognized net actuarial loss	776	1,333
Benefit cost	<u>\$ 726</u>	<u>\$ 1,257</u>
Estimated Future Benefit Payments		
FYE 01-31-2021	\$ 6,114	
FYE 01-31-2022	2,992	
FYE 01-31-2023	2,641	
FYE 01-31-2024	2,549	
FYE 01-31-2025	3,067	
FYE 01-31-2026 to 2030	11,960	
Total	<u>\$ 29,323</u>	
Weighted Average Assumptions to Determine Benefit Obligations at Year-End		
Discount rate	3.00% - 3.05%	3.75% - 4.0%
Rate of compensation increase	N/A	N/A
Weighted Average Assumptions to Determine Net Periodic Pension Cost		
Discount rate	4.10%	4.25%
Expected return on plan assets	6.50%	6.50%
Rate of compensation increase	N/A	N/A

The Employee Plan held no Level 2 or 3 investments at January 31, 2020 and 2019. The following table sets for the fair value of the Level 1 investments for the Employee Plan as of January 31, 2020 and 2019 (in thousands):

Fair Value Measurements of Plan Assets
Employee Plan

	<u>1/31/2020</u>	<u>1/31/2019</u>
Level 1 Measurement		
Common Stock	10,080	9,345
Principal Money Market	799	—
PNC Govt Money Fund	175	630
Vanguard INTM Term Investment	250	283
Vanguard LT Investment	1,161	1,304
Ishares Russell 2000	1,560	1,672
Ishares Russell MID-CAP	1,850	1,890
Ishares Emerging Markets	1,103	1,130
Ishares MCSI RAFI	1,577	1,534
Ishares S&P Index	2,252	2,895
Vanguard INTM Term Treasury	250	281
Vanguard LT Treasury	1,183	1,279
Total Level 1 Investments	<u>\$ 22,240</u>	<u>\$ 22,243</u>

In addition to the holdings above, the Employee Plan has a holding in a mutual fund investment, Managed Investment Fund. The mutual fund investment is valued using the net asset value (“NAV”) as a practical expedient and is not required to be categorized in the fair value hierarchy table. The total fair value of this investment was \$1,414,000 and \$1,284,000 as of January 31, 2020 and January 31, 2019, respectively, and is not included in the table above. In relation to this investment, there is no unfunded commitments and the shares can be redeemed on a daily basis with minimal restrictions. Events that may lead to a restriction to transact with the fund is not considered probable.

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. Through December 31, 2001, the plan included an employee stock ownership component. The plan continues to include Virco stock as one of the investment options. At January 31, 2020 and 2019, the plan held 706,654 shares and 648,565 shares of the Company’s common stock, respectively. Effective January 1, 2018, the Company initiated an employer match. For the fiscal years ended January 31, 2020 and 2019, the compensation costs incurred for employer match was \$765,000 and \$738,000, respectively.

Life Insurance

The Company provided post-retirement life insurance to certain retired employees under the Dual Option Life Insurance Plan (the "Plan"). Effective January 2004, the Company terminated this plan for active employees. The Company has purchased split-dollar life insurance on the lives of the remaining covered participants. Death benefits due to participants are approximately \$2,250,000. Cash surrender values of these policies, which are included in other assets in the accompanying consolidated balance sheets, were \$1,906,000 and \$2,098,000 at January 31, 2020 and 2019, respectively. Death benefits payable under the policies were approximately \$3,902,000 and \$4,256,000 at January 31, 2020 and 2019, respectively. Death benefits received under the Plan in excess of the benefit obligation will be retained in the trust and used to secure and fund benefits payable under the VIP Pension Plan. The Company maintains a rabbi trust to hold assets related to the Dual Option Life Insurance Plan. All assets securing this plan are held in the rabbi trust.

The following sets forth the Company's change in death benefits payable during the years ended January 31, 2020 and 2019:

	1/31/2020	1/31/2019
Liability beginning of year	\$ 2,037,000	\$ 2,088,000
Accretion expense	49,000	49,000
Death benefits paid	(100,000)	(100,000)
Liability end of year	<u>\$ 1,986,000</u>	<u>\$ 2,037,000</u>

5. Stock-Based Compensation

Stock Incentive Plans

The Company's has one stock plan, the 2011 Employee Stock Incentive Plan (the "2011 Plan"). Under the 2011 Plan, the Company may grant an aggregate of 1,000,000 shares to its employees and non-employee directors in the form of stock options or awards. Restricted stock 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 awards and related compensation expense as the difference between the market value of the awards on the date of grant less the exercise price of the awards granted. There were 547,385 awards granted and 223,555 awards were vested during fiscal 2020. As of January 31, 2020, there were approximately 804,892 awards available for future issuance under the 2011 Plan.

Accounting for the Plans

A summary of the Company's restricted stock unit awards activity, and related information for the following years ended January 31, is as follows:

	2020		2019	
	Restricted stock units	Weighted-Average Exercise Price	Restricted stock units	Weighted-Average Exercise Price
Outstanding at beginning of year	501,155	\$ 4.44	692,404	\$ 4.25
Granted	547,385	4.38	55,555	4.49
Exercised	(223,555)	4.45	(226,804)	4.63
Forfeited	(84,000)	4.51	(20,000)	4.01
Outstanding at end of year	<u>740,985</u>	4.54	<u>501,155</u>	4.44
Weighted-average fair value of restricted stock units granted during the year		4.38		4.49

The aggregate fair value of restricted stock awards vested during fiscal years 2020 and 2019 was \$994,820 and \$1,050,103, respectively. The Company recognized compensation expense, net of forfeitures, for the restricted stock awards of \$924,000 and \$907,000 for fiscal 2020 and 2019, respectively. The Company records forfeitures as incurred.

The weighted-average grant-date fair value of restricted stock awards is the quoted market price of the Company's common stock on the date of grant, as shown in the table above. The weighted-average grant-date fair value of restricted stock awards granted in fiscal 2020 and 2019 was \$4.38 per share and \$4.49 per share, respectively.

As of January 31, 2020, there was \$2.7 million of total unrecognized compensation expense related to restricted stock awards. That expense is expected to be recognized over a weighted-average period of 2.92 years.

To satisfy employee minimum statutory tax withholding requirements for restricted stock awards that vest, the Company withholds and retires a portion of the vesting common shares, unless an employee elects to pay cash. In fiscal 2020 and 2019, the Company withheld 55,792 and 57,456 common shares, respectively, with a total value of approximately \$0.3 million each year. These amounts are presented as a cash outflow from financing activities in the accompanying consolidated statement of cash flows.

6. Income Taxes

The income tax expense for the last two years is reconciled to the statutory federal income tax rates of 21% for the tax years ended January 31, 2020 and 2019, respectively, as follows (in thousands):

	2020	2019
Statutory	\$ 585	\$ (235)
State taxes (net of federal tax)	400	186
Change in valuation allowance	(573)	831
State rate adjustment	(291)	(222)
Change in unrecognized tax benefits	20	1
Stock Compensation	(28)	(46)
Tax cuts and jobs act	—	(15)
Expirations of attributes	345	28
Permanent differences	(17)	8
Return to provision	(96)	(39)
Income tax expense	<u>\$ 345</u>	<u>\$ 497</u>

Significant components of the expense for income taxes attributed to continuing operations are as follows for the years ended January 31 (in thousands):

	2020	2019
Current		
Federal	\$ —	\$ (24)
State	136	102
	<u>136</u>	<u>78</u>
Deferred		
Federal	442	(247)
State	340	(165)
	<u>782</u>	<u>(412)</u>
Change in valuation allowance	(573)	831
	<u>209</u>	<u>419</u>
Income tax expense	<u>\$ 345</u>	<u>\$ 497</u>

Deferred tax assets and liabilities are comprised of the following as of January 31 (in thousands):

	2020	2019
Deferred tax assets		
Accrued vacation and sick leave	\$ 1,264	\$ 892
Retirement plans	5,448	2,748
Insurance reserves	443	381
Warranty	207	182
Net operating loss carryforwards	3,658	5,303
Right of use liabilities	6,067	—
Inventory	1,175	1,320
Business interest expense limitation	224	540
Other	301	765
	<u>\$ 18,787</u>	<u>\$ 12,131</u>
Deferred tax liabilities		
Tax in excess of book depreciation	\$ (802)	\$ (720)
Right of use assets	(5,519)	—
Other	(53)	(57)
	<u>\$ (6,374)</u>	<u>\$ (777)</u>
Valuation allowance	(1,183)	(1,756)
Net long term deferred tax asset	<u>\$ 11,230</u>	<u>\$ 9,598</u>

In assessing the realizability of deferred tax assets, the Company considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. 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 considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. The Company has a valuation allowance of \$1,183,000 against certain state deferred tax assets that the Company does not believe it is more-likely-than-not to realize. At January 31, 2020, the Company has net operating loss carryforwards of approximately \$9,499,000 for federal and \$26,098,000 for state income tax purposes, expiring at various dates through January 31, 2039.

The following table summarizes the activity related to our gross unrecognized tax benefits for the years ended January 31 (in thousands):

	2020	2019
Balances as of February 1,	\$ 38	\$ 38
Increases related to prior year tax positions	8	—
Decreases related to prior year tax positions	—	(2)
Increases related to current year tax positions	18	8
Decreases relating to settlements with taxing authorities	—	—
Decreases related to lapsing of statute of limitations	(4)	(6)
Balance as of January 31,	<u>\$ 60</u>	<u>\$ 38</u>

At January 31, 2020, the Company's unrecognized tax benefits associated with uncertain tax positions were \$60,000, of which \$47,000 if recognized, would favorably affect the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense which is consistent with the recognition of the items in prior reporting. The Company had recorded a liability for interest and penalties related to unrecognized tax benefits of \$10,000 at January 31, 2020, and \$6,000 at January 31, 2019. The years ended January 31, 2016 and subsequent years remain open for examination by the IRS and state tax authorities. The Company is currently under IRS examination for fiscal year ended January 31, 2016. The Company is not currently under state examinations.

The specific timing of when the resolution of each tax position will be reached is uncertain. As of January 31, 2020, it is reasonably possible that unrecognized tax benefits will decrease by \$5,000 within the next 12 months due to the expiration of the statute of limitations.

The Tax Cuts and Jobs Act ("TCJA") was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate to 21%.

On December 22, 2017, Staff Accounting Bulletin No. 118 was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, we have determined that \$4,438,000 of the deferred tax expense recorded in connection with the remeasurement of certain deferred tax assets and liabilities was provisional amount and reasonable estimate at January 31, 2018. We finalized our accounting for the impact of the TCJA during fiscal 2019 with no material adjustments to the previous provisional amounts recognized.

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The Company has performed an initial analysis of the impact of the CARES Act and have determined that the impact would not be significant. There were several provisions of the CARES Act that impact Company's fiscal 2020 tax filings, but were not included in the determination of the tax provision due to the date of enactment after January 31, 2020.

The CARES Act provides single-employer pension companies additional time to meet the funding obligations. The Company intends to defer the timing of finding contributions to a new due date of January 1, 2021. Consequently, the tax deduction related to such contributions will be deferred until the funding payment is made. The CARES Act also modifies the limitation for business interest expense deduction. The new limitation has increased from 30 to 50 percent of adjusted taxable income. As of the issuance of this report, the Company continues to evaluate the impact of the CARES Act.

7. Leases and Commitments

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. Beginning on the first day of fiscal 2020, the Company adopted ASC 842 to account for its leases. Pursuant to ASC 842, 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.

The Company has an operating lease for its corporate office, manufacturing and distribution facility located in Torrance, CA, currently with a remaining lease term through April 30, 2025. The Company leases equipment under a 5-year operating lease arrangement. The Company has the option of buying the assets at the end of the lease period at a price that does not result in the Company being reasonably certain of exercising the option. In addition, the Company leases trucks, automobiles, and forklifts under operating leases that include certain fleet management and maintenance services. Certain of the leases contain renewal or purchase options and require payment for property taxes and insurance. The Company records lease expense on a straight-line basis based on the contractual lease payments. In accordance with ASC 842, the Company recognizes the present value of the future lease commitments as an operating lease liability, and a corresponding right-of-use asset ("ROU asset"), net of tenant allowances. Tenant improvements and related tenant allowances are recorded as a reduction to the ROU asset. The Company elected to account for leases with an original term of 12 months or less that do not contain a purchase option as short-term leases. Additionally, certain of the leases provide for variable payment for property taxes, insurance, and common area maintenance payments among others. The Company recognizes variable lease expenses for these leases in the period incurred. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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

	Twelve-Months Ended	
	1/31/2020	
	(in thousands)	
Operating lease cost	\$	5,435
Short-term lease cost		149
Short-term sublease income		(40)
Variable lease cost		892
Total lease cost	\$	<u>6,436</u>

Other operating leases information:

Cash paid for amounts included in the measurement of lease liabilities	\$	5,435,000
Right-of-use assets obtained in exchange for new lease liabilities	\$	1,613,000
Weighted-average remaining lease term (years)		4.95
Weighted-average discount rate		6.38%

Minimum future lease payments (in thousands) for operating leases in effect as of January 31, 2020, are as follows:

	<u>Operating Lease</u>	
Year ending January 31,		
2021	\$	5,030
2022		5,636
2023		5,193
2024		5,192
2025		5,347
Thereafter		1,340
Remaining balance of lease payments	\$	27,738
Short-term lease liabilities	\$	3,654
Long-term lease liabilities		19,787
Total lease liabilities	\$	23,441
Difference between undiscounted cash flows and discounted cash flows	\$	4,297

In accordance with ASC 840, future minimum lease payments under non-cancelable leases as of January 31, 2019 were as follows (in thousands):

Year ending January 31,		
2020	\$	5,045
2021		4,405
2022		5,041
2023		5,040
2024		5,192
Thereafter		6,687
Total minimum lease payments	\$	31,410
Lease income	\$	(40)
	\$	31,370

In accordance with ASC 840, rent expense relating to operating leases for the twelve months ended January 31, 2019 was \$6,006,000.

8. Contingencies

The Company and other furniture manufacturers are subject to federal, state and local laws and regulations relating to the discharge of materials into the environment and the generation, handling, storage, transportation and disposal of waste and hazardous materials. The Company has expended, and expects to continue to spend, significant amounts in the future to comply with environmental laws. Normal recurring expenses relating to operating the Company factories in a manner that meets or exceeds environmental laws are matched to the cost of producing inventory. Despite the Company's significant dedication to operating in compliance with applicable laws, there is a risk that the Company could fail to comply with a regulation or that applicable laws and regulations change. On these occasions, the Company records liabilities for remediation costs when remediation costs are probable and can be reasonably estimated.

The Company is subject to contingencies pursuant to environmental laws and regulations that in the future may require the Company to take action to correct the effects on the environment of prior disposal practices or releases of chemical or petroleum substances by the Company or other parties.

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 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 of \$1,700,000 and \$1,265,000 at January 31, 2020 and 2019, respectively, based upon the Company’s estimated payout period of five years using a 4.0% and 4.0% discount rate, respectively.

Workers’ compensation, automobile, general and product liability claims may be asserted in the future for events not currently known by management. Management does not anticipate that any related settlement, after consideration of the existing reserve for claims incurred and potential insurance recovery, would have a material adverse effect on the Company’s financial position, results of operations or cash flows. Estimated payments under the self-insurance programs are as follows (in thousands):

Year ending January 31,	
2021	\$ 300
2022	375
2023	375
2024	375
2025	375
Thereafter	—
Total	\$ 1,800
Discount to net present value	(100)
	<u><u>\$ 1,700</u></u>

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.

9. Warranty

The Company provides a warranty against all substantial defects in material and workmanship. The standard warranty offered on products sold through January 31, 2013 is 10 years. Effective February 1, 2014 the Company modified its warranty to a limited lifetime warranty. The warranty effective February 1, 2014 is not anticipated to have a significant effect on warranty expense. Effective January 1, 2017, the Company modified the warranty offered 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 during for the years ended January 31 (in thousands):

	2020	2019
Beginning balance	\$ 700	\$ 925
Provision for current year	570	600
Provision for (benefits from) prior year	(145)	(555)
Costs incurred	(325)	(270)
Ending balance	<u><u>\$ 800</u></u>	<u><u>\$ 700</u></u>

10. Subsequent Events

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.

In accordance with State of California and local orders that include guidance on the definition and responsibilities of “essential businesses,” the Company, after closing down for one week, has re-opened its Torrance, California facility in order to provide service to public school customers in western states that have decided it is safer and in the best interest of both students and district employees to take delivery of school furniture immediately, while classes are not in session. The Company will be operating its Torrance manufacturing and distribution facility 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 will continue to do so. Additional measures are being taken to insure adequate social distancing

among employees performing essential on-site operations. Management estimates that the Torrance facility is currently staffed at approximately 50% of its normal level. The Company's Conway, Arkansas facilities continue to operate at full capacity to support the many school districts in the eastern two-third of the country that are still taking delivery of school furniture in anticipation of re-starting classes within a few weeks or months. As with schools in western states, many districts serviced by the Company's Conway facility have determined it is safer to accept deliveries while students and credentialed employees are not on campus. As with the Torrance facility, additional social distancing and sanitation protocols are in force at Conway and have been for the past few weeks.

While we are not able to estimate the full impact of the COVID-19 outbreak on our financial condition and results of operations, we expect that this situation will have an adverse impact on the Company's results of operations for the first quarter of fiscal 2021. Should these conditions persist for a prolonged period of time, this may have an adverse impact on our fiscal 2021 financial results.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed with the Commission pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Assessing the costs and benefits of such controls and procedures necessarily involves the exercise of judgment by management, and such controls and procedures, by their nature, can provide only reasonable assurance that management's objectives in establishing them will be achieved.

Management of the Company, including its President and Chief Executive Officer along with its Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of disclosure controls and procedures as of the end of the period covered by this Annual Report pursuant to Exchange Act Rule 13a-15. Based upon the foregoing, the Company's President and Chief Executive Officer along with the Company's Chief Financial Officer concluded that Virco's disclosure controls and procedures are effective in ensuring that (i) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Management of Virco Mfg. Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or supervised by, the Company's principal executive and principal financial officers, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting is supported by written policies and procedures, that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company's annual financial statements, management of the Company has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of January 31, 2020, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of the Company's internal control over financial reporting.

Based on this assessment, management did not identify any material weakness in the Company's internal control over financial reporting, and management has concluded that the Company's internal control over financial reporting was effective as of January 31, 2020.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting during the fourth fiscal quarter ended January 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. See "Management's Report on Internal Control over Financial Reporting."

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers of the Registrant and Corporate Governance

Except for the information disclosed in Part 1 under the heading “Executive Officers of the Registrant”, the information required by this Item regarding directors shall be incorporated by reference to information set forth in the Company’s definitive Proxy Statement to be filed within 120 days after the end of the Company’s fiscal year end of January 31, 2020.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to information set forth in the Company’s definitive Proxy Statement to be filed within 120 days after the end of the Company’s fiscal year end of January 31, 2020.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference to information set forth in the Company’s definitive Proxy Statement to be filed within 120 days after the end of the Company’s fiscal year end of January 31, 2020.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference to information set forth in the Company’s definitive Proxy Statement to be filed within 120 days after the end of the Company’s fiscal year end of January 31, 2020.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference to information set forth in the Company’s definitive Proxy Statement to be filed within 120 days after the end of the Company’s fiscal year end of January 31, 2020.

PART IV

Item 15. Exhibits, Financial Statement Schedules

1. The following consolidated financial statements of Virco Mfg. Corporation are set forth in Item 8 of this Annual Report on Form 10-K.

	<u>Page numbers</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>35</u>
<u>Consolidated Balance Sheets - January 31, 2020 and 2019</u>	<u>36</u>
<u>Consolidated Statements of Operation - Years Ended January 31, 2020 and 2019</u>	<u>38</u>
<u>Consolidated Statements of Comprehensive Loss - Years Ended January 31, 2020 and 2019</u>	<u>39</u>
<u>Consolidated Statements of Stockholders' Equity - Years Ended January 31, 2020 and 2019</u>	<u>40</u>
<u>Consolidated Statements of Cash Flows - Years Ended January 31, 2020 and 2019</u>	<u>41</u>
<u>Notes to Consolidated Financial Statements - January 31, 2020</u>	<u>42</u>

2. The following consolidated financial statement schedule of Virco Mfg. Corporation is included in Item 15:

VIRCO MFG. CORPORATION AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED JANUARY 31, 2020 and 2019

(In Thousands)

Col. A	Col. B Beginning Balance	Col. C Charged to (Reduced from) Expenses	Col. E Deductions from Reserves	Col. F Ending Balance
Allowance for doubtful accounts for the period ended:				
January 31, 2020	\$ 200	\$ 83	\$ 83	\$ 200
January 31, 2019	\$ 200	\$ 3	\$ 3	\$ 200
Product, general, workers' compensation and automobile liability reserves for the period ended:				
January 31, 2020	\$ 1,265	\$ 1,520	\$ 1,085	\$ 1,700
January 31, 2019	\$ 1,347	\$ 1,357	\$ 1,439	\$ 1,265

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or are included in the Financial Statements or Notes thereto, and therefore are not required to be presented under this Item.

3. Exhibits

See Index to Exhibits. The exhibits listed in the accompanying Index to Exhibits are filed as part of this report.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIRCO MFG. CORPORATION

Date: April 30, 2020

By: /s/ Robert A. Virtue
Robert A. Virtue
Chairman of the Board and Chief Executive Officer

By: /s/ Robert E. Dose
Robert E. Dose
Sr. Vice President, Finance, Secretary and Treasurer
(Principal Financial Officer)

By: /s/ Bassey Yau
Bassey Yau
Vice President, Accounting, Corporate Controller, Assistant
Secretary and Assistant Treasurer (Principal Accounting
Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert A. Virtue and Robert E. Dose his/her true and lawful attorney-in-fact and agent, with full power of substitution and, for him/her and in his/her name, place and stead, in any and all capacities to sign any and all amendments to this report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he/she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his/her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Robert A. Virtue</u> Robert A. Virtue	Chairman of the Board, Chief Executive Officer, Director (Principal Executive Officer)	April 30, 2020
<u>/s/ Douglas A. Virtue</u> Douglas A. Virtue	President, Director	April 30, 2020
<u>/s/ Robert E. Dose</u> Robert E. Dose	Sr. Vice President, Finance, Secretary and Treasurer (Principal Financial Officer)	April 30, 2020
<u>/s/ Bassey Yau</u> Bassey Yau	Vice President, Accounting, Corporate Controller, Assistant Secretary and Assistant Treasurer (Principal Accounting Officer)	April 30, 2020
<u>/s/ Alexander L. Cappello</u> Alexander L. Cappello	Director	April 30, 2020
<u>/s/ Craig Levra</u> Craig Levra	Director	April 30, 2020
<u>/s/ Don Rudkin</u> Don Rudkin	Director	April 30, 2020
<u>/s/ Robert Lind</u> Robert Lind	Director	April 30, 2020
<u>/s/ Kathy Virtue Young</u> Kathy Virtue Young	Director	April 30, 2020
<u>/s/ Agnieszka Winkler</u> Agnieszka Winkler	Director	April 30, 2020

VIRCO MFG. CORPORATION
EXHIBITS TO FORM 10-K ANNUAL REPORT
for the Year Ended January 31, 2020

Exhibit Number	Description
3.1	<u>Certificate of Incorporation of the Company dated April 23, 1984, as amended (incorporated by reference to Exhibit 1 to the Company's Form 8-A12B (Commission File No. 001-08777), filed with the Commission on June 18, 2007).</u>
3.2	<u>Second Amended and Restated Bylaws of the Company dated September 10, 2001 (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (Commission File No. 001-08777), filed with the Commission on September 12, 2014).</u>
10.1	<u>Lease dated February 1, 2006, between FHL Group, a California Corporation, as landlord and Virco Mfg. Corporation, a Delaware Corporation, as tenant (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the Commission on February 3, 2006).</u>
10.1.1	<u>Design Agreement dated January 21, 2008, between the Company and Peter Glass Design, LLC, and Hedgehog Design, LLC. (incorporated by reference to Exhibit 10.1 and 10.2 to the Company's Current Report on Form 8-K filed with the Commission on January 25, 2008).</u>
10.1.2	<u>Lease amendment dated August 14, 2008, between AMB Property, L.P., a Delaware Limited Partnership, as landlord and Virco Mfg. Corporation, a Delaware Corporation, as tenant (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10Q filed with the Commission on September 9, 2008).</u>
10.1.3	<u>Third Amendment to Lease Agreement, entered into as of December 20, 2013, by and between Starboard Distribution Center, LLC, a Delaware limited liability company, successor in interest to AMB Property, L.P., a Delaware limited Partnership and Virco Mfg. Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on December 23, 2013).</u>
10.1.4	<u>Fourth Amendment to Lease Agreement, entered into as of November 4, 2017, by and between Starboard Distribution Center, LLC, a Delaware limited liability company, successor in interest to AMB Property, L.P., a Delaware limited Partnership and Virco Mfg. Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on November 15, 2017).</u>
10.2	<u>Virco Mfg. Corporation 2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8K filed with the Commission on June 27, 2011).</u>
10.2.1	<u>First Amendment to the Virco Mfg. Corporation 2011 Stock Incentive Plan (incorporated by reference to the Company's Proxy Statement on Form DEF 14A filed with the Commission on May 23, 2014).</u>
10.3	<u>Revolving Credit and Security Agreement dated as of December 22, 2011 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 10.1 to the Company's Current Report on Form 8K filed with the Commission on December 22, 2011).</u>
10.3.1	<u>First Amendment to Revolving Credit and Securities Agreement, dated as of June 15, 2012, 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 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on September 14, 2012).</u>
10.3.2	<u>Second Amendment to Revolving Credit and Security Agreement, dated as of July 27, 2012, 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 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 31, 2012).</u>
10.3.3	<u>Third Amendment to Revolving Credit and Security Agreement, dated as of September 12, 2012, 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 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on September 14, 2012).</u>
10.3.4	<u>Fourth Amendment to Revolving Credit and Security Agreement, dated as of December 6, 2012, 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 10.4 to the Company's Quarterly Report on Form 10-Q filed with the Commission on December 7, 2012).</u>
10.3.5	<u>Fifth Amendment to Revolving Credit and Security Agreement, dated as of March 1, 2013, 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 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 1, 2013).</u>

- 10.3.6 [Sixth Amendment to Revolving Credit and Security Agreement, dated as of January 9, 2014, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent.](#)
- 10.3.7 [Seventh Amendment to Revolving Credit and Security Agreement, dated as of April 15, 2014, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent. \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on April 16, 2014\).](#)
- 10.3.8 [Eighth Amendment to Revolving Credit and Security Agreement, dated as of August 18, 2014, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent.](#)
- 10.3.9 [Ninth Amendment to Revolving Credit and Security Agreement, dated as of March 31, 2015, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed with the Commission on April 24, 2015\).](#)
- 10.3.10 [Tenth Amendment to Revolving Credit and Security Agreement, dated as of June 18, 2015, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed with the Commission on September 11, 2015\).](#)
- 10.3.11 [Eleventh Amendment to Revolving Credit and Security Agreement, dated as of December 2, 2015, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed with the Commission on December 15, 2015\).](#)
- 10.3.12 [Twelfth Amendment to Revolving Credit and Security Agreement, dated as of April 4, 2016, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed with the Commission on April 26, 2016\).](#)
- 10.3.13 [Thirteenth Amendment to Revolving Credit and Security Agreement, dated as of October 27, 2016, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed with the Commission on April 26, 2016\).](#)
- 10.3.14 [Fourteenth Amendment to Revolving Credit and Security Agreement, dated as of March 13, 2017, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q filed with the Commission on June 12, 2017\).](#)
- 10.3.15 [Fifteenth Amendment to Revolving Credit and Security Agreement, dated as of June 8, 2017, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q filed with the Commission on June 12, 2017\).](#)
- 10.3.16 [Sixteenth Amendment to Revolving Credit and Security Agreement, dated as of August 7, 2017, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.21 to the Company's Current Report on Form 8-K filed with the Commission on September 14, 2017\).](#)
- 10.3.17 [Seventeenth Amendment to Revolving Credit and Security Agreement, dated as of March 19, 2018, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 22, 2018\).](#)
- 10.3.18 [Nineteenth Amendment to Revolving Credit and Security Agreement, dated as of March 12, 2019, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.25 to the Company's Current Report on Form 10-K filed with the Commission on May 1, 2019\).](#)
- 10.3.19 [Twentieth Amendment to Revolving Credit and Security Agreement, dated as of April 29, 2019, by and among Virco Mfg. Corporation and Virco, Inc., as borrowers, and PNC Bank, National Association, as the lender and administrative agent \(incorporated by reference to Exhibit 10.26 to the Company's Current Report on Form 10-K filed with the Commission on May 1, 2019\).](#)
- 10.4 [Virco Mfg Corporation 2019 Omnibus Equity Incentive Plan \(incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed on May 17, 2019\)](#)
- 10.4.1 [Form of Restricted Stock Agreement \(incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed on June 21, 2019\)](#)

- 10.4.2 [Form of Restricted Stock Unit Agreement \(incorporated by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-8 filed on June 21, 2019\)](#)
- 10.4.3 [Form of Incentive Stock Option Agreement \(incorporated by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-8 filed on June 21, 2019\)](#)
- 10.4.4 [Form of Nonqualified Option Agreement \(incorporated by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-8 filed on June 21, 2019\)](#)
- 10.4.5 [Form of Unrestricted Stock Agreement \(incorporated by reference to Exhibit 4.8 to the Company's Registration Statement on Form S-8 filed on June 21, 2019\)](#)
- 21.1* [List of All Subsidiaries of Virco Mfg. Corporation.](#)
- 23.1* [Consent of Independent Registered Public Accounting Firm.](#)
- 31.1* [Certification of the Chief Executive Officer Pursuant to Rule 13a-14\(a\) under the Securities and Exchange Act of 1934, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2* [Certification of the Chief Financial Officer Pursuant to Rule 13a-14\(a\) under the Securities and Exchange Act of 1934, as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1* [Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.](#)

- 101.INS* XBRL Instance Document.
- 101.SCH* XBRL Taxonomy Extension Schema Document.
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

LIST OF SUBSIDIARIES

Virco Inc.
2027 Harpers Way
Torrance, CA 90501

Delkay Plastics- Inactive
2027 Harpers Way
Torrance, CA 90501

Virtue of California, Inc-Inactive
2027 Harpers Way
Torrance, CA 90501

Virsan S. A. DE C.V.- Inactive
2027 Harpers Way
Torrance, CA 90501

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-135618 on Form S-3 and Registration Statement Nos. 333-175638, 333-198723, 333-232248 on Form S-8, of our report dated April 30, 2020, relating to the financial statements and financial statement schedule of Virco Mfg. Corporation, appearing in this Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

/s/ Deloitte & Touche LLP

Los Angeles, California

April 30, 2020

CERTIFICATIONS

I, Robert A. Virtue, certify that:

1. I have reviewed this Form 10-K 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: April 30, 2020

CERTIFICATIONS

I, Robert E. Dose, certify that:

1. I have reviewed this Form 10-K 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: April 30, 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 Annual Report of the Company on Form 10-K for the period ended January 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.

Dated: April 30, 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.