Virco Mfg. Corporation

1999 annual report

1999 Annual Report

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Julian Virtue started his first business, a small chrome plating service located in the backyard of his home in Los Angeles, with the intention of offering superior value at competitive prices.

In 1949, after a successful career, he liquidated his share of Virtue Brothers Manufacturing Corporation and received a check for $1,000,000. Not content to retire on this princely sum, he immediately reinvested the money in a new company, Virco.

Pictured here at the groundbreaking for Virco's original factory and headquarters, Julian reprised his early themes of value and competitive pricing in the classroom furniture industry.

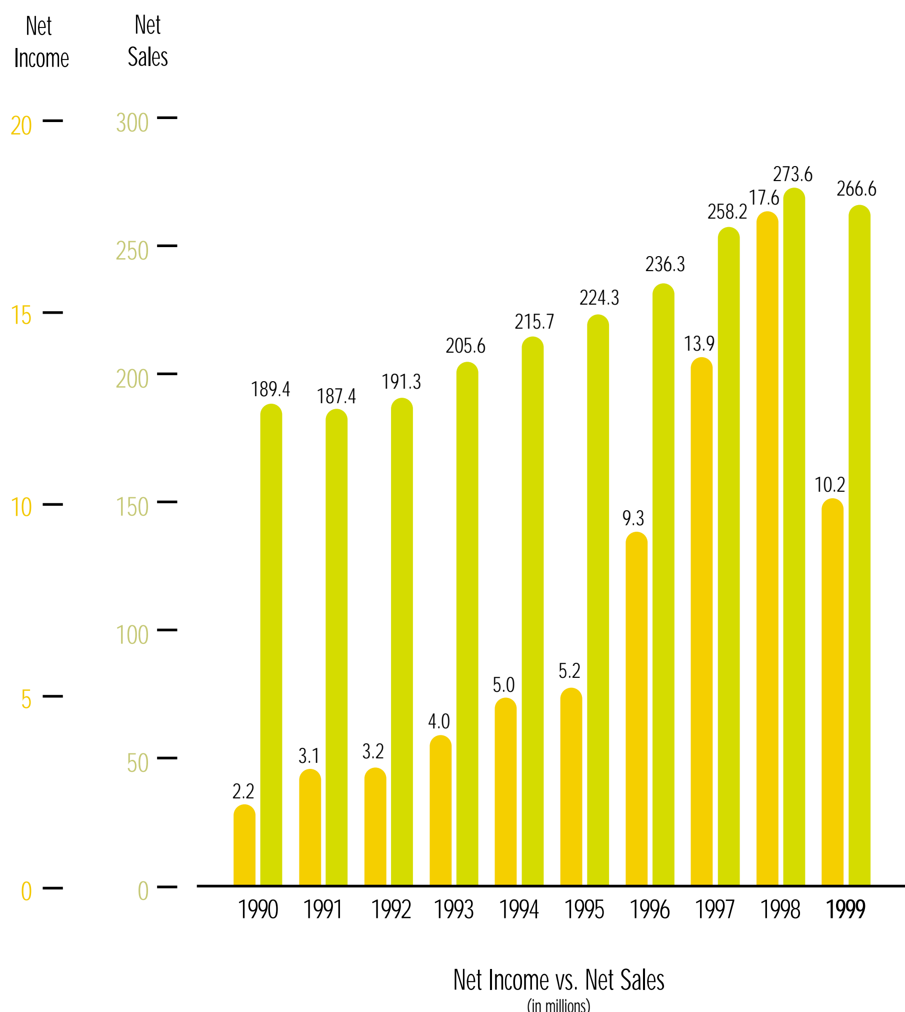
Virco's history is one of continual reinvestment. It's fitting that our single greatest year of reinvestment came exactly fifty years after this photo was taken, and that the values Julian espoused still guide the company.

Financial Highlights

In thousands, except per share data	**1999**	1998	1997	1996	1995	1994	1993	1992	1991	1990
Summary of Operations										
Net sales - continuing operations	**$266,641**	$273,620	$258,194	$236,277	$224,349	$215,659	$205,629	$191,324	$187,384	$189,393
Net income										
Continuing operations	**10,166**	17,630	13,852	9,326	5,209	5,001	4,302	3,827	3,453	2,536
Discontinued operations	**–**	---	---	---	---	---	–	(668)	(347)	(337)
Change in accounting methods	**–**	---	---	---	---	–	(275)	---	---	---
	$ 10,166	$ 17,630	$ 13,852	$ 9,326	$ 5,209	$ 5,001	$ 4,027	$ 3,159	$ 3,106	$ 2,199
Net income per share*	**$ 0.96**	$ 1.60	$ 1.25	$ 0.86	$ 0.48	$ 0.46	$ 0.38	$ 0.29	$ 0.29	$ 0.20
Stockholders' equity	**93,834**	88,923	77,077	63,921	55,386	50,466	45,637	41,937	39,164	36,206
Stockholders' equity per share**	**9.08**	8.38	7.17	5.96	5.17	4.72	4.26	3.92	3.66	3.38

** Based on average number of shares outstanding each year after giving retroactive effect for stock dividends and 3 for 2 stock split.*

*** Based on number of shares outstanding at year-end giving effect for stock dividends and 3 for 2 stock split.*



Net Income vs. Net Sales
(in millions)

Net income and net sales both declined in 1999. The declines were directly attributable to capital investments in our Conway, Arkansas facility and normal start-up difficulties with our new SAP operating system. Both investments have increased our capacity: one for production and distribution, the other for processing information. We are now embarked on an aggressive growth campaign to fill this capacity and return to previous levels of profitability.

To Our Stockholders

Robert A. Virtue
President and CEO

Representing 50 years of design evolution, Robert Virtue is flanked by Virco's original Series 100 chair (left), and the new I.Q.™ chair, right.

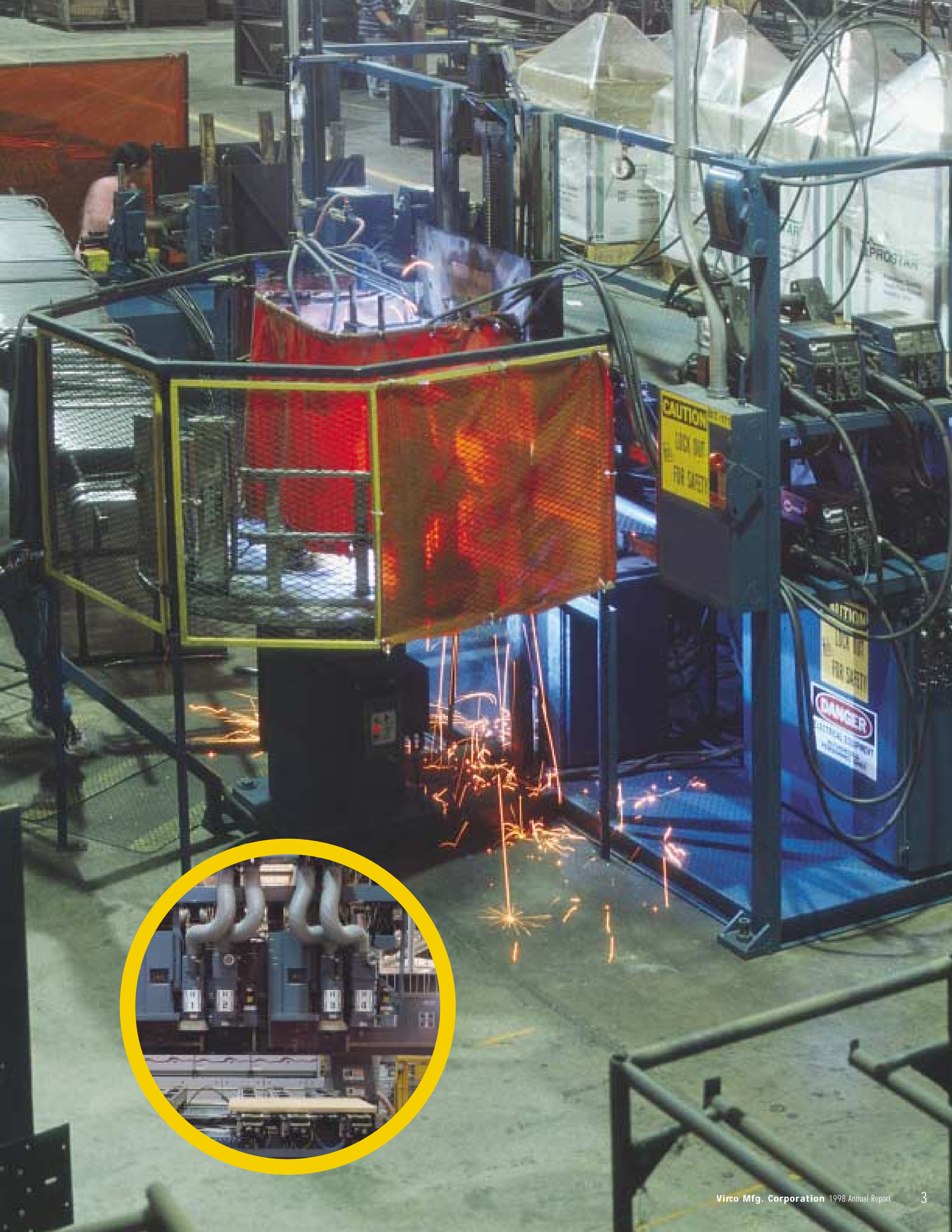
Our results for fiscal 1999 failed to match Virco's record performance of 1998, as sales declined from $273 million to $266 million and profits dropped from $17.6 million to $10.2 million. While we are not satisfied with the current financial results, we are pleased with the success of two significant projects, both of which were initiated in 1997 and became operational in 1999. While both projects were necessary and beneficial for the long-term, their developmental costs had an adverse impact on our short-term financial results.

The first of these initiatives involved the opening of what will soon be a 1,200,000 square-foot facility at our Conway, Arkansas location. This facility is situated on a 103-acre site, approximately 3 miles from our existing original factory. We started with a 400,000 square-foot manufacturing increment which was completed in March of 1999 and features automated wood working equipment, robotic welders, laser metal fabrication, and a new powder coat finishing line. Although we experienced the normal start-up difficulties one might expect, these inefficiencies and delays have been corrected and we are now operating effectively at high levels of output.

On February 2, 2000, Virco celebrated its 50th Anniversary. This original logo reflects founder Julian Virtue's belief that classroom furniture would be in great demand following the end of World War II, as returning servicemen started families. History proved him right, and classroom furniture remains at the core of the company's product line fifty years later.

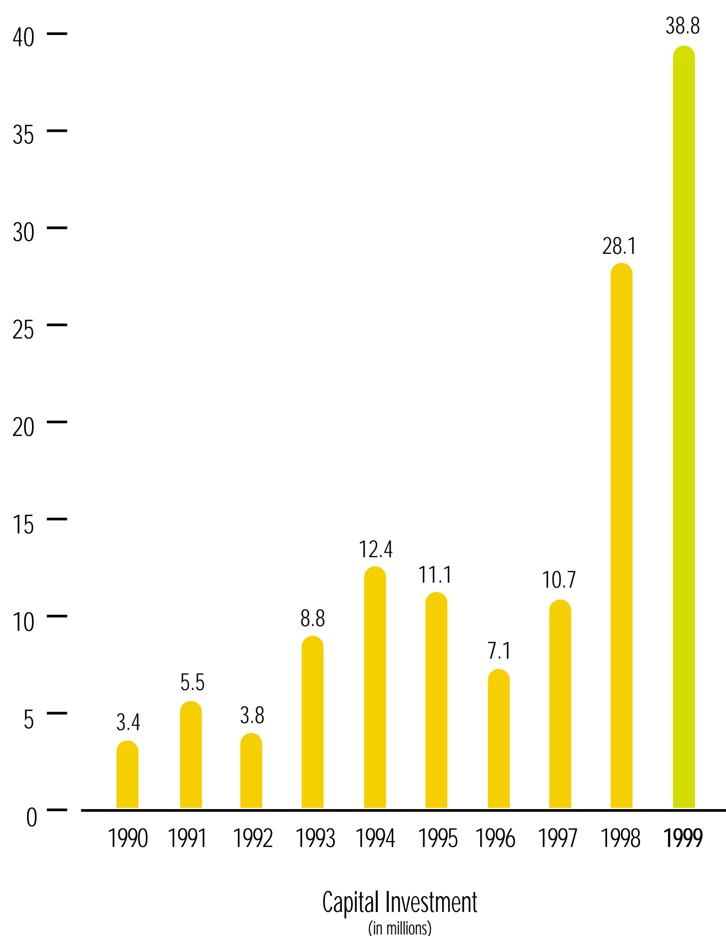
This frame fabrication cell in our new Conway factory is representative of the heavy capital investments made during the late 1990's.

Inset photo shows a computer-controlled woodworking machine, also in the new Conway factory.


CAUTION
LOCK OUT FOR SAFETY
DANGER

Adjoining this manufacturing operation is a 400,000 square-foot, high-density storage warehouse now in full operation. A second, adjoining 400,000 square-foot facility will be in operation by late May of this year. This will allow for all finished goods manufactured at Conway to be stored in one facility with a resultant reduction of material handling activities. The new facility will include over 100 dock doors for in-bound raw materials and out-bound finished goods. This will significantly improve our ability to serve our customers during periods of peak demand and enable us to vacate the two remaining leased warehouse properties in Conway at the end of our summer delivery season.

Virco's first customer was the Los Angeles Unified School District. The combination chair desk shown above was built of stout steel tubing with a hardwood seat, back and writing surface. A testament to durable design and construction, some of these desks from the early 1950's are still in service.



Capital Investment
(in millions)

Our capital investment strategy begins with two assumptions: 1) that we have abundant potential for sales growth among our existing types of customers; and 2) that to adequately serve them, we need to achieve industry-leading performance at the operating unit level, namely our factories and distribution centers. Following the investments of 1998 and 1999, we believe that we have established the necessary infrastructure to support three to five years of sustained, profitable growth. We expect capital investments to return to more normal levels during this same period of time.

With over 70 dock doors for outbound freight, our new 800,000 square foot distribution facility is specifically designed to accommodate the extreme seasonality of the classroom furniture market.

Storage density inside the warehouse has been vastly improved through the use of high-cube racks, accessed with special narrow aisle forklifts.

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VIRCO

Virco's second initiative was the implementation of our new business information system; this resulted in less than satisfactory customer service at our busiest time of the year. We invested additional money during the course of the year in training and improvements to the system and are now beginning to realize the inherent benefits of our new SAP information platform. At this year's annual sales meeting, we distributed laptop computers to our entire sales force, providing an efficient link between them, our factories and our customers. We also unveiled our new business-to-business website, designed to provide existing customers with the tools to conduct "self service." Both our salespeople and our customers gain access to the system through the Internet, greatly reducing delays associated with more traditional tools such as phones and fax machines. This linkage, which we believe will become essential during the next several years, would not have been possible with our old legacy system.

Our plan for the coming year, upon completion of the new Conway facility, is to reduce capital spending to levels that are more normal. Capital spending during the last two years has been exceptionally high. We believe that this capital investment will generate the same types of efficiencies that the company attained after making similar investments in the mid 1990's. This investment will enable us to more aggressively pursue increases in sales volume and to service our customers' seasonal delivery requirements.

We have confidence in the continued growth of the markets we serve, and our ability to gain market share. Our largest market segment - Kindergarten through 12th grade public schools - represents roughly 60 to 65% of our total revenues. We closely monitor the trends in this market segment, particularly the monies available for construction of new facilities and the modernization of or addition to others. School Planning and Management magazine publishes an annual report on the expenditures for these schools, and their February 2000 analysis pointed out that growth in schools has been fueled by several key factors.

The strength of the economy in general and the passage of local bond issues have been very important in this regard. Additionally, numerous state governments are more willing to spend state money over and above local bond issues as an added boost. While these and other issues could be described as a key part of the national political agenda, the results have been favorable

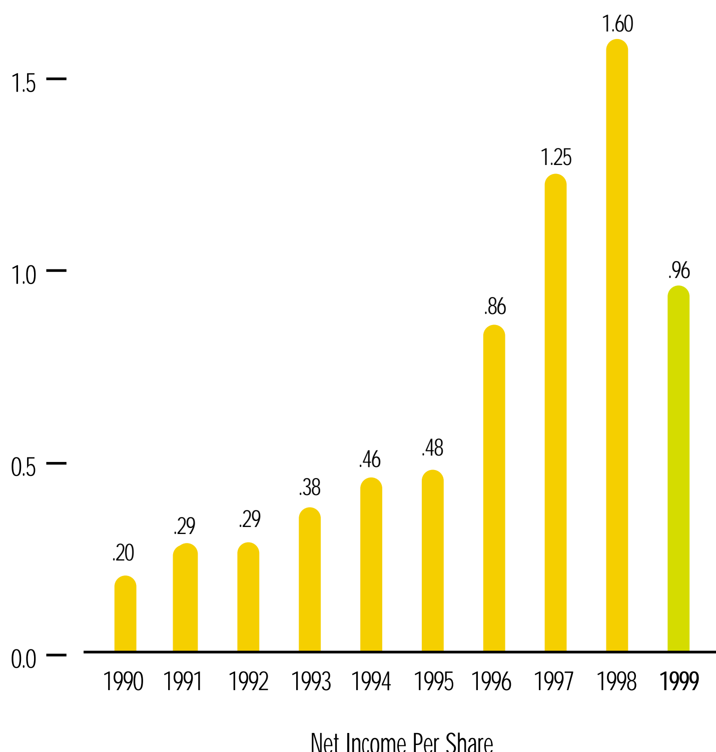
Julian Virtue recognized early on that the high cube and seasonal nature of classroom furniture demanded more than one manufacturing location to adequately serve customers nation-wide. In 1954 he purchased tiny Dunn Table, Inc., located in Conway, Arkansas. Julian was right again: thanks to extraordinary hard work and the consistent support of the City of Conway, Virco's Division has grown from 20 employees and 13,000 square feet in 1954 to 1850 employees and 1,800,000 square feet in the year 2000. Pictured above is the new 1,200,000 square-foot manufacturing and distribution complex in Conway.

One of the main purposes of our new SAP operating system was to create a data link to the world of e-commerce. Our upgraded website, virco.com, was launched in February, 2000.

Customers and sales representatives can now track orders directly through our website, another benefit of the SAP system.

for education. Enrollment is growing in public schools, although not as fast as school construction. Part of the construction increase is due to a demand to replace and modernize older facilities. Educators are concerned about the quality of the education furnished by their school districts, and they now have a greater opportunity to talk about the tools needed for improved instruction: things such as technology training and the space in which to house such equipment. The combination of these circumstances is favorable to our business, and the emphasis on education - not only through high school, but beyond - bodes well for our future prospects.

A relic from an age long ago, this luxury folding table and chair set was one of Virco's first forays into commercial furniture. Bridge parties, cars with fins, drive-throughs and drive-ins. . .nostalgia anyone?



Net Income Per Share

Net income per share declines for the first time in over a decade, as a direct result of our capital investment program. We now have the capacity to comfortably support $375-$400 million in furniture sales, after which we anticipate another cycle of investments. As sales volume approaches capacity over the next two to three years, we expect earnings per share to improve.

** Based on average number of shares outstanding each year after giving retroactive effect for stock dividends and 3 for 2 stock split.*

It's hard to believe, but in the 1960's people actually paid a premium for plastic seats and backs on classroom furniture. Virco was very aggressive in promoting the durability of plastic, eventually shifting the entire focus of the industry by selling "plastic at the price of wood".

Brigham Young University
Salt Lake City, Utah
2646TA - I.Q.™ Series chair desks

High Tech Center
Carson City, Nevada
Mojave™ applied technology furniture

Our commercial sales declined approximately $5.6 million from the previous year. This resulted from a carefully considered and previously described transition from and over-dependence upon, the mass merchandise customers to whom we had typically sold at very low margins. Last year we discontinued approximately $10 million worth of business to this type of account, and offset it with new business to our traditional commercial markets. We have now eliminated nearly all sales to mass merchants, and we feel that with a stronger base of ongoing sales to convention centers, churches and meeting facilities - both direct and through our dealer network - we have redirected our selling emphasis in a more sustainable and reliable manner.

In recent years, we have given considerable emphasis to convention centers, and I am happy to report that we have had an outstanding success ratio with these facilities. We have focused our convention center business on movable chairs and folding tables, as well as storage equipment. The larger facilities often include 5,000 or more chairs and 1,000 folding tables. Our Core-a-Gator® folding tables have earned an excellent reception with these customers, and the combination of movable upholstered chairs, either folding or stackable, along with our Core-a-Gator folding tables and storage equipment lines have made us the supplier of choice for these facilities. We will continue to target this market as new facilities are constructed and additions are made to existing properties.

Virco's new product development has been successful in some of our smaller markets as well. These new products have relied upon contemporary design and functionality for the changing needs of our customers. At the same time, our dedication to cost control has made these products very affordable. Products developed in 1998, and featured in last year's annual report are gaining considerably in sales. These include our Plateau® tables, Core-a-Gator lightweight folding tables, Virtuoso® and I.Q.™ chairs for meeting facilities, and our Vespers® line of

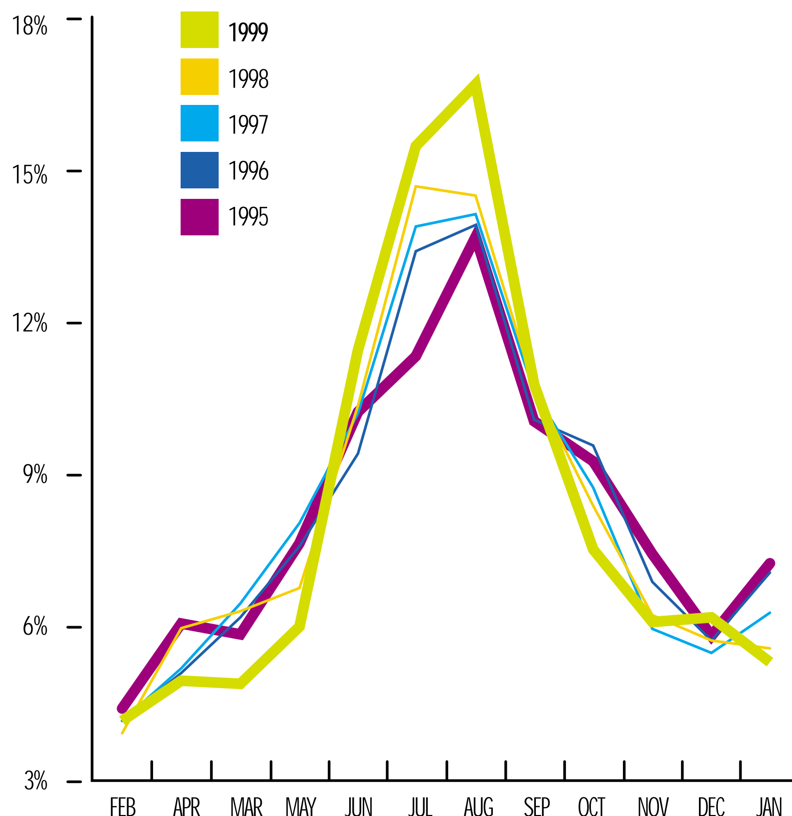
Virco's model 9000 has become the world's largest selling stack chair. Introduced in 1963, we estimate that over 40,000,000 units have been sold. The 9000 has become an icon of functionality. Its three-slotted bucket design is protected by a federal trademark. We maintain an informal list of unusual sightings, including various television programs, roadside outposts in the wastelands of central Nevada, and a fine art photograph at the Getty Museum.

Columbus Christian Center
Columbus, Ohio
Vespers® chairs

St. Simon's First Baptist Church
St. Simon's, Georgia
2646 - I.Q.™ Series chairs

upholstered chairs for houses of worship. Within the last year, we have spent over $1 million to increase capacity to manufacture these products. Their reception by our customers has been excellent, and several of these new products have been added to our very successful Quick Ship program because of strong customer demand. As a result, we are continuing to develop other new products, while implementing additions to recently introduced furniture lines, such as our Mojave™ line of computer furniture. Virco has an ongoing commitment to new product development, and we plan several new introductions in the year 2000.

In the 80's, sales of commercial furniture actually exceeded those of classroom furniture. Maintaining a balance between these two markets has provided a buffer against downturns in either one, since they tend to move in opposition to one another. Pictured above are representative commercial products from the early 80's--who says there's no such thing as progress?



Seasonal Distribution of Sales Volume

The seasonal delivery requirements of our public and private school customers are unique within the furniture industry. Peak summer demand is four times greater than during the slow months of winter. Over the past five years this pattern has intensified, as shown in the graph. Developing an integrated system of production, warehousing, distribution and information management to deal with seasonality has been our biggest challenge. Much of last year's capital investment, in particular the high-capacity 800,000 square foot warehouse and distribution center in Conway, Arkansas, was specifically targeted at increasing our summer shipping capacity.

Park Hyatt Hotel
San Francisco, California
8918SB - Custom stack chairs

Stellar Conference Center
Brunswick, Georgia
8916SB - Custom stack chairs

In conclusion, I feel that the actions taken in 1999 have substantially improved our manufacturing and distribution capabilities. We have invested in information technology which will enable the company to stay current with evolving e-commerce business practices.

February 2, 2000 marked the 50th anniversary of Virco's founding. As we reflect back on our first 50 years in business, we do so with pride in what we have accomplished and brought to our industry. At the same time, we also recognize the many challenges to be faced in the years ahead. Business is much different today than it was in 1950, and we certainly endorse the competitive atmosphere in which we do business. This competition has brought improvement in products, methods of distribution and cost benefits to the customers we serve. In addition, we've learned that Virco's greatest strength involves service to those customers in the broadly defined institutional furniture market.

We also want to take particular notice of the efforts expended by our employees in 1999. It was a difficult year in many ways, and the demands of our two major projects required many hours of extra work by our employees. Their accomplishments were very significant, and have positioned Virco for continued success. We also wish to thank our many shareholders for their patience during a year in which our stock price, like that of many others in our industry, suffered in a very volatile market. We recognize the importance of regaining lost shareholder value, and our emphasis to improve sales and earnings in 2000 will be intensive.

Robert A. Virtue

President and CEO

In the mid-1990's Virco began a broad series of initiatives to improve profitability, modernize facilities and expand market share. Lessons learned at Torrance were used in the design of our new 1,200,000 square foot facility in Conway, which we believe will ultimately prove to be our most efficient and profitable operation. Pictured above is our Mojave line of applied technology furniture, produced exclusively in the new Conway factory.

Building on tradition but embracing change, the employees and management of Virco look forward to a second fifty years of rewarding growth.

OnCenter
Syracuse, New York
8918SB - Custom stack chairs

Los Angeles Convention Center
Los Angeles, California
8830SB - Custom stack chairs.

Management's Statement

The financial statements of Virco Mfg. Corporation were prepared by management, which is responsible for the integrity and objectivity of the data presented, including amounts that must necessarily be based on judgments and estimates. The statements were prepared in conformity with accounting principles generally accepted in the United States, and in situations where acceptable alternative accounting principles exist, management selected the method that was most appropriate in the circumstances.

Virco depends upon the Corporation's system of internal controls in meeting its responsibilities for reliable financial statements. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded and executed in accordance with management's authorization. Judgments are required to assess and balance the relative cost and expected benefits of these controls.

The financial statements have been audited by our independent auditors, Ernst & Young LLP. The independent auditors provide an objective, independent review as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition. They obtain and maintain an understanding of Virco's accounting and financial controls, and conduct such tests and procedures, as they deem necessary to arrive at an opinion on the fairness of the financial statements.

The Audit Committee of the Board of Directors, which is composed primarily of Directors from outside the Company, maintain an ongoing appraisal of the effectiveness of audits and the independence of the auditors. The Committee meets periodically with the auditors and management. The independent auditors have free access to the Committee, without management present, to discuss the results of their audit work and their opinions on the adequacy of internal financial controls and the quality of financial reporting.

Management's Discussion and Analysis and Results of Operations

Revenue and Income

1999 vs. 1998

For the year ended January 31, 2000, sales declined 2.6% to $266,600,000, compared to $273,600,000 for the same period last year. The Company believes two factors have contributed to the decline in sales. First, the Company experienced some very aggressive price competition from regional competitors that resulted in a slight reduction in year-to-date educational sales. Second, sales and orders of commercial furniture declined as a result the Company's strategic decision to reduce sales to mass merchandisers. This decision, which was initiated in 1995, is now substantially complete. The Company does not anticipate further significant impact on sales volume relating to this market segment. The reduction in sales to mass merchandisers have been partially offset by increases in sales to hospitality markets, convention centers, churches, and the Government Services Administration. The Company continues to believe that its long-term interests will be served by avoiding the low-margin mass merchandising commodity business by emphasizing higher margin products and customers. For 1999, the Company continued to be more selective and more disciplined in what business it pursued in terms of product mix, customer mix and pricing in order to emphasize profitable business rather than pursue sales volume increase. As the Company has grown in more profitable markets and products, we have reduced our business in certain commodity type products, which typically generate lower profit margins. With the expansion of the Company's Conway, Arkansas manufacturing and distribution facility, it will allow the Company to more aggressively pursue sales growth into these more profitable markets.

Education sales, which are primarily composed of sales to publicly funded K-12 schools and represents 63% of corporate revenues, decreased slightly by $1,400,000 to $166,800,000 from $168,200,000 in the prior year. Sales of our newer computer furniture, our line of Core-a-Gator lightweight tables and mobile tables improved, but were offset by reductions in some of our older product lines.

Commercial sales, which include private schools, pre-schools, churches and church affiliated schools, convention centers, federal and county and city agencies, furniture distributors, retailers and catalog retailers, represents 37% of corporate revenues and decreased by $5,600,000 to $99,800,000 from $105,400,000 in the prior year. Commercial sales have been affected more significantly by our efforts to reduce sales to mass merchandisers. The reduction in business to mass merchants is partially offset by an increase in sales in other markets. Sales of our Core-a-Gator lightweight table, the breadth of our product line for target niche markets, and the continuing success of our Quick Ship stocking program favorably affected sales for the other commercial sales channels.

Gross profits for the year ended January 31, 2000, as a percent of sales, were comparable to the prior year. During 1999, the Company incurred increased overhead costs related to the start up of the new factory in Conway, Arkansas. These increased overhead costs were offset by a more favorable product mix and stable material costs.

Selling, general and administrative expense for the year ended January 31, 2000 increased both in total dollars and as a percentage of sales compared to the same period last year. The increase in selling, general and administrative expense was partially attributable to product mix. The reduction in mass merchant business, which was typically sold FOB factory, has been replaced in part by sales to commercial customers, which frequently include freight and installation. In addition, the inefficiencies related to the plant start up mentioned above, combined with the concurrent go live of the SAP system contributed to some additional costs incurred in the delivery and installation of furniture. The Company has also incurred additional selling expenses relating to increased direct sales representatives and product development expenses. The increase in general and administration expense was primarily attributable to an increase in depreciation expense, system maintenance services, training costs and other expenses relating to the implementation of an SAP Enterprise Resources Planning System.

Interest expense increased by $1,300,000 for the year ended January 31, 2000 compared to the same period last year. The increase was attributable to a higher average borrowing balance offset by interest capitalized relating to assets under construction.

1998 vs. 1997

Net sales from operations increased to $273,600,000 for fiscal 1998, compared to $258,200,000 for fiscal 1997. Roughly two thirds of this increase were attributable to volume and one third attributable to price. This modest increase in sales was attained by a continuation of practices, which have been followed for the last several years. The Company continued to be more selective and more disciplined in what business it pursues in terms of product mix, customer mix and pricing in order to emphasize profitable business. As the Company has grown in certain more profitable markets and products, we reduced our business in certain commodity type products, which generate lower profit margins. The results of the 1998 fiscal year reflected these efforts.

Education sales, which were composed of sales to publicly funded K-12 schools and represented 61% of corporate revenues, increased by $12,700,000 to $168,200,000 from $155,500,000. Sales of our newer computer furniture, our line of Core-a-Gator lightweight tables, mobile cabinets and mobile tables improved, offset by reductions in some of our older product lines. The gross margin in the newer product lines is typically greater than sales of the older lines, which explained a portion of our improvement in gross margin as a percentage of sales. In the fourth quarter of 1998, the Company hired several sales representatives to call directly upon the college and university markets. The impact of these representatives was a slight increase in selling expenses in the fourth quarter, with no significant impact on sales volume. During the fourth quarter of 1997, the Company terminated relationships with several major educational dealers, which represented nearly 15% of educational sales, and hired additional direct sales representatives to cover the affected territories. The net impact of this change in 1998 was that sales in the affected territories were approximately level and the Company realized larger margins on these sales offset in large part by increased selling expenses. While the impact in the first year of this change was largely neutral, the Company has historically improved market penetration and profitability in territories where it has gone direct. A result of terminating several dealer relationships combined with an overall trend in the nation's schools where school districts are closing their warehouses and requiring delivery direct to the school site, was that sales are becoming even more seasonal, with sales becoming more concentrated in July, August and September.

Commercial sales, which include private schools, pre-schools, churches and church affiliated schools, convention centers, federal and county and city agencies, furniture distributors, retailers and catalog retailers, represented 39% of corporate revenues and increased by $2,700,000 to $105,400,000 from $102,700,000 in the prior year. Commercial sales have been affected more significantly by our efforts to improve margins. As the Company has increased sales of more profitable product, we have reduced our business with mass merchants and smaller distributors. Sales of our Core-a-Gator lightweight table, the breadth of our product line for target niche markets, and the continuing success of our Quick Ship stocking program favorably affected sales for the other commercial sales channels.

The $15,400,000 increase in sales provided an additional $9,735,000 of gross margin. As discussed above, the increase in sales of higher margin newer products, combined with increased discipline in our pricing to support improved margins contributed to the increase in gross margin. In addition, material costs were stable and for some items slightly reduced in 1998 compared to 1997. Selling, general, and administrative expenses increased over the prior year, and as a percentage of sales, increased slightly.

Other Operating Activities

In August 1997, the Board of Directors authorized an expansion and re-configuration of the Conway, Arkansas manufacturing facility. In late 1997 and early 1998, the Company acquired approximately 100 acres of land in Conway, which will support up to 1,700,000 sq. ft. of manufacturing, warehousing, office, and showroom facilities. Phase one of the project consisted of a 400,000 sq. ft. manufacturing plant and was completed in March 1999. This plant replaced an existing 150,000 sq. ft. manufacturing facility, providing an additional 250,000 sq. ft., which was earmarked for new manufacturing processes to support our product development efforts as well as support future growth in sales. This plant utilizes a manufacturing cell concept, which has proven successful in our Torrance, California manufacturing facility. This new manufacturing facility contains new equipment, which is selected to improve manufacturing efficiency and flexibility as well as improve product quality. In March 1999, substantially all of the production equipment from the existing 150,000 sq. ft. facility were transferred to the new plant. New processes and equipment are being brought on line, as capacity and process requirement demand. The 150,000 sq. ft. facility, which is adjacent to the main factory in Conway, has been converted to a finished goods warehouse.

Phase two of our Conway project consists of an 800,000 sq. ft. warehouse and distribution facility. Construction on the first 400,000 sq. ft. segment began in March 1999 and was completed and fully operational in December 1999. The second 400,000 sq. ft. segment is under construction and is projected to be in operation by late May of 2000. This new warehouse and distribution facility will replace several leased facilities, which are scattered throughout the Conway vicinity. This new facility will allow all finished goods manufactured at Conway to be stored in one facility. This warehouse facility will be equipped with high-density storage systems, features over 70 dock doors dedicated to out-bound freight, and has substantial yard capacity for storing and staging trailers. The Company believes that this facility will substantially improve our ability to support increased sales during the peak delivery season and enhance the efficiency with which orders are filled.

On March 1, 1999, the Company went live with its newly implemented ERP system. As a result of this installation and implementation, the Company incurred additional support costs, and experienced some inefficiencies related to production scheduling, distribution and installation of furniture. The Company invested in additional training, and with a full year of experience using the new system, is beginning to realize the inherent benefits of our new SAP information platform. At the February 2000 annual sales meeting, the Company distributed laptop computers to our entire sales force to provide them with an efficient link between our factories and our customers. In the same meeting, the Company also unveiled its new business-to-business website designed to provide our sales force and existing customers with the ability to access the Company's ERP system through the Internet. This will greatly enhance the level of customer service and support. These significant advances would not have been possible on our old information platform.

At the end of January 31, 1999, the Company closed two of its distribution facilities. This leaves the Company with its main distribution facilities at the Torrance and Conway factories, and one satellite facility in Pennsylvania.

In 1994, the Board of Directors authorized the Company to investigate the possible sale of our Virsan, Mexico manufacturing facility. This action was taken in connection with our program of moving manufacturing operations into more automated facilities which are closer to our primary markets. In addition, this decision was consistent with the Company's efforts to reduce emphasis on the sale of high volume, low margin products to mass merchants, many of which were produced at this factory. In May 1997 the Company announced plans to close this facility. Later in 1997, the Company reached an agreement for the bulk sale of the assets. The Company recorded a provision for $2,970,000 during 1997. The provision is primarily composed of mandatory severance payments in accordance with Mexico law. Other components of the reserve included environmental remediation and other miscellaneous costs. The Company did not incur any significant costs related to the liquidation of this subsidiary in 1998 or 1999.

Impact of the Year 2000

The Company has queried significant suppliers and vendors that do not share information systems with the Company (external agents). To date, the Company is not aware of any external agent with a Year 2000 issue that would materially impact the Company's results of operations, liquidity, or capital resources.

With regard to the Company's product line, the Company manufactures furniture, including furniture designed for computers. There is no software or hardware embedded in the furniture. Accordingly, the Company believes that there is no Year 2000 exposure for any products it has sold.

The Company utilized both internal and external resources to reprogram, replace, test and implement the software and operating equipment for the Year 2000. This includes costs to install and implement the SAP Enterprise Resource Planning System, which is expected to significantly enhance the Company's operating capabilities.

As of the date of this report, the Company has experienced no significant problems related to the Year 2000 issue. After extensive system verification and testing, all computerized information and process control systems are operating normally. The performance of critical customers and suppliers continues without notable change. Production and business activities are normal at all locations. The Company continues to monitor the status of its operations, suppliers and distribution channels to ensure no significant interruptions.

Environmental and Contingent Liabilities

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 can be expected to expend, significant amounts in the future for the investigation of environmental conditions, installation of environmental control equipment and remediation of environmental contamination.

Currently, the Company is self-insured for Product Liability losses up to $100,000 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 $100,000 up to a limit of $30,000,000. In 1993, the Company initiated a program to reduce product liability losses and to more aggressively litigate product liability cases. This program has continued through 1999 and has resulted in reductions in litigated product liability cases. 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.

Inflation and Future Change in Prices

Inflation rates in the U.S. did not have a significant impact on the Company's operating results for the fiscal year just ended. Material costs were stable in 1999. The Company anticipates upward pressure on costs, particularly in the areas of transportation, raw materials and labor in the coming year. Total material costs for 2000, as a percentage of sales, could be slightly higher than in 1999. However, no assurance can be given that the Company will experience stable, modest or substantial increase in prices in 2000. 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.

The Company uses the LIFO method of accounting for inventory. Under this method, the cost of products sold as reported in the financial statements approximates current cost, and reduces the distortion in reported income due to increasing costs. Depreciation expense represents an allocation of historic acquisition costs and is less than if based on the current cost of productive capacity consumed. The Company has made significant fixed asset acquisitions during the last three fiscal years. The assets acquired will result in higher depreciation charges, but due to technological advances should result in operating cost savings. In addition, some depreciation charges will be offset by a reduction in lease expense.

The Company is also subject to interest rate risk related to its $38,700,000 borrowings at January 31, 2000 and any seasonal borrowings used to finance additional inventory and receivables during the summer. Fluctuating interest rates may adversely impact the Company's results of operations and cash flows for its variable rate bank borrowings. Subsequent to the year-end, the Company entered into an interest rate swap agreement with Wells Fargo Bank to reduce exposure due to changes in interest rates. The initial notional swap amount is $30,000,000 for the period February 22, 2000 through February 28, 2001. The notional swap amount then decreases to $20,000,000 until the end of the swap agreement, March 3, 2003. Under this agreement, interest is payable monthly at 7.23% plus a fluctuating margin of 1.25% to 1.50%.

Liquidity

In January 2000, the Company renewed its loan facility with Wells Fargo Bank, extending the agreement to a three-year commitment. The line was increased to $80,000,000. The Company is currently obligated to pay commitment fees equal to 0.25% to 0.375% per annum on the unused amount of the credit facility. The credit facility includes certain restrictive financial and operating covenants. The terms of the facility are described in more detail in Note 3 of the notes to the consolidated financial statements. Major provisions of the agreement include that the line is uncollateralized and the interest rate is at prime. This facility also allows the Company the option to borrow under 30, 60, and 90 day fixed term rates at LIBOR plus 1.25% to 1.50%. The applicable LIBOR margin is adjusted quarterly based on the Company's funded debt to EBITDA ratio. Under the same agreement, there is also a letter of credit sub-feature, where the Company issues commercial and standby letters of credit. This loan facility is intentionally large enough to finance more production in the early part of the year to have adequate inventories available for the summer/fall educational delivery season.

In April 1998, the Board of Directors approved a stock buyback program giving authorization to buy back up to $5,000,000 of Company Stock. In January 1999, the Board increased the authorization to $7,000,000 and subsequently increased to $14,000,000. As of January 31, 2000 the Company had repurchased approximately 589,000 shares at a cost of approximately $10,097,000. The Company intends to continue buying back shares of Virco common stock as long as the Company feels the shares are undervalued and operating cash flow and borrowing capacity under the Wells Fargo line allows.

In 1997, the Company initiated two large capital projects, which had significant cash flow effects on the 1998 and 1999 fiscal years. The first project is the implementation of the SAP Enterprise Resource Planning system, initiated in October 1997. General Electric Capital Corporation (GECC) financed the initial portion of this project under a lease arrangement, which will be treated as a capital lease for book purposes and an operating lease for tax purposes. This arrangement allowed the Company to initiate the project in 1997 without violating the limitations on capital investment at the Torrance, California facility imposed by the Industrial Revenue Bond. As of January 31, 2000, the Company expended $13,000,000 relating to this project. Capital and training costs not funded by the lease are financed by cash flow from operations and from the loan facility with Wells Fargo Bank.

The second project is the expansion and re-configuration of the Conway, Arkansas manufacturing and distribution facility. During the fourth quarter of 1997 the Company expended approximately $1,200,000 to acquire roughly 70 acres of land for the expansion. In 1998, the Company expended approximately $20,600,000 to buy an additional 30 acres of land, initiate construction of a 400,000 sq. ft. manufacturing facility and to purchase production equipment for the Conway, Arkansas location. During 1999, the Company expended approximately $29,200,000 to complete the construction of the factory, purchase additional production equipment, construct and complete the first 400,000 sq. ft. segment of the planned 800,000 sq. ft. distribution facility, and initiate the construction of the second 400,000 sq. ft. segment of that facility. In addition, approximately $8,800,000 worth of equipment was leased from General Electric Capital Corporation (GECC) under operating leases. The balance of the cash required was provided by the loan facility with Wells Fargo Bank and by operating cash flow. In addition to these capital expenditures, it is likely that the Company will identify additional production equipment needs in the manufacturing facilities. These capital expenditures will be financed out of operating cash flow and by the expanded line of credit with Wells Fargo Bank. In the coming fiscal year, the Company anticipates to incur approximately $6,000,000 to complete the new distribution facility and acquire material handling and storage equipment.

Subsequent to the year ended January 31, 2000, the Company entered into an agreement to sell its 200,000 sq. ft. warehouse located on 8.5 acres of land in Torrance, California. This sale transaction closed as of April 20, 2000. The Company received approximately $9,500,000 in cash and will record a pre-tax gain of approximately $7,900,000 on disposition.

In the second quarter of 1998, the Company sold the manufacturing facility in Southern Pines, North Carolina. This sale generated approximately $945,000 in cash and resulted in a $128,000 loss on disposition.

In 1997, the sale of production equipment and real property of the Company's Mexico manufacturing facility generated an additional $2,210,000 of cash, offset by closing costs incurred related to the shutdown.

Management believes cash generated from operations and raised from the previously described sources will be adequate to meet its capital requirements in the short term.

Financial Strategy

Virco's financial strategy is to continue to increase levels of profitability by targeting specific profitable market segments for future growth, developing new products for those target markets, acquisition of automated production equipment and new production technologies, development of distribution techniques and facilities, and continual reassessment of the manufacturing and distribution capacity needed to meet future demand. This continual assessment of production capacity led to a significant expansion of our Conway, Arkansas production facility in 1997, the 1994 move from the Los Angeles, California plant to a larger, more automated facility in Torrance, California and the shutdown of the manufacturing subsidiary in Mexico in 1997.

The Company has not provided an allowance against the deferred tax assets recorded in the financial statements. The Company has a net deferred tax liability of $3,160,000 at January 31, 2000. The deferred tax asset represents approximately 8% of current pre-tax earnings. Management believes that it is more likely than not that future earnings will be sufficient to recover deferred tax assets.

The Company discounts the pension obligations under the Virco Employees Retirement Plan and the Virco Very Important Performers Plan (VIP) utilizing an 8% discount rate. Although the Company does not anticipate any change in this rate in the coming year, any such change would not have a significant effect on the Company's financial position, results of operations or cash flows.

Forward-Looking Statements

From time to time, the Company or its representatives have made or may make forward-looking statements, orally or in writing, including those contained herein. Such forward-looking statements may be included in, without limitation, reports to stockholders, press releases, oral statements made with the approval of an authorized executive officer of the Company and filings with the Securities and Exchange Commission. The words or phrases "anticipates," "expects," "will continue," "estimates," "projects," or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The results contemplated by the Company's forward-looking statements are subject to certain risks and uncertainties that could cause actual results to vary materially from anticipated results, including without limitation, material costs, demand for the Company's products and competitive conditions affecting selling prices and margins.

Accounting Pronouncements

The Financial Accounting Standards Board has issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." The Interpretation addresses implementation practice issues in accounting for compensation costs under existing rules prescribed by Accounting Principles Board No. 25. The new rules are applied prospectively to all new awards, modifications to outstanding awards and changes in grantee status after July 1, 2000, with certain exceptions. The Company is considering the effects these changes make and will implement any changes to its plans as deemed appropriate.

In December 1999, Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," or SAB 101. SAB 101 summarizes certain of the SEC Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company does not believe that this SAB results in any material change to its revenue recognition policies.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) 133, "Accounting for Derivative Instruments and for Hedging Activities." SFAS 133 requires derivatives to be recorded on the balance sheet at fair value and establishes special accounting for the following three types of hedges: hedges of changes in the fair value of assets, liabilities or firm commitments (referred to as fair value hedges); hedges of the variable cash flows of forecasted transactions (cash flow hedges); and hedges of foreign currency exposures of net investments in foreign operations. The accounting treatment and criteria for each of the three types of hedges is unique. Changes in fair value of derivatives that do not meet the criteria of one of these three categories of hedges would be included in income. SFAS 133 was amended by SFAS 137, which delayed its effective date. The Company does not believe that adopting this standard will have a material effect on its financial position, results of operations and cash flows. Currently, the Company does not anticipate adopting this standard before February 1, 2001.

Five Year Summary of Selected Financial Data

In thousands, except per share data	1999	1998	1997	1996	1995
Summary of Operations					
Net sales	$ 266,641	$ 273,620	$ 258,194	$ 236,277	$ 224,349
Net income	$ 10,166	$ 17,630	$ 13,852	$ 9,326	$ 5,209
Net income per share*	$ 0.96	$ 1.60	$ 1.25	$ 0.85	$ 0.48
Average number of shares outstanding* * *	10,583,417	11,048,486	11,049,404	10,898,776	10,844,152
Cash dividends	$ .08	$ .07	$ .06	$ .06	$ .02
Other Financial Data					
Total assets	$ 190,863	$ 151,380	$ 122,015	$ 118,020	$ 119,225
Working capital	51,423	47,405	43,784	45,099	51,320
Current ratio	2.3/1	2.4/1	2.5/1	2.6/1	3.2/1
Total long-term obligations	53,995	25,690	13,512	25,396	39,900
Stockholders' equity	93,834	88,923	77,077	63,921	55,386
Shares outstanding at year-end* * *	10,330,476	10,608,320	10,753,020	10,719,927	10,719,927
Stockholders' equity per share* *	9.08	8.38	7.17	5.96	5.17

* Based on average number of shares outstanding each year after giving retroactive effect for stock dividends and 3 for 2 stock split.

* * Based on number of shares outstanding at year-end after giving effect for stock dividends and 3 for 2 stock split.

* * * Adjusted for stock dividends and 3 for 2 stock split.

Report of Independent Auditors

The Board of Directors and Stockholders
Virco Mfg. Corporation

We have audited the accompanying consolidated balance sheets of Virco Mfg. Corporation as of January 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Virco Mfg. Corporation at January 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Long Beach, California
March 17, 2000

Consolidated Balance Sheets

In thousands, except per share data	January 31 2000	1999
Assets		
Current assets:		
Cash	$ 1,072	$ 1,086
Trade accounts receivable (less allowance for doubtful accounts: $200 in 2000 and 1999)	26,457	30,465
Other receivables	927	308
Inventories:		
Finished goods	35,795	32,211
Work in process	9,260	6,713
Raw materials and supplies	12,003	9,544
	57,058	48,468
Income tax receivable	1,753	–
Prepaid expenses and other current assets	1,288	942
Deferred income taxes	1,371	1,239
Total current assets	89,926	82,508
Property, plant and equipment:		
Land and land improvements	4,871	4,633
Buildings	43,240	22,229
Machinery and equipment	87,238	72,296
Leasehold improvements	966	877
	136,315	100,035
Less accumulated depreciation and amortization	48,378	40,715
Net property, plant and equipment	87,937	59,320
Other assets	13,000	9,552
Total assets	$ 190,863	$ 151,380

Consolidated Balance Sheets (continued)

In thousands, except per share data	January 31 2000	1999
Liabilities and stockholders' equity		
Current liabilities:		
Checks released but not yet cleared bank	$ 4,786	$ 4,670
Accounts payable	19,749	14,398
Accrued compensation and employee benefits	10,333	9,156
Income taxes payable	–	803
Current portion of long-term debt	1,998	2,354
Other accrued liabilities	1,637	3,722
Total current liabilities	38,503	35,103
Noncurrent liabilities:		
Accrued self-insurance retention	2,560	1,329
Accrued pension expenses	5,408	3,017
Long-term debt, less current portion	46,027	21,344
Total noncurrent liabilities	53,995	25,690
Deferred income taxes	4,531	1,664
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 10,952,350 shares in 2000 and 9,945,014 shares in 1999	110	100
Additional paid-in capital	84,635	68,361
Retained earnings	20,242	26,928
Less treasury stock at cost (621,874 shares in 2000 and 301,087 shares in 1999)	(10,692)	(5,814)
Less unearned ESOP shares	(41)	(246)
Less accumulated comprehensive loss	(420)	(406)
Total stockholders' equity	93,834	88,923
Total liabilities and stockholders' equity	$ 190,863	$ 151,380

See accompanying notes.

Consolidated Statements of Income

In thousands, except per share data	Year ended January 31 2000	1999	1998
Net sales	$ 266,641	$ 273,620	$ 258,194
Costs of goods sold	175,247	180,554	174,863
Gross profit	91,394	93,066	83,331
Selling, general and administrative expenses	71,922	62,363	55,366
Provision for doubtful accounts	188	530	119
Provision for plant shutdown	–	–	2,970
Interest expense, net	2,385	1,111	1,794
Other expense	206	160	478
Income before income taxes	16,693	28,902	22,604
Provision for income taxes	6,527	11,272	8,752
Net income	$ 10,166	$ 17,630	$ 13,852
Net income per share	$ .97	$ 1.63	$ 1.29
Net income per share – assuming dilution	$ .96	$ 1.60	$ 1.25

See accompanying notes.

Consolidated Statements of Stockholders' Equity

In thousands, except per share data	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Compre-hensive Income	Treasury Stock	ESOP Trust	Accumulated Comprehensive Income (Loss)	Total
Balance at January 31, 1997	5,906,296	$ 59	$ 50,104	$ 14,251		$ (172)	$ (277)	$ (44)	$ 63,921
Net income	–	–	–	13,852	$ 13,852	–	–	–	13,852
Minimum pension liability, net of tax	–	–	–	–	(204)	–	–	(204)	(204)
Comprehensive income					$ 13,648				
Unearned ESOP shares	–	–	–	–		–	(39)	–	(39)
Stock issued under option plans	20,600	–	197	–		–	–	–	197
Stock split (3 for 2)	2,959,898	30	–	(30)		–	–	–	–
Cash dividends	–	–	–	(650)		–	–	–	(650)
Balance at January 31, 1998	8,886,794	89	50,301	27,423		(172)	(316)	(248)	77,077
Net income	–	–	–	17,630	$ 17,630	–	–	–	17,630
Minimum pension liability, net of tax	–	–	–	–	(158)	–	–	(158)	(158)
Comprehensive income					$ 17,472				
Unearned ESOP shares	–	–	–	–		–	70	–	70
Stock issued under option plans	134,180	2	690	–		(298)	–	–	394
Stock dividend (10%)	891,213	9	17,370	(17,379)		–	–	–	–
Cash dividends	–	–	–	(746)		–	–	–	(746)
Purchase of treasury stock	(268,260)	–	–	–		(5,344)	–	–	(5,344)
Balance at January 31, 1999	9,643,927	100	68,361	26,928		(5,814)	(246)	(406)	88,923
Net income	–	–	–	10,166	$ 10,166	–	–	–	10,166
Minimum pension liability, net of tax	–	–	–	–	(14)	–	–	(14)	(14)
Comprehensive income					$ 10,152				
Unearned ESOP shares	–	–	–	–		–	205	–	205
Stock issued under option plans	33,261	–	232	–		–	–	–	232
Stock dividend (10%)	947,704	10	16,042	(16,052)		–	–	–	–
Cash dividends	–	–	–	(800)		–	–	–	(800)
Purchase of treasury stock	(294,416)	–	–	–		(4,878)	–	–	(4,878)
Balance at January 31, 2000	10,330,476	$110	$84,635	$20,242		$(10,692)	$(41)	$(420)	$ 93,834

See accompanying notes.

Consolidated Statements of Cash Flow

In thousands, except per share data	Year ended January 31 2000	1999	1998
Operating activities			
Net income	$ 10,166	$ 17,630	$ 13,852
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,993	7,132	7,110
Provision for doubtful accounts	188	530	119
Loss (gain) on sale of property, plant and equipment	112	113	(575)
Deferred income taxes	2,735	420	225
Changes in assets and liabilities:			
Trade accounts receivable	3,820	(5,292)	(1,182)
Other receivables	(619)	831	(269)
Income taxes	(2,557)	859	(372)
Inventories	(8,589)	(4,606)	(218)
Prepaid expenses and other current assets	(347)	311	225
Accounts payable and accrued liabilities	8,182	5,493	667
Other	(2,506)	(506)	(473)
Net cash provided by operating activities	20,578	22,915	19,109
Investing activities			
Capital expenditures	(38,849)	(28,142)	(10,701)
Proceeds from sale of property, plant and equipment	128	945	2,275
Net investment in life insurance	(956)	(1,024)	(760)
Restricted short-term investments	–	–	660
Net cash used in investing activities	(39,677)	(28,221)	(8,526)
Financing activities			
Dividends paid	(800)	(746)	(650)
Issuance of long-term debt	26,794	13,109	3,067
Repayment of long-term debt	(2,468)	(2,312)	(12,659)
Issuance of common stock	232	394	197
Purchase of treasury stock	(4,878)	(5,344)	–
ESOP loan	205	70	(39)
Net cash provided by (used in) financing activities	19,085	5,171	(10,084)
Net (decrease) increase in cash	(14)	(135)	499
Cash at beginning of year	1,086	1,221	722
Cash at end of year	$ 1,072	$ 1,086	$ 1,221
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 2,277	$ 2,069	$ 1,911
Income taxes	6,416	10,106	9,021

See accompanying notes.

Notes of Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Business

Virco Mfg. Corporation, which operates in one business segment, is engaged in the design, production and distribution of quality furniture for the commercial and education markets. Fifty years of manufacturing has resulted in a wide product range. Major products include student desks, computer stations, 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.

Principles of Consolidation

The consolidated financial statements include the accounts of Virco Mfg. Corporation and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the 1998 and 1997 information to conform to the 1999 presentation.

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. The Company purchases insurance on receivables from commercial sales to minimize the Company's credit risk. No customers exceeded 10% of the Company's sales for each of the three years in the period ended January 31, 2000. Foreign sales were less than 5% for each of the three years in the period ended January 31, 2000.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method of valuation for the material content of inventories and the first-in, first-out (FIFO) method for labor and overhead.

Property, Plant and Equipment

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

Land improvements	5 to 25 years
Buildings (including improvements)	5 to 40 years
Machinery and equipment	3 to 10 years
Leasehold improvements	Life of lease

Certain assets are depreciated under accelerated methods for income tax purposes.

Interest costs, amounting to $1,461,000, $375,000 and $120,000 for the years ended January 31, 2000, 1999 and 1998, respectively, have been capitalized as part of the acquisition cost of property, plant and equipment.

The Company capitalizes costs associated with software developed for its own use. Such costs are amortized over three to seven years from the date the software becomes operational. The net book value of capitalized software was $11,492,000 and $4,306,000 at January 31, 2000 and 1999, respectively.

Impairment of Long-Lived Assets

An impairment loss is recognized in the event facts and circumstances indicate the carrying amount of an 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.

Net Income Per Share

Basic net income per share is calculated by dividing net income by the weighted-average number of common shares outstanding. Diluted net income per share is calculated by dividing net income by the weighted-average number of common shares outstanding plus the dilution effect of convertible securities.

	1999	1998	1997
Numerator:			
Net income	$ 10,166,000	$ 17,630,000	$ 13,852,000
Denominator:			
Denominator for basic earnings			
per share – weighted-average shares	10,436,964	10,821,509	10,753,020
Dilutive potential common shares	146,453	226,977	296,384
Denominator for diluted earnings per share			
– adjusted weighted-average shares and assumed conversions	10,583,417	11,048,486	11,049,404

On August 17, 1999, the Company's Board of Directors authorized a 10% stock dividend payable on September 30, 1999, to stockholders of record as of September 3, 1999. This resulted in the issuance of 947,704 additional shares of common stock. All per share and weighted-average share amounts have been restated to reflect this stock dividend and any splits or dividends previously declared.

Foreign Currency Translation

As is described more fully in Note 9, the Company discontinued its Mexican subsidiary operations. The "functional currency" for the financial statements of the Mexican subsidiary was the U.S. dollar. In accordance with SFAS No. 52, all non-monetary balance sheet accounts were remeasured using historical rates. Income statement amounts were remeasured using the average exchange rate in effect during the year. All re-measurement gains and losses were included in the consolidated statements of income. The effect on the statements of income of gains and losses was insignificant.

Intangible Assets

Intangible assets, which consist principally of deferred pension assets and which are included in other non-current assets, are recorded at cost and are amortized over their estimated useful lives using the straight-line method.

Environmental Costs

Costs incurred to investigate and remediate environmental waste are expensed as incurred, unless the remediation extends the useful life of the assets employed at the site. Remediation costs, which extend the useful life of assets are capitalized and amortized over the useful life of the assets.

Advertising Costs

Advertising costs are expensed in the period in which they occur. Selling, general and administrative expenses include advertising costs of $3,775,000 in 1999, $3,535,000 in 1998 and $3,007,000 in 1997.

Self-Insurance

The Company has a self-insured retention for general and product liability claims. Consulting actuaries assist the Company in determining its liability for the self-insured component of claims, which have been discounted to their net present value.

Stock-Based Compensation Plans

Stock-based compensation is recognized using the intrinsic-value method. For disclosure purposes, pro forma net income and earnings per share impacts are provided as if the fair-value method had been applied. The Financial Accounting Standards Board has issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." The Interpretation addresses implementation practice issues in accounting for compensation costs under existing rules prescribed by Accounting Principles Board No. 25. The new rules are applied prospectively to all new awards, modifications to outstanding awards and changes in grantee status after July 1, 2000, with certain exceptions. The Company is considering the effects these changes make and will implement any changes to its plans as deemed appropriate.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Notes of Consolidated Financial Statements (continued)

Revenue and Recognition

Revenue from product sales is recognized upon shipment of merchandise. In December 1999, Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," or SAB 101. SAB 101 summarizes certain of the SEC Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company does not believe that this SAB results in any material change to its revenue recognition policies.

Fiscal Year End

Fiscal years 1999, 1998 and 1997, refer to the years ended January 31, 2000, 1999 and 1998, respectively.

Future Accounting Requirements

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) 133, "Accounting for Derivative Instruments and for Hedging Activities." SFAS 133 requires derivatives to be recorded on the balance sheet at fair value and establishes special accounting for the following three types of hedges: hedges of changes in the fair value of assets, liabilities or firm commitments (referred to as fair value hedges); hedges of the variable cash flows of forecasted transactions (cash flow hedges); and hedges of foreign currency exposures of net investments in foreign operations. The accounting treatment and criteria for each of the three types of hedges is unique. Changes in fair value of derivatives that do not meet the criteria of one of these three categories of hedges would be included in income. SFAS 133 was amended by SFAS 137, which delayed its effective date. The Company does not believe that adopting this standard will have a material effect on its financial position, results of operations and cash flows. Currently, the Company does not anticipate adopting this standard before February 1, 2001.

2. Inventories

The current material cost for inventories exceeded LIFO cost by $2,462,000 and $2,808,000 at January 31, 2000 and 1999, respectively. Liquidation of prior year LIFO layers due to a reduction in certain inventories increased income by $59,000, $8,000 and $29,000 in the years ended January 31, 2000, 1999 and 1998, respectively.

Details of inventory amounts, including the material portion of inventory which is valued at LIFO, at January 31, 2000 and 1999, are as follows (in thousands):

	January 31, 2000			
	Material Content at FIFO	LIFO Reserve	Labor, Overhead and Other	Total
Finished goods	$ 19,954	$ (964)	$ 16,805	$ 35,795
Work in process	5,017	(718)	4,961	9,260
Raw materials and supplies	12,783	(780)	–	12,003
Total	$ 37,754	$ (2,462)	$ 21,766	$ 57,058

	January 31, 1999			
	Material Content at FIFO	LIFO Reserve	Labor, Overhead and Other	Total
Finished goods	$ 19,934	$ (1,800)	$ 14,077	$ 32,211
Work in process	4,090	(393)	3,016	6,713
Raw materials and supplies	10,159	(615)	–	9,544
Total	$ 34,183	$ (2,808)	$ 17,093	$ 48,468

3. Notes Payable

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

	January 31	
	2000	1999
Revolving credit line with Wells Fargo Bank (a)	$ 38,739	$ 11,944
IRB with the City of Torrance (b)	5,037	5,892
Equipment credit line with GECC (c)	2,779	3,932
Other	1,470	1,930
	48,025	23,698
Less current portion	1,998	2,354
	$ 46,027	$ 21,344
Outstanding stand-by letters of credit	$ 5,481	$ 5,852

(a) A credit facility with Wells Fargo Bank, effective January 2000, provides an unsecured revolving line of credit of up to $80,000,000. This is a three-year non-amortizing line with interest payable monthly at a fluctuating rate equal to the Bank's prime rate (8.50% at January 31, 2000). The line also allows the Company the option to borrow under 30- 60- and 90-day fixed term rates at LIBOR plus a margin of 1.25% to 1.50%. Approximately $37,128,000 was available for borrowing as of January 31, 2000. On February 22, 2000, the Company entered into an interest rate swap agreement with Wells Fargo Bank. The initial notional swap amount is $30,000,000 for the period February 22, 2000 through February 28, 2001. The notional swap amount then decreases to $20,000,000 until the end of the swap agreement, March 3, 2003. The swap agreement is in consideration for a fixed rate at 7.23% plus a fluctuating margin of 1.25% to 1.50%.

(b) Ten-year $8,900,000 IRB issued through the City of Torrance. This 5.994% fixed interest rate bond is payable in monthly installments of $99,000, including interest, through December 2004.

(c) In October 1998, the Company entered into a credit agreement with General Electric Capital Corporation (GECC) to finance the initial portion of the new business information system. This is a four-year amortizing capital lease with principal and interest (approximately 7.5%) payable of $87,500 monthly. The Company has the option of buying out the lease three years into the lease period.

Long-term debt repayments for the next five years and thereafter are approximately as follows (in thousands):

Year ending January 31	
2001	$ 1,998
2002	2,101
2003	40,791*
2004	2,078
2005	1,057
	$ 48,025

** The $38,739,000 due under Wells Fargo Bank's line of credit will be payable in fiscal year ended January 31, 2003, if the agreement is not renewed. The Company intends to renew the agreement.*

The Company believes that the carrying value of debt under the Wells Fargo credit facility approximates fair value at January 31, 2000 and 1999, as the debt bears interest at variable rates or is fixed for periods equal to or less than 90 days. The carrying value of other debt instruments approximates their fair value given the Company's incremental borrowing rate for similar types of financing arrangements.

The Company guarantees a $1,500,000 line of credit from Wells Fargo Bank to the Virco Employee Stock Ownership Plan (ESOP). At January 31, 2000 and 1999, $41,000 and $246,000, respectively, was outstanding under the line.

4. Retirement Plans

The Company and its subsidiaries cover all employees under a noncontributory defined benefit retirement plan, the Virco Employees' Retirement Plan (the Plan). Benefits under the Plan are based on years of service and career average earnings. The Company's general funding policy is to contribute amounts deductible for federal income tax purposes. Assets of the Plan are invested in common trust funds.

The following table sets forth (in thousands) the funded status of the Plan at December 31, 1999 and 1998:

	Pension Benefits	
	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 10,603	$ 10,151
Service cost	752	794
Interest cost	1,091	765
Plan amendments	2,992	–
Actuarial loss	2,325	17
Benefit paid	(1,847)	(1,124)
Benefit obligation at end of year	$ 15,916	$ 10,603
Change in plan assets:		
Fair value at beginning of year	$ 9,843	$ 8,312
Actual return on plan assets	1,867	1,334
Company contributions	1,794	1,321
Benefits paid	(1,847)	(1,124)
Fair value at end of year	$ 11,657	$ 9,843
Funded status of plan	$ (4,259)	$ (760)
Unrecognized net transition amount	(309)	(351)
Unrecognized prior service cost	2,698	–
Unrecognized net actuarial loss	2,991	1,724
Accrual of minimum liability	(3,399)	–
Prepaid/(accrued) benefit cost	$ (2,278)	$ 613
Statements of financial position:		
Prepaid benefit cost	$ –	$ 613
Accrued benefit liability	(2,278)	–
Intangible asset	2,698	–
Accumulated other comprehensive income	420	–
Net amount recognized	$ 840	$ 613
Weighted average assumptions:		
Discount rate	8.00%	8.00%
Expected return on plan assets	9.75%	9.75%
Rate of compensation increase	5.00%	5.00%

The total pension expense for the Plan included the following components (in thousands):

		December 31	
	1999	1998	1997
Components of net cost:			
Service cost	$ 752	$ 794	$ 740
Interest cost	1,091	765	693
Expected return on plan assets	(936)	(818)	(698)
Amortization of transition amount	(42)	(42)	(42)
Amortization of prior service cost	294	–	–
Recognized net actuarial loss	128	134	140
Benefit cost	$ 1,287	$ 833	$ 833

The Company also provides a supplementary retirement plan for certain key employees, the VIP Retirement Plan (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 Virco Employees' Retirement Plan. The VIP Plan is funded by a life insurance program. The cash surrender values of the policies funding the VIP Plan were $3,405,000 and $2,901,000 at January 31, 2000 and 1999, respectively. These cash surrender values are included in other assets in the consolidated balance sheets.

The following table sets forth (in thousands) the funded status of the VIP Plan at January 31, 2000 and 1999:

	Nonqualified Pension	
	1999	1998
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 5,794	$ 4,976
Service cost	296	212
Interest cost	254	426
Plan amendments	(2,519)	–
Actuarial loss	501	489
Benefit paid	(322)	(309)
Benefit obligation at end of year	$ 4,004	$ 5,794
Change in plan assets:		
Company contributions	$ 322	$ 309
Benefits paid	(322)	(309)
Fair value at end of year	$ –	$ –
Funded status of plan	$ (4,004)	$ (5,794)
Unrecognized net transition amount	–	12
Unrecognized prior service cost	(2,037)	241
Unrecognized net actuarial loss	1,410	1,410
Accrual of minimum liability	–	(997)
Accrued benefit cost	$ (4,631)	$ (5,128)
Statements of financial position:		
Accrued benefit liability	$ (4,631)	$ (5,128)
Intangible asset	–	253
Accumulated other compensation income	–	406
Net amount recognized	$ (4,631)	$ (4,469)
Weighted average assumptions:		
Discount rate	8.00%	8.00%
Expected return on plan assets	9.75%	9.75%
Rate of compensation increase	5.00%	5.00%

The total plan expense for the VIP retirement plan included the following components (in thousands):

		December 31	
	1999	1998	1997
Components of net cost:			
Service cost	$ 296	$ 212	$ 332
Interest cost	254	426	333
Amortization of transition amount	–	4	4
Amortization of prior service cost	(181)	111	118
Recognized net actuarial loss	369	65	45
Benefit cost	$ 738	$ 818	$ 832

The Company's Employee Stock Ownership Plan, which covers all U.S. employees, allows participants to defer from 1% to 15% of their eligible compensation through a 401(k) retirement program. One of the four investment options is the Virco Stock Fund. Shares owned by the ESOP are held by the Plan Trustee, U.S. Trust Company of California. At January 31, 2000, the Plan held 506,022 shares of Virco Stock including 503,171 shares allocated to participants' accounts. Using the January 31, 2000 closing price of $12.56, the unallocated account has 2,851 shares valued at $35,817. At January 31, 2000, the Plan had borrowed $41,000 directly from Wells Fargo Bank. This loan is secured by the unallocated shares and guaranteed by Virco. Allocated shares held by the Trust are included in shares outstanding and the related dividends are charged to retained earnings. For the fiscal years ended January 31, 2000 and 1999, there was no employer match and therefore no compensation cost to the Company.

The Company provides current and post-retirement life insurance to certain salaried employees with split dollar life insurance policies under the Dual Option Life Insurance Plan. Cash surrender values of these policies, which are included in other assets in the consolidated balance sheets, were $3,551,000 and $3,182,000 at January 31, 2000 and 1999, respectively.

The Company established, effective January 1, 1997, a Deferred Compensation Plan, which allows certain key employees to defer up to a maximum of 90% of their base annual salary and/or up to 90% of their annual bonus on a pretax basis. The total participant deferrals were $976,000 and $608,000 for the years ended January 31, 2000 and 1999, respectively.

The Company maintains a Rabbi Trust to hold assets related to the VIP Retirement Plan, the Dual Option Life Insurance Plan, and the Deferred Compensation Plan. Substantially all assets funding these Plans are held in the Rabbi Trust.

5. Stock Options and Stockholders' Rights

The Company's two stock plans are the 1997 Employee Incentive Plan (the 1997 Plan) and the 1993 Employee Incentive Stock Plan (the 1993 Plan). Under these stock plans, the Company may grant an aggregate of 1,075,968 shares (as adjusted for the stock split and stock dividends) to its employees in the form of stock options. Non-employee directors automatically receive a grant for options to purchase 1,000 shares of common stock on the first business day following each annual meeting of the Company's stockholders. As of January 31, 2000, 235,734 shares remain available for future grant. Options granted under the plans have an exercise price equal to the market price at the date of grant, have a maximum term of 10 years and generally become exercisable ratably over a five-year period. During the year, certain optionees satisfied the exercise price of their options by exchanging shares already owned rather than paying cash. As a result, 8,791 and 10,438 shares were recorded as treasury stock for the years ended January 31, 2000 and 1999, respectively.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair-value method of SFAS No. 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following ranges of weighted-average assumptions: risk-free interest rates of 5.00% to 6.26%; dividend yield of 0.31% to 0.98%; volatility factor of the expected market price of the Company's common stock of 0.26 to 0.39; and a weighted-average expected life of the option of five years.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The pro forma effect only takes into account options granted since January 1, 1993, and is likely to increase in future years as additional options are granted and amortized ratably over the vesting period. The Company's pro forma information follows (in thousands except for net income per share information):

	Year ended January 31		
	2000	1999	1998
Pro forma net income	$ 9,698	$ 17,401	$ 13,549
Pro forma net income per share – assuming dilution	$ .92	$ 1.58	$ 1.23

A summary of the Company's stock option activity, and related information for the years ended January 31 follows:

	2000		1999		1998	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	**511,317**	**$ 10.25**	610,241	$ 7.80	389,991	$ 3.79
Granted	**128,700**	**14.70**	69,025	17.02	253,344	13.71
Exercised	**(62,283)**	**3.73**	(167,949)	4.21	(33,094)	5.62
Outstanding at end of year	**577,734**	**11.94**	511,317	10.25	610,241	7.80
Exercisable at end of year	**482,707**	**$ 11.55**	386,132	$ 9.31	424,600	$ 6.77
Weighted-average fair value of options granted during the year		**$ 6.20**		$ 6.99		$ 4.89

The data included in the above table has been retroactively adjusted, if applicable, for stock dividends and the stock split.

Information regarding stock options outstanding as of January 31, 2000, is as follows:

	Options Outstanding			Options Exercisable	
Price Range	Number of Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$ 2.49 to $8.47	264,726	2.72 years	$ 5.83	232,488	$ 5.50
13.50 to 15.50	198,149	8.63	15.38	137,780	14.82
20.05 to 21.38	114,859	7.05	20.08	112,439	20.06
	577,734	5.60	11.94	482,707	11.55

On October 15, 1996, the Board of Directors declared a dividend of one preferred stock purchase right (a Right) for each outstanding share of the Company's common stock. Each Right entitles a stockholder to purchase for an exercise price of $50.00 ($27.55, as adjusted for the stock split and stock dividend), subject to adjustment, one one-hundredth of a share of Series A Junior Participating Cumulative Preferred Stock of the Company, or under certain circumstances, shares of common stock of the Company or a successor company with a market value equal to two times the exercise price. The Rights are not exercisable, and would only become exercisable for all other persons when any person has acquired or commences to acquire a beneficial interest of at least 20% of the Company's outstanding common stock. The Rights expire on October 25, 2006, have no voting privileges, and may be redeemed by the board of directors at a price of $.001 per Right at any time prior to the acquisition of a beneficial ownership of 20% of the outstanding common shares. There are 200,000 shares (363,000 shares as adjusted by the stock split and stock dividend) of Series A Junior Participating Cumulative Preferred Stock reserved for issuance upon exercise of the Rights.

6. Provision for Income Taxes

The Company uses the liability method to determine the provision for income taxes. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The provisions for the last three years are reconciled to the statutory federal income tax rate using the liability method as follows:

	January 31		
	2000	1999	1998
Statutory	**35.0%**	35.0%	35.0%
State taxes (net of federal tax)	**3.1**	3.2	2.9
Nondeductible expenses	**1.0**	.8	.8
	39.1%	39.0%	38.7%

Significant components of the provision for income taxes (in thousands) are as follows:

	January 31		
	2000	1999	1998
Current:			
Federal	**$ 2,952**	$ 9,425	$ 7,336
State	**840**	1,427	1,191
	3,792	10,852	8,527
Deferred:			
Federal	**2,347**	376	222
State	**388**	44	3
	2,735	420	225
	$ 6,527	$ 11,272	$ 8,752

Significant components of the Company's deferred tax assets and liabilities (in thousands) are as follows:

	January 31	
	2000	1999
Deferred tax assets:		
Accrued vacation and sick leave	**$ 1,179**	$ 867
Retirement plans	**2,017**	1,498
Insurance reserves	**1,371**	795
Inventory	**196**	292
Other	**339**	326
	5,102	3,778
Deferred tax liabilities:		
Tax in excess of book depreciation	**3,654**	3,418
Capitalized software development costs	**4,608**	785
	8,262	4,203
Net deferred tax liability	**$ (3,160)**	$ (425)

7. Commitments

The Company has long-term leases on real property and equipment, which expire at various dates. Certain of the leases contain renewal, purchase options and require payment for property taxes and insurance.

Minimum future lease payments (in thousands) for operating leases in effect as of January 31, 2000, are as follows:

Year ending January 31	
2001	$ 6,058
2002	4,976
2003	4,672
2004	4,158
2005	3,252
Thereafter	239
	$ 23,355

Rent expense relating to operating leases was as follows (in thousands):

Year ending January 31	
2000	$ 10,516
1999	9,438
1998	8,255

The Company leases machinery and equipment from GECC under a 10-year operating lease arrangement. The total amount of machinery and equipment leased in 1999 and 1998 was $8,800,000 and 0, respectively. The Company has the option of buying out the leases three to five years into the lease period.

Minimum future lease-receipts (in thousands) for leases relating to properties owned or subleased as of January 31, 2000 are as follows:

Year ending January 31	
2001	$ 1,046
2002	555
2003	459
2004	459
2005	459
Thereafter	2,482
	$ 5,460

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 may be expected to expend significant amounts for the investigation of environmental conditions, installation of environmental control equipment and remediation of environmental contamination.

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. At January 31, 2000 and 1999, there are no required reserves for such environmental contingencies.

The Company has a self-insured retention for product and general liability losses up to $100,000 per occurrence. The Company has purchased insurance to cover losses in excess of $100,000 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 the net present value of $3,320,000 at January 31, 2000, based upon the Company's estimated payout period of four years using a 10% discount rate.

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.

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 that the ultimate outcome of all such matters will not materially affect the Company's financial position, results of operations or cash flows.

9. Foreign Operation

In May 1997, the Company decided to shut down its Mexican manufacturing facility. Subsequently, the Company sold a majority of the assets of the Mexican facility on October 8, 1997. The facility ceased operations on October 20, 1997. Total revenues of this operation, consisting primarily of transfers between geographic areas of the Company, were $5,389,000 for the year ended January 31, 1998. The production requirements from this facility were transferred to the Torrance, California, and Conway, Arkansas, manufacturing plants.

10. Quarterly Results (Unaudited)

The Company's quarterly results for the years ended January 31, 2000 and 1999, are summarized as follows (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended January 31, 2000:				
Net sales	$ 37,479	$ 88,224	$ 93,895	$ 47,043
Gross profit	11,361	30,468	33,683	15,882
Net income (loss)	(1,965)	6,527	6,414	(810)
Net income (loss) per share - basic	(.18)	.63	.62	(.08)
Net income (loss) per share - diluted	(.18)	.61	.61	(.08)
Year ended January 31, 1999:				
Net sales	$ 44,938	$ 87,539	$ 92,691	$ 48,452
Gross profit	14,675	28,655	32,376	17,360
Net income	790	6,368	7,304	3,168
Net income per share - basic	.07	.59	.68	.30
Net income per share - diluted	.07	.57	.66	.29

Net income per share has been adjusted to reflect the 10% stock dividend declared in August 1999 and 1998.

11. Subsequent Events

Subsequent to the year ended January 31, 2000, the Company entered into an agreement to sell its Torrance, California warehouse. This sale transaction is expected to close as of April 20, 2000. The Company expects to receive approximately $9,500,000 in cash and will record an approximate $7,900,000 pre-tax gain on disposition during the quarter ending April 30, 2000.

Supplemental Stockholders' Information

Annual Meeting

The Annual Meeting of Virco stockholders will be held on Tuesday, June 20, 2000, at 2:00 p.m., at 2027 Harpers Way, Torrance, California. The record date for this meeting is May 5, 2000. The Proxy Statement and Proxy pertaining to this meeting will be mailed on or about May 22, 2000.

SEC Form 10-K

A copy of the annual report to the Securities and Exchange Commission on Form 10-K may be obtained without charge upon written request to:

Corporate Secretary
Virco Mfg. Corporation
2027 Harpers Way
Torrance, CA 90501

Virco Common Stock

The American Stock exchange is the principal market on which Virco Mfg. Corporation (VIR) stock is traded. As of April 17, 2000, there were approximately 361 Registered Stockholders according to the transfer agent records. There are approximately 2,100 Beneficial Stockholders.

Stockholder Records

Records pertaining to stockholdings and dividends are maintained by Chase Mellon Shareholder Services. Inquiries with respect to these matters, as well as notices of address changes, should be directed to: Chase Mellon Shareholder Services, 85 Challenger Road, Ridgefield Park, NJ 07660, telephone 1-800-356-2017.

If a stock certificate is lost or mutilated, immediately communicate with Chase Mellon Shareholder Services at the above address.

New Services for Stockholders

Virco has inaugurated two new services for stockholders which offer timely information on the Company. The first is the availability of Virco's recent news releases, which can be obtained at no charge via fax by calling "Company News on Call" at 1-800-758-5804, extension 904013. This electronic menu-driven system allows callers to receive specific Virco news within minutes of request.

Another source of information now available to stockholders is the Company's web site (www.virco.com). A brief description of Virco's product line is offered together with illustrations showing a sampling of our furniture.

Quarterly Dividend and Stock Market Information

	Cash Dividends Declared		Common Stock Range			
	1-31-2000	1-31-1999	1-31-2000		1-31-1999	
			High	Low	High	Low
1st Quarter	$ .018	$ .015	$ $17\frac{6}{8}$	$ $12\frac{5}{8}$	$ 26	$ $18\frac{2}{8}$
2nd Quarter	.018	.015	$17\frac{4}{8}$	$13\frac{6}{8}$	$22\frac{7}{8}$	$16\frac{7}{8}$
3rd Quarter	.020	.018	$16\frac{3}{8}$	14	$21\frac{1}{8}$	$15\frac{5}{8}$
4th Quarter	.020	.018	$15\frac{3}{8}$	12	$20\frac{7}{8}$	15

The data included in the above table has been retroactively adjusted, if applicable, for the stock split and stock dividends.

Directors, Officers and Facilities

Directors

Robert A. Virtue
President, Chairman of the Board and
Chief Executive Officer

Donald S. Friesz
Former Vice President - Sales and
Marketing

Robert K. Montgomery
Partner, Gibson, Dunn & Crutcher

George W. Ott
President, Ott and Hansen, Inc.

Glen D. Parish
Vice President and General Manager
Conway Division

Donald A. Patrick
Management Consultant
Diversified Business Resources, Inc.

John H. Stafford
Former Partner of
KPMG Peat Marwick LLP
(certified public accountants)

Douglas A. Virtue
Executive Vice President

Dr. James R. Wilburn
Dean of the School of Public Policy,
Pepperdine University

Officers

Robert A. Virtue
President, Chairman of the Board
and Chief Executive Officer

Robert E. Dose
Vice President - Finance,
Secretary and Treasurer

Robert J. Mills
Vice President and General Manager
Torrance Division

W. Dale Nutter
Vice President - Commercial Sales Group

Glen D. Parish
Vice President and General Manager
Conway Division

D. Randal Smith
Vice President - Marketing

Lori L. Swafford
Vice President - Legal Affairs

Douglas A. Virtue
Executive Vice President

Larry O. Wonder
Vice President - Education Sales Group

Independent Auditors

Ernst & Young LLP
One World Trade Center
Long Beach, California 90831

Legal Counsel

Gibson, Dunn & Crutcher
2029 Century Park East
Los Angeles, California 90067

Corporate Headquarters

2027 Harpers Way
Torrance, California 90501
(310) 533-0474

Major Facilities

Torrance Division
2027 Harpers Way
Torrance, California 90501

Conway Division
Highway 65, South
Conway, Arkansas 72032

Virco's new 1,200,000 square foot facility in Conway, Arkansas.

1999 annual report

Virco's original headquarters at 15134 South Vermont Avenue in Los Angeles, California, occupied from 1950 to 1994. The tin logo now hangs proudly in the new corporate office in Torrance, California.

VIRCO

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TORRANCE, CA 90501

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CONWAY, AR 72032

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