

VIRCO MFG CORPORATION
Form 10-Q
September 14, 2018

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended July 31, 2018

OR
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File number 1-8777

VIRCO MFG. CORPORATION
(Exact Name of Registrant as Specified in its Charter)
Delaware 95-1613718
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

2027 Harpers Way, Torrance, CA 90501
(Address of Principal Executive Offices) (Zip Code)
Registrant's Telephone Number, Including Area Code: (310) 533-0474
No change
Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.

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

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

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

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

Edgar Filing: VIRCO MFG CORPORATION - Form 10-Q

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

The number of shares outstanding for each of the registrant's classes of common stock, as of the latest practicable date:
Common Stock, \$.01 par value — 15,541,956 shares as of September 10, 2018.

TABLE OF CONTENTS

<u>Part I. Financial Information</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Unaudited condensed consolidated balance sheets - July 31, 2018, January 31, 2018 and July 31, 2017</u>	<u>3</u>
<u>Unaudited condensed consolidated statements of income - Three months ended July 31, 2018 and 2017</u>	<u>5</u>
<u>Unaudited condensed consolidated statements of income - Six months ended July 31, 2018 and 2017</u>	<u>6</u>
<u>Unaudited condensed consolidated statements of comprehensive income - Three months ended July 31, 2018 and 2017</u>	<u>7</u>
<u>Unaudited condensed consolidated statements of comprehensive income - Six months ended July 31, 2018 and 2017</u>	<u>8</u>
<u>Unaudited condensed consolidated statements of cash flows - Six months ended July 31, 2018 and 2017</u>	<u>9</u>
<u>Notes to unaudited condensed consolidated financial statements - July 31, 2018</u>	<u>10</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>20</u>
<u>Item 4. Controls and Procedures</u>	<u>20</u>
<u>Part II. Other Information</u>	<u>21</u>
<u>Item 1. Legal Proceedings</u>	<u>21</u>
<u>Item 1A. Risk Factors</u>	<u>21</u>
<u>Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	<u>21</u>
Item 3. Defaults Upon Senior Securities	<u>21</u>
Item 4. Mine Safety Disclosures	<u>21</u>
Item 5. Other Information	<u>21</u>
<u>Item 6. Exhibits</u>	<u>21</u>
EX-31.1	
EX-31.2	
EX-32.1	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	

PART I. Financial Information

Item 1. Financial Statements

Virco Mfg. Corporation

Unaudited Condensed Consolidated Balance Sheets

7/31/2018 1/31/2018 7/31/2017
(In thousands, except share
data)

	7/31/2018	1/31/2018	7/31/2017
Assets			
Current assets			
Cash	\$ 1,109	\$ 534	\$ 2,747
Trade accounts receivables, net	44,109	11,385	40,201
Other receivables	161	29	73
Income tax receivable	175	171	175
Inventories	60,296	42,057	50,861
Prepaid expenses and other current assets	2,117	1,537	1,888
Total current assets	107,967	55,713	95,945
Property, plant and equipment			
Land	3,731	3,731	1,671
Land improvements	688	688	680
Buildings and building improvements	51,176	51,176	46,036
Machinery and equipment	104,761	103,015	100,984
Leasehold improvements	820	809	803
	161,176	159,419	150,174
Less accumulated depreciation and amortization	119,792	116,977	114,591
Net property, plant and equipment	41,384	42,442	35,583
Deferred tax assets, net	9,973	10,093	15,611
Other assets, net	8,491	8,375	8,308
Total assets	\$ 167,815	\$ 116,623	\$ 155,447

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation
 Unaudited Condensed Consolidated Balance Sheets

	7/31/2018	1/31/2018	7/31/2017
	(In thousands, except share and par value data)		
Liabilities			
Current liabilities			
Accounts payable	\$23,072	\$14,106	\$20,945
Accrued compensation and employee benefits	5,353	4,779	6,373
Current portion of long-term debt	36,894	4,681	29,987
Other accrued liabilities	8,583	4,157	7,543
Total current liabilities	73,902	27,723	64,848
Non-current liabilities			
Accrued self-insurance retention	1,936	1,425	1,904
Accrued pension expenses	16,544	14,664	17,991
Income tax payable	45	44	42
Long-term debt, less current portion	14,139	12,000	6,000
Other long-term liabilities	2,274	2,055	1,978
Total non-current liabilities	34,938	30,188	27,915
Commitments and contingencies (Notes 5 and 12)			
Stockholders' equity			
Preferred stock:			
Authorized 3,000,000 shares, \$0.01 par value; none issued or outstanding	—	—	—
Common stock:			
Authorized 25,000,000 shares, \$0.01 par value; issued and outstanding 15,541,956 shares at 07/31/2018 and 15,357,457 at 1/31/2018 and 07/31/2017	155	154	154
Additional paid-in capital	117,636	117,465	117,020
Accumulated deficit	(48,208)	(49,648)	(43,392)
Accumulated other comprehensive loss	(10,608)	(9,259)	(11,098)
Total stockholders' equity	58,975	58,712	62,684
Total liabilities and stockholders' equity	\$167,815	\$116,623	\$155,447
See accompanying notes to unaudited condensed consolidated financial statements.			

Virco Mfg. Corporation
 Unaudited Condensed Consolidated Statements of Income

	Three months ended 7/31/2018/31/2017 (In thousands, except per share data)	
Net sales	\$74,802	\$72,636
Costs of goods sold	47,670	45,953
Gross profit	27,132	26,683
Selling, general and administrative expenses	18,717	18,278
Gain on sale of property, plant & equipment	—	(1)
Operating income	8,415	8,406
Interest expense, net	822	529
Income before income taxes	7,593	7,877
Income tax expense	2,118	2,849
Net income	\$5,475	\$5,028
Dividend declared per share:		
Cash	\$0.015	\$—
Net income per common share:		
Basic	\$0.36	\$0.33
Diluted	\$0.35	\$0.33
Weighted average shares of common stock outstanding:		
:		
Basic	15,392	15,211
Diluted	15,435	15,285

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation
 Unaudited Condensed Consolidated Statements of Income

	Six months ended	
	7/31/2018	7/31/2017
	(In thousands, except per share data)	
Net sales	\$97,371	\$95,871
Costs of goods sold	62,554	60,761
Gross profit	34,817	35,110
Selling, general and administrative expenses	30,991	29,970
Gain on sale of property, plant & equipment	(1)	(1)
Operating income	3,827	5,141
Interest expense, net	1,268	824
Income before income taxes	2,559	4,317
Income tax expense	656	1,500
Net income	\$1,903	\$2,817
Dividend declared per share:		
Cash	\$0.03	\$—
Net income per common share:		
Basic	\$0.12	\$0.19
Diluted	\$0.12	\$0.18
Weighted average shares of common stock outstanding:		
:		
Basic	15,355	15,170
Diluted	15,395	15,233

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation
 Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three months ended	
	7/31/2018	7/31/2017
	(In thousands)	
Net income	\$ 5,475	\$ 5,028
Other comprehensive income		
Pension adjustments (net of tax (\$522) and \$92 in 2019 and 2018, respectively)	(1,476)	148
Comprehensive income	\$ 3,999	\$ 5,176

See accompanying notes to unaudited condensed consolidated financial statements.

Virco Mfg. Corporation
 Unaudited Condensed Consolidated Statements of Comprehensive Income

	Six months ended 7/31/2018 (In thousands)	7/31/2017
Net income	\$ 1,903	\$ 2,817
Other comprehensive income		
Pension adjustments (net of tax (\$477) and \$184 in 2019 and 2018, respectively)	(1,349)	296
Comprehensive income	\$ 554	\$ 3,113

See accompanying notes to unaudited condensed consolidated financial statements.

Edgar Filing: VIRCO MFG CORPORATION - Form 10-Q

Virco Mfg. Corporation
Unaudited Condensed Consolidated Statements of Cash Flows

	Six months ended	
	7/31/2018/31/2017	
	(In thousands)	
Operating activities		
Net income	\$ 1,903	\$ 2,817
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,825	2,601
Provision for doubtful accounts	35	35
(Gain) Loss on sale of property, plant and equipment	(1) (1
Deferred income taxes	120	1,569
Stock-based compensation	438	385
Defined pension plan settlement	319	—
Amortization of net actuarial loss for pension plans	345	296
Changes in operating assets and liabilities:		
Trade accounts receivable	(32,759)	(30,321
Other receivables	(132) 143
Inventories	(18,239)	(15,172
Income taxes	(3) 105
Prepaid expenses and other current assets	(696) (224
Accounts payable and accrued liabilities	14,604	12,980
Net cash used in operating activities	(31,241)	(24,787
Investing activities		
Capital expenditures	(1,686) (3,891
Proceeds from sale of property, plant and equipment	3	1
Net cash used in investing activities	(1,683)