2007 Annual Report

VIRCO MFG. CORPORATION

VIRCO®

equipment for educators™

Company Profile

Virco Mfg. Corporation, founded in 1950 and headquartered in Torrance, California, is the nation's leading supplier of equipment for educators.

2007 Annual Report

Financial Highlights

In thousands, except per share data	**2007**	2006	2005	2004	2003	2002	2001	2000	1999	1998
Summary of Operations										
Net sales *(3)(4)*	**$ 229,565**	$ 223,107	$ 214,450	$ 199,854	$ 191,852	$ 244,355	$ 257,462	$ 287,342	$ 268,079	$ 275,096
Net income (loss) *(5)*										
Net income (loss) before change in accounting methods	**$ 22,219**	$ 7,545	$ (9,574)	$ (13,995)	$ (23,607)	$ 282	$ 246	$ 4,313	$ 10,166	$ 17,630
Change in accounting methods		—	—	—	—	—	—	(297)	—	—
	$ 22,219	7,545	$ (9,574)	$ (13,995)	$ (23,607)	$ 282	$ 246	$ 4,016	$ 10,166	$ 17,630
Net income (loss) per share *(1)*	**$ 1.53**	$ 0.55	$ (0.73)	$ (1.07)	$ (1.80)	$ 0.02	$ 0.02	$ 0.29	$ 0.72	$ 1.20
Stockholders' equity	**72,148**	48,878	39,100	49,265	62,352	82,774	90,223	94,141	93,834	88,923
Stockholders' equity per share *(2)*	**5.00**	3.40	2.98	3.76	4.76	6.31	6.71	6.90	6.82	6.30

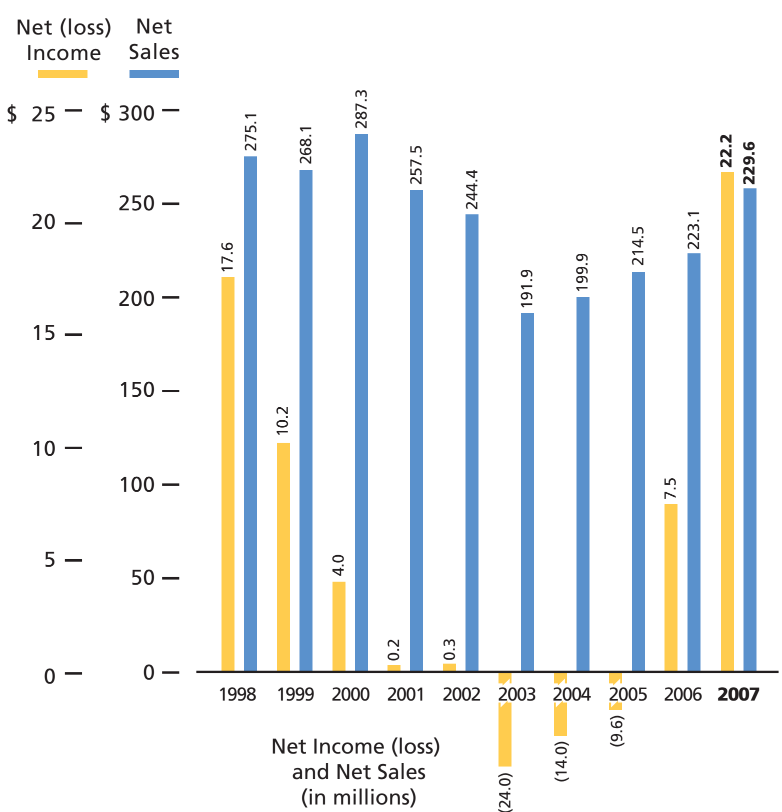
(1) Based on average number of shares outstanding each year after giving retroactive effect for stock dividends and stock split.

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

(3) The prior period statements of operations contain certain reclassifications to conform to the presentation required by EITF No. 00-10, "Accounting for Shipping and Handling Fees and Costs," which the Company adopted during the fourth quarter of the year ended January 31, 2001.

(4) During the fourth quarter of 2000, the Company changed its method of accounting for revenue recognition in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." Pursuant to Financial Accounting Standards Board Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," effective February 1, 2000, the Company recorded the cumulative effect of the accounting change.

(5) For fiscal 2003, an adjustment of $1.6 million of income tax expense was made to reflect tax effect of minimum pension liability.



Successful execution of Equipment for Educators™ generated the following accomplishments in 2007:

- Revenue increased 2.9%, from $223,107,000 to $229,565,000.
- Pre-tax operating earnings increased 52.6%, from $7,991,000 to $12,192,000.
- Operating cash flow increased 54.7%, from $10,915,000 to $16,884,000.
- Gross margin improved from 35.2% to 36.4%.
- Operating margin improved from 3.6% to 5.3%.
- We resumed payment of a regular quarterly cash dividend of $0.025 per share.
- We strengthened our balance sheet and added new manufacturing capabilities to our American factories, putting us on the right side of current trends in credit markets and the global supply chain.

left: **Douglas A. Virtue** - *Executive Vice President*
right: **Robert A. Virtue** - *President and CEO*

May 19, 2008

In last year's letter we described Equipment for Educators™, our strategy for serving the seasonal and logistically intensive market for educational furniture, fixtures and equipment (FF&E). Equipment for Educators has four key features:

1. It doubles the size of our addressable market from $400M (furniture only) to $800M (the full FF&E product universe), thus aligning our strategy with the budgeting and purchasing protocols of our public and private school customers.

2. It relies primarily on our own vertically integrated American factories, which continue to gain margin advantage as the all-in costs of global sourcing are realized.

3. It generates value-added performance in a market defined by two economic barriers to entry: extreme seasonality and high freight costs.

4. It relies on low-risk, non-capital intensive new products to gain market share, turning our infrastructure investments of 1998-2000 into long-term operating annuities.

2000: Plant II in Conway, Arkansas was designed from the ground up to support Virco's "Assemble-to-Ship" (ATS) operating model. Combining manufacturing, assembly, warehousing and distribution under 33 acres of roof, Plant II provides tangible performance advantages for the highly seasonal furniture, fixtures and equipment (FF&E) market.

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In our annual reports we normally focus on the longer-term aspects of our business. This year, the view looking forward is very much different than the view looking back. In our case the difference is accentuated by seasonality. Leading into the summer of 2007, the American economy was in the midst of one of the biggest bubbles in history. Tax receipts were high and so were the spending levels of public institutions. Leading into the summer of 2008, we find ourselves in a severe economic downturn with consumer confidence at a 26-year low.

Just as it was difficult to predict the trajectory of the real-estate bubble, it's difficult to predict the impact of this downturn on the FF&E market. We won't have a good picture of its overall severity until mid-year, by which time we will have established our own course for peak season deliveries. It seems relatively certain that tax receipts and related public spending will decline as the year progresses, perhaps even more precipitously after early July, when many states establish their new budgets. So, despite relatively stable order rates at this early stage, our outlook remains cautious for the second half of 2008 and perhaps the first half of 2009.

After deliberate consideration, we have decided to treat this period of economic uncertainty as an opportunity. By continuing to aggressively enhance our products, services and market

2002: Furniture Focus™ joins the Virco family, bringing proprietary PlanSCAPE® project management software and crucial supplier partnerships.

relationships, we hope to put even greater distance between ourselves and our competitors. In last year's report we discussed several emerging trends that might help us in this effort. All of those trends – rising prices in Asia, declining quality and reliability of extended supply chains, and higher freight costs – have intensified since 2007. To these we can now add a tighter credit market, which may restrict the ability of smaller FF&E suppliers to finance peak season demand.

Our ability to finance seasonal inventories and receivables is substantial. This year we're well positioned to service segments of the FF&E market that may experience delivery interruptions for any of the reasons listed above. We also have the ability and willingness to finance higher levels of business for our vendor partners, who increasingly find our public contracts and values-based approach to doing business an attractive alternative to other channels of distribution.

So, while we can't predict the future, we can take advantage of our more flexible structure to both manage risk and benefit from whatever opportunities may develop. As we pointed out in our fourth quarter report, we're a much leaner company than in 2000, when the last economic slowdown began. Here are some comparisons between our corporate structure then and now:

Metric	Fiscal 2000	**Fiscal 2007**
Revenue	$ 287,342,000	**$ 229,565,000**
Interest and Depreciation	$ 18,374,000	**$ 8,919,000**
Gross Margin	32.4%	**36.4%**
Headcount	2,300	**1,200**
Sales per Employee	$ 125,000	**$ 191,000**
Pre-tax Operating Margin	2.4%	**5.3%**
Capital Expenditures	$ 22,711,000	**$ 4,832,000**

The foundation of our flexibility is our experienced workforce. When we developed our modular manufacturing model (we call it "Assemble-to-Ship," or ATS), our employees needed to learn new skills so they could fabricate in winter, assemble in spring, and distribute in summer. We've been running ATS for seven full years now, and we firmly believe it's the most efficient way to deal with the seasonality of our market. We're also proud that with our employees' dedicated efforts, we were able to keep a meaningful number of manufacturing jobs in the U.S.

Pictures really are better than words at communicating certain things. This year, to illustrate the strategic linkage between Equipment for Educators™ and our recent capital investments, we've provided a portfolio of the products, services and infrastructure we bought with those dollars.

Under the category of annual capital expenditures we include: 1) infrastructure; 2) acquisitions; 3) new product development; 4) tooling; 5) equipment purchases or upgrades; and 6) regular maintenance of our facilities and software. Between 1997 and 2000, when we invested heavily in infrastructure, capital expenditures averaged $25,101,000 per year. From 2001 to the present, when investments switched from infrastructure to product development and service enhancement, capital expenditures have averaged $3,674,000 per year.

2004: "Know the point of rest and then have an orderly mode of procedure…" (Confucius). Virco introduces Zuma®, the new "point of rest" for classroom furniture. Designed by Peter Glass and Bob Mills, Zuma was the first in a series of internally developed new products that redefined categories and price points for K-12 furnishings.

The portfolio begins with our Conway manufacturing and distribution facility, which opened in the year 2000. With approximately 1,200,000 square feet under roof, this facility was designed specifically to support our ATS operating model, which in turn was developed to address the seasonality of our core FF&E market. Concurrent with this big bet on infrastructure, we also switched from an in-house IT platform to SAP.

Together, these two investments totaled over $62,000,000 between 1997 and 2000. In retrospect, this investment may have exceeded the combined investments of all other suppliers to the FF&E market over the last decade. Even if not strictly accurate (we have no way of knowing for sure since many suppliers are private), this relative imbalance between Virco's market inputs and those of other individual suppliers reflects our deep strategic and financial commitment to FF&E.

The burden of these investments contributed to large losses between 2003 and 2005 when our revenue declined faster than we could depreciate the new assets. The revenue decline was concentrated in commodity institutional furniture such as folding chairs, folding tables and upholstered stack chairs. Unlike FF&E, these products weren't protected by seasonality or the "price/cube threshold" (the point at which cheap labor is offset by freight costs). This made them susceptible to outsourcing, which is exactly what our former big box retail customers did. We estimate the annual value of revenue lost to OEM knock-offs at approximately $40,000,000.

As we explained thoroughly in last year's report (available online at www.virco.com), we made a counter-cyclical decision to keep our American factories open at a time when conventional wisdom suggested closing one or both of them. Many market participants presumed that products sourced from Asia were permanently cost-advantaged, regardless of their physical characteristics or the purchasing behavior of their end users. This presumption led to the logical conclusion that what had happened to folding chairs would soon happen to classroom furniture.

2006 Annual Report.

TELOS™

2007: Integrating the design principles of Zuma® and Virco's long tradition of environmental stewardship, Telos™ combines elegant lines with unusual comfort and up to 70% recycled material to create "classroom furniture with a conscience."

We respectfully disagreed, and instead drew up a strategic list of products that we felt were best produced in America. We then began developing those products or finding partners who could supply them for us. To accelerate our move into a broader FF&E product assortment, we acquired Furniture Focus™ in 2002. The owners of Furniture Focus, now members of our executive management team, were pioneers in the concept of FF&E "packaging," which integrates all the moveable and depreciable assets of a new school construction project into a single purchasing vehicle. They brought with them proprietary PlanSCAPE® project management software and a number of crucial supplier relationships.

In 2002 we also initiated our ongoing design partnership with Peter Glass and Bob Mills. Two years later, we introduced their first collection, Zuma®, which immediately established new standards for comfort, style and affordability in classroom furniture.

Since then, we've introduced an average of one major product line per year in a methodical effort to populate the price points and functional categories on our strategic FF&E product list. We've added 91 patents to our portfolio of intellectual property, including 88 through organic development and 3 through acquisition. We've doubled our capacity in the key manufacturing processes that support new products, with special emphasis on speed of delivery and choice of color. We also executed several upgrades of our PlanSCAPE and SAP software, including a trouble-free upgrade in 2007 to SAP version ECC 6.0.

Some of the revenue lost to commoditized imports may take years to recover, if we decide to make the attempt at all. Because these products lack the protection of seasonality or the price/cube threshold, they're subject to ongoing price and value cutting regardless of their sourcing model. We believe this ultimately leads to brand destruction even for associated non-commodity products with a higher value-added component.

On the other hand, we see many opportunities to combine our design skills with world-class infrastructure and expanding industry partnerships to grow branded,

metaphor™

2007: Metaphor™ reprises Virco's iconic 9000 Series with updated ergonomics, smooth surfaces, and even greater durability. Metaphor establishes new standards of value while honoring traditions of the past.

value-added FF&E revenue. Since 2003, when our revenue bottomed out at $191,852,000, virtually all of our growth has been generated by the products and acquisitions illustrated in this year's report. Our new product pipeline remains full, and we expect to continue our pattern of releasing at least one major product line per year. This year's release was Text™, a series of student desks and seminar tables with elegant contours that harmonize with our new seating collections such as Zuma®, Sage™, Metaphor™, and Telos™.

We learned the skills of efficient capital deployment, especially new product development, largely out of necessity. By combining these new skills with our traditional manufacturing know-how and strong market position, we believe the fundamentals are in place to provide the balanced and sustainable stockholder returns we aspired to when we launched Equipment for Educators™ in 2003. These include: 1) regular quarterly cash dividends; 2) potential share price appreciation; and 3) share repurchases.

We continue to believe that a return portfolio consisting of these three elements allows stockholders to choose the return(s) that best meet their personal investment goals. Rather than diversifying into business activities outside our strategic expertise, we prefer to let stockholders diversify on their own using free cash generated by continuing operations. The durability of those cash flows is therefore essential to assessing Virco's intrinsic value.

We've spent the last five years methodically populating categories and price points to reinforce the leading position of our FF&E product assortment. We've strengthened our balance sheet to support the financial demands of a highly seasonal business. We've extended both our customer and supplier relationships by doing business according to a deeply held set of values that applies to all of our constituents, including competitors. And we've added to our operational capabilities by making efficient, targeted investments in domestic infrastructure, which continues to gain cost and performance advantages compared to extended supply chain models.

Collectively, these efforts have built a solid market position that generates durable cash flow. While the market itself may experience ups and downs, our long-term ability to generate cash depends more on market position than market condition. As we continue to add new products and services without reliance on leverage or heavy capital investments, we believe our market position will improve even more.

Our current share price fails to recognize this favorable momentum. For that reason and as part of our program to provide a balanced portfolio of returns, we are considering the implementation of a share repurchase program later this year. In addition, we reiterate our long-term financial goals of 8% - 10% pre-tax operating margin; $15 - $20,000,000 annual operating cash flow; sustained double-digit return on equity; and combined cash dividends and share repurchases of approximately 30% of operating cash flow.

We have long favored a non-leveraged approach to market development. We think that approach is more appropriate now than ever. Regardless of what happens over the short term, America will continue to value the educational process. And by supporting that process with value-added products fabricated and assembled in American factories by American workers, we intend to walk the talk of corporate social responsibility while providing sustainable returns to stockholders. As always, we thank our owners, employees, customers, and partners for helping us realize this vision.

TEXT™

2008: Text™ gets the message: modular, mobile, and multi-faceted, educators can write their own Text specifications to suit any curriculum and budget.

2008: Comfortable school furniture used to be an oxymoron, but not any longer. This is the second in Virco's "Wishes" ad series, featuring America's largest selection of comfortable classroom furniture.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect the Company's current views with respect to future events and financial performance, including, but not limited to, statements regarding plans and objectives of management for future operations, including plans and objectives relating to products, pricing, marketing, expansion, manufacturing processes and potential or contemplated acquisitions; new business strategies; the Company's ability to continue to control costs and inventory levels; availability and cost of raw materials, especially steel and petroleum-based products; the availability and cost of labor: the potential impact of the Company's "Assemble-To-Ship" program on earnings; market demand; the Company's ability to position itself in the market; references to current and future investments in and utilization of infrastructure; statements relating to management's beliefs that cash flow from current operations, existing cash reserves, and available lines of credit will be sufficient to support the Company's working capital requirements to fund existing operations; references to expectations of future revenues; pricing; and seasonality.

Such statements involve known and unknown risks, uncertainties, assumptions and other factors, many of which are out of the Company's control and difficult to forecast, that may cause actual results to differ materially from those which are anticipated. Such factors include, but are not limited to, changes in, or the Company's ability to predict, general economic conditions, the markets for school and office furniture generally and specifically in areas and with customers with which the Company conducts its principal business activities, the rate of approval of school bonds for the construction of new schools, the extent to which existing schools order replacement furniture, customer confidence, and competition.

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

Executive Overview

Management's strategy is to position Virco as the overall value supplier of educational furniture and equipment. The markets that Virco serves include: the education market (the Company's primary market), which is made up of public and private schools (preschool through 12th grade), junior and community colleges, four-year colleges and universities, and trade, technical and vocational schools; convention centers and arenas; the hospitality industry, with respect to their banquet and meeting facilities requirements; government facilities at the federal, state, county and municipal levels; and places of worship. In addition, the Company sells to wholesalers, distributors, retailers and catalog retailers that serve these same markets. These institutions are frequently characterized by extreme seasonality and/or a bid-based purchasing function. The Company's business model, which is designed to support this strategy, includes the development of several competencies to enable superior service to the markets in which Virco competes. An important element of Virco's business model is the Company's emphasis on developing and maintaining key manufacturing, warehousing, distribution, installation, project management, and service capabilities. The Company has developed a comprehensive product offering for the furniture, fixtures, and equipment ("FF&E") needs for the K-12 education market, enabling a school to procure all of its FF&E requirements from one source. This product offering consists primarily of items manufactured by Virco, complemented with product sourced from other furniture manufacturers. The product offering is continually enhanced with an ongoing new product development program that incorporates internally developed product as well as product lines developed with accomplished designers. Finally, management continues to hone Virco's ability to forecast, finance, manufacture, warehouse, deliver, and install furniture within the relatively narrow delivery window associated with the highly seasonal demand for education sales. In fiscal year 2007, over 50% of the Company's total sales were delivered in June, July, August and September with an even higher portion of educational sales delivered in that period. During the months of July and August, shipments can be as great as six times the level of shipments during the winter months. Virco's substantial warehouse space allows the Company to build adequate inventories to service this narrow delivery window for the education market.

The market and operating environment for school furniture was turbulent during the period from 2001 through 2005. As a group, the members of BIFMA (the Business and Institutional Furniture Manufacturer's Association) recorded decreases in shipments of 3%, 19.1% and 17.4% in 2003, 2002 and 2001, respectively. The impact of the recession on the school market lagged the commercial market and did not hit with full intensity until 2003. During this time Virco incurred sales declines of 21.5%, 5.1%, and 10.4% in 2003, 2002, and 2001 respectively. This significant reduction in sales was exacerbated by the unfortunate timing of a substantial plant expansion completed in 2000. For two years in 2004 and 2005 following the recession in the furniture markets, the Company incurred supply chain disruptions and severe cost increases in certain raw materials, particularly steel, plastic, and energy-related costs. During 2005, the severe hurricanes in the Gulf Coast region of the United States impacted the availability of certain raw materials used in the production of steel; Virco also obtains plastic used in the production of certain high-volume components from the Gulf Coast region. Both the cost and availability of plastic were severely affected. Finally, Virco incurs significant costs relating to energy. The most significant of the Company's energy costs are for diesel fuel, for both outbound freight and inbound materials, though the Company also incurs significant costs for both electricity and natural gas.

Throughout this turbulent period, the Company took corrective measures to reduce the Company's cost structure to match the decreased sales volume and to raise prices to cover the increased cost of raw materials. Restructuring efforts, which included significant reductions in our work force, wage and hiring freezes, disciplined spending and carefully controlled capital expenditures have brought the cost structure in line with our current levels of volume. The following metrics demonstrate the improvement in our cost structure:

Metric	Fiscal 2000	**Fiscal 2007**
Revenue	$ 287,342,000	**$ 229,565,000**
Interest and Depreciation	$ 18,374,000	**$ 8,919,000**
Gross Margin	32.40%	**36.40%**
Headcount	2,300	**1,200**
Sales per Employee	$ 125,000	**$ 191,000**
Pre-Tax Operating Margin	2.40%	**5.30%**
Capital Expenditures	$ 22,711,000	**$ 4,832,000**

Concurrently with the implementation of our cost restructuring, Virco has been aggressively enhancing its product and service offerings. The Company has prioritized new product development, utilizing internal resources in addition to outside designers. For products or processes that we do not manufacture, we have partnered with other furniture and equipment manufacturers and have become authorized re-sellers of their product. Virco can now supply every need on the Furniture, Fixture, and Equipment (FF&E) line item of a school budget. We have added and enhanced project management capabilities with our PlanSCAPE® software and related training of our sales force.

During the turbulent restructuring of the furniture industry in the early 2000s, many manufacturers closed their domestic factories and purchased furniture and components from less expensive overseas locations. During this same period Virco reduced its headcount and reduced the fixed cost of the factories through disciplined capital expenditures, but retained and enhanced our domestic manufacturing capabilities through rigorous maintenance programs and acquisition of select production processes in a weak equipment market. Although the Company still sources significant quantities of components from international sources, we are slowly beginning to bring production of certain components back to the United States as the variable costs of domestic production are less than the costs of global sourcing. Furthermore, our domestic factories are a strategic resource for providing our customers with timely delivery of a broad selection of colors, finishes, laminates, and product styles.

The Company anticipates that demand for furniture in the education markets may decline in the coming year. Spending for replacement furniture is typically funded out of a school's operating budget, as are salaries and benefits for teachers and administrators. Management anticipates reduced demand for replacement furniture due to the significant financial pressures placed on school operating budgets. We anticipate a continued strong market in bond-funded projects, with project completions being slightly less than 2007.

We have already raised prices on our most significant contracts for 2008, and will increase prices as contracts renew during the year. We believe that our price increases will be adequate to substantially mitigate increases in commodity and energy costs.

Actual volume shipped during 2008 will be impacted by the behavior of our competitors in response to anticipated reductions in demand and increased input costs. We will maintain our core workforce at current levels for the near future, supplemented with temporary labor as considered necessary in order to produce, warehouse, deliver, and install furniture during the coming summer. Because the Company has not closed any manufacturing or distribution facilities, any increase in demand for our product can be met without any required investment in physical infrastructure.

Critical Accounting Policies and Estimates

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

Revenue Recognition: The Company recognizes revenue in accordance with Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition," as revised by SAB No. 104. Sales are recorded when title passes and collectability is reasonably assured under its various shipping terms. The Company reports sales as net of sales returns and allowances and sales taxes imposed by various government authorities.

Allowances for Doubtful Accounts: Considerable judgment is required when assessing the ultimate realization of receivables, including assessing the probability of collection, current economic trends, historical bad debts and the current creditworthiness of each customer. The Company maintains allowances for doubtful accounts that may result from the inability of our customers to make required payments. Over the past five years, the Company's allowance for doubtful accounts has ranged from approximately 0.7% to 1.4% of accounts receivable at year-end. The allowance is evaluated using historic experience combined with a detailed review of past due accounts. The Company does not typically obtain collateral to secure credit risk. The primary reason that Virco's allowance for doubtful accounts represents such a small percentage of accounts receivable is that a large portion of the accounts receivable is attributable to low-credit-risk governmental entities, giving Virco's receivables a historically high degree of collectability. Although many states are experiencing budgetary difficulties, it is not anticipated that Virco's credit risk will be significantly impacted by these events. Over the next year, no significant change is expected in the Company's sales to government entities as a percentage of total revenues.

Inventory Valuation: Inventory is valued at the lower of cost or market. The Company uses the LIFO (last-in, first-out) method of accounting for the material component of inventory. The Company maintains allowances for estimated obsolete inventory to reflect the difference between the cost of inventory and the estimated market value. Valuation allowances are determined through a physical inspection of the product in connection with a physical inventory, a review of slow-moving product, and consideration of active marketing programs. The market for education furniture is traditionally driven by value, not style, and the Company has not typically incurred significant obsolescence expense. If market conditions are less favorable than those anticipated by management, additional allowances may be required.

Due to reductions in sales volume in the past years, the Company's manufacturing facilities are operating at reduced levels of capacity. The Company records the cost of excess capacity as a period expense, not as a component of capitalized inventory valuation.

Self-Insured Retention: For 2005 the Company was self-insured for product liability losses up to $500,000 per occurrence. For 2006, and 2007, the Company was self-insured for product liability losses ranging from $250,000 — $500,000 per occurrence. For 2005, 2006, and 2007 the Company was self-insured for workers' compensation losses up to $250,000 per occurrence and for auto liability up to $50,000 per occurrence. The Company obtains annual actuarial valuations for the self-insured retentions. Product liability, workers' compensation, and auto reserves for known and unknown incurred but not reported (IBNR) losses are recorded at the net present value of the estimated losses using a discount rate ranging from 5.75 — 6.00% for 2007, 2006, and 2005. Given the relatively short term over which the IBNR losses are discounted, the sensitivity to the discount rate is not significant. Estimated workers' compensation losses are funded during the insurance year and subject to retroactive loss adjustments. The Company's exposure to self-insured retentions varies depending upon the market conditions in the insurance industry and the availability of cost-effective insurance coverage. Self-insured retentions for 2008 will be comparable to the retention levels for 2007.

Warranty Reserve: The Company provides a product warranty on most products. The standard warranty offered on products sold through January 31, 2005, is five years. Effective February 1, 2005, the standard warranty was increased to 10 years on products sold after February 1, 2005. It generally warranties that customers can return a defective product during the specified warranty period following purchase in exchange for a replacement product or that the Company can repair the product at no charge to the customer. The Company determines whether replacement or repair is appropriate in each circumstance. The Company uses historic data to estimate appropriate levels of warranty reserves. Because product mix, production methods, and raw material sources change over time, historic data may not always provide precise estimates for future warranty expense. Warranty expense for 2005 was higher than normal due to a recurring cosmetic complaint relating to a high-volume component. In 2005, the Company made appropriate engineering modifications to correct this condition, but may still incur warranty-related costs for components produced and sold in prior years.

Defined Benefit Obligations: The Company has three defined benefit plans, the Virco Employees Retirement Plan, the Virco Important Performers (VIP) Plan and the Non-Employee Directors Retirement Plan, which provide retirement benefits to employees and outside directors. Virco discounted the pension obligations under the plans using a 6.00% discount rate in 2007, a 5.75% discount rate in 2006, and a 6.5% discount rate in 2005. The Company utilized a 5.0% assumed rate of increase in compensation rates, and estimated a 6.5% return on plan assets. These rate assumptions can vary due to changes in interest rates, the employment market, and expected returns in the stock market. In prior years, the discount rate and the anticipated rate of return on plan assets have decreased by several percentage points, causing pension expense and pension obligations to increase. Although the Company does not anticipate any change in these rates in the coming year, any moderate change should not have a significant effect on the Company's financial position, results of operations or cash flows. Effective December 31, 2003, the Company froze new benefit accruals under all three plans. The effect of freezing future benefit accruals minimizes the impact of future raises in compensation, but introduces a new assumption related to the plan freeze. It is the Company's intent to resume some form of a retirement benefit when the profitability and the financial condition of the Company allow, and the actuarial valuations assume the plans will be frozen for one additional year. If the assumption is modified to a permanent freeze, the Company would be required to immediately recognize any prior service cost / benefit. If the Company had assumed a permanent freeze, pension expense for 2007, 2006 and 2005 would have increased by $64,000, $75,000 and $9,000, respectively. The Company obtains annual actuarial valuations for all three plans.

Deferred Tax Assets and Liabilities: The Company recognizes deferred income taxes under the asset and liability method of accounting for income taxes in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". Deferred income taxes are recognized for differences between the financial statement and tax basis of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Due to operating losses, the Company established a valuation allowance against the net deferred tax assets in 2003. For the year ended January 31, 2007, based on this consideration, the Company anticipated that it is more likely than not that the net deferred tax assets would not be realized, and a valuation allowance was recorded against the net deferred tax assets. During the fiscal year ended January 31, 2008, the results of operations of the Company were such that the Company determined that is was more likely than not that all of the deferred tax asset would be realized, and a $10,700,000 favorable adjustment to the valuation allowance was recorded in the third quarter ended October 31, 2007. This was a non-cash benefit, resulting in a $10,700,000 net adjustment to deferred tax assets recorded in the third quarter.

At January 31, 2008, the Company had net operating losses carried forward for federal and state income tax purposes, expiring at various dates through 2027 if not utilized. Federal net operating losses that can potentially be carried forward totaled approximately $3,202,000 at January 31, 2008. State net operating losses that can potentially be carried forward totaled approximately $21,019,000 at January 31, 2008.

Industry Overview

As discussed above, the commercial furniture markets, including Virco's core school markets, suffered from the economic downturn in the early 2000s. The financial difficulties experienced by our core education customers derive primarily from budgetary pressures and shortfalls at state and local government levels. The state and local budgets improved during 2005, 2006, and 2007, but still remained pressured by costs related to teacher and administrator salaries, medical care and unfunded pension obligations.

Funding for school furniture comes from two primary sources. The first source is from bonds issued to fund new school construction, make major renovations of older schools, and fully equip new and renovated schools. Funding from bond financing has been relatively stable during the past years, and is anticipated to be stable through 2008. The second source is the general operating fund, which is a primary source of replacement furniture. The decline in Virco's sales in the early 2000s was primarily attributable to sharp reductions in replacement furniture purchased from the general fund. Approximately 80-85% of a school's budget is spent on salaries and benefits for teachers and administrators. In times of budget shortfalls, schools traditionally attempt to retain teachers and spend less on repairs, maintenance, and replacement furniture. The Company anticipates that the level of replacement furniture purchased during 2008 could be adversely impacted by current economic conditions.

While the short-term economic conditions impacting our core customer base are not positive, there are certain underlying demographics, customer responses, and changes in the competitive landscape that provide opportunities. First, the underlying demographics of the student population are very stable compared to the volatility of school budgets, and the related level of furniture and equipment purchases. The student population grows slowly. The volatility is attributable to the financial health of the school systems. Virco management believes that there is a pent-up demand for quality school furniture. Second, management believes that parents and voters will demand that we educate our children and make this an ongoing priority for future government spending. Third, many schools have responded to the budget strains by reducing their support infrastructure. School districts historically have operated central warehouses and professional purchasing departments in a central business office. In order to retain teaching staff, many school districts have shut down the warehouses and reduced their purchasing departments and janitorial staffs. This change provides opportunities to sell services to schools, such as project management for new or renovated schools, delivery to individual school sites rather than truckload deliveries to central warehouses, installation of furniture in classrooms, and the opportunity to provide a complete product assortment allowing one-stop shopping as opposed to sourcing furniture needs from a variety of suppliers. Fourth, many suppliers have shut down or dramatically curtailed their domestic manufacturing capabilities, making it difficult for competitors to provide custom colors or finishes during a tight seasonal summer delivery window when they are reliant upon a supply chain extending to China. Finally, the financial health of the competition, both manufacturers and dealers, has been adversely impacted by the downturn in the school furniture business, creating opportunities for suppliers that can provide dependable delivery of quality product and services. The current credit environment may make it difficult for competitors to finance the significant seasonal nature of school furniture and equipment deliveries.

Virco Response to the Industry Environment

In response to robust industry growth during the mid to late 1990s, Virco built and equipped a large new furniture manufacturing and distribution facility in Conway, Arkansas, that initiated operations in 1999 and 2000. In addition to that significant capital expansion of physical capacity, the Company implemented an SAP ERP system in 1999 in response to Y2K concerns coupled with limitations to its legacy computer system. The timing of these large capital investments was unfortunate, as the economic downturn discussed above initiated approximately one year after this new capacity came on line.

In response to the sharp decline in sales in the early 2000s, many furniture manufacturers responded by shutting down significant portions of their manufacturing capacity and laying off thousands of workers, incurring large restructuring charges in the process. Virco responded with a different approach designed to preserve the Company's manufacturing and distribution infrastructure and save the jobs of many of Virco's trained workforce. The Company did make substantial reductions in work force, implemented wage and hiring freezes, and pursued more creative measures that addressed the unique demands of a highly seasonal business, including programs to encourage workforce flexibility. Capital expenditures were severely curtailed. Capital expenditures were reduced to a range of 25% to 40% of annual depreciation from 2001 through 2006. While expenditures on capital equipment have been curtailed, aggressive maintenance programs and opportunistic purchases of good quality used equipment have enhanced the Company's productive capabilities. The Company embraced its ATS operating model, which facilitated reductions in inventory levels and improved levels of customer service.

The cumulative result of these years of cost reductions has been significant. Virco's headcount of permanent employees has declined from a peak of nearly 2,950 in August 2000 to a total of approximately 1,200 permanent employees at January 31, 2008. Factory overhead, which peaked at over $72 million in fiscal year ended January 31, 2001, was less than $48 million in each of the last two fiscal years. For the last two fiscal years, factory overhead as a percentage of sales is less than it was prior to the significant capital expenditures in 1998, 1999, and 2000, despite the reduction in sales volume. Virco has accomplished this without closing factories and without closing any of the primary distribution facilities. Selling, general, and administrative expenses, which do not fluctuate as significantly with volume have declined by approximately $15 million from their peak and currently represent a lower percentage of sales as in 2000, despite our reduced sales volume.

In addition to significant cost reductions, the Company has made several investments in both product and process to strengthen its competitive position. During the last six years, Virco has completed three modest acquisitions, all within the constrained capital expenditure budgets discussed above. The first acquisition was Furniture Focus™, a reseller of FF&E that was a former Virco customer. The acquisition of Furniture Focus included their proprietary PlanSCAPE® software, used to bid and manage projects to furnish all items in the FF&E budget category of a new school project. Over the past six years, Furniture Focus has been integrated into Virco, and at the February 2006 sales meeting, a new release of the PlanSCAPE software was rolled out to the entire Virco sales force. Virco has embraced the relationships Furniture Focus had developed with other furniture manufacturers that provide FF&E not manufactured by Virco. Virco has incorporated these items into our product offering, enabling Virco to provide one-stop shopping for FF&E needs.

In addition to Furniture Focus, Virco has acquired assets from two furniture component manufacturers. While the production of many furniture components has moved to low-cost locations such as China, many components are too bulky to import on a cost-effective basis. In 2003, Virco purchased assets and intellectual property of Corex Products, Inc., a component manufacturer of compression-molded parts. The acquired equipment was integrated into our existing compression-molding facility in Conway, Arkansas. In 2005, Virco purchased substantial injection-molding capacity from a former supplier, allowing Virco to bring the production of certain high-volume components in house. In 2006 and 2007 the Company acquired capacity for processes historically outsourced and developed tooling for significant new product launches. These machines have been integrated into our Conway, Arkansas facility.

Finally, during these years of cost reductions, Virco has continued to invest in new products, including our successful ZUMA® and Sage™ lines of education furniture. In 2007 the Company introduced two new classroom furniture collections: Metaphor™ and Telos™. Initiatives to improve product and service quality have been successful, and the Company has improved its track record for dependable on-time delivery of product during the tight summer delivery window.

The Company's significant improvement in operating results in 2007 and 2006 reflected the cumulative effect of three years of price increases to recover increased commodity costs. In 2006, the Company introduced tiered pricing under its most significant contracts to improve the profitability of small orders. For 2008, the Company has raised prices on its major contracts, and will raise prices on other contracts as they are renewed. The Company is hopeful that these price increases will substantially offset anticipated increases in commodity costs during 2008.

Results of Operations (2007 vs. 2006)

Financial Results and Cash Flow

For the year ended January 31, 2008, the Company earned pre-tax income of $12,192,000 on net sales of $229,565,000 compared to pre-tax income of $7,991,000 on net sales of $223,107,000 in the same period last year. The current year was significantly impacted by a $10,700,000 favorable adjustment to the valuation allowance for deferred income taxes. The net income was $1.54 per share for the year ended January 31, 2008, compared to net income of $0.56 per share in the prior year. Cash flow from operations was $16,884,000 compared to $10,915,000 in the prior year.

Sales

Virco's sales increased by nearly 3.0% in 2007 to $229,565,000 compared to $223,107,000 in 2006. The increased sales volume was attributable to increased prices, offset by a slight decline in unit volume. The Company benefited from increased project sales. Sales of Virco's new ZUMA® and Sage™ product lines increased, but were offset by reductions in older product lines.

For 2008 the Company has raised selling prices for its more significant contracts and will raise prices on contracts as they renew. The Company anticipates that the price increases will substantially mitigate anticipated increases in raw material and energy prices. The Company continues to emphasize the value, design and color selections of Virco's products, the value of Virco's distribution, delivery, installation, and project management capabilities, and the value of timely deliveries during the peak seasonal delivery period.

Cost of Sales

Cost of sales was 64% of sales in 2007 and 65% of sales for 2006. This improvement was achieved by increased selling prices combined with moderate growth in material costs and controlled spending on manufacturing costs. At the beginning of 2007, the Company raised prices with the intent of covering the anticipated increased cost of raw materials. The Company was successful in raising prices, and achieved that goal while incurring a modest reduction in unit volume, primarily in older commodity items that sell for lower prices.

In 2008, the Company intends to maintain the improved overhead cost structure attained through controlled capital expenditures and restructurings. Because the Company has improved its financial strength, we are able to finance our production of inventory for summer delivery earlier in the year. This allows a larger portion of annual production to be by permanent employees, who tend to be more efficient and produce better quality than temporary labor.

The Company intends to more tightly integrate the ATS model with our marketing programs, product development programs, and product stocking plan. This anticipated improvement in execution of ATS should allow the Company to offer a wide variety of product while improving on-time delivery performance. The Company is beginning the year with more inventory; production levels, which will vary depending upon selling volumes, are anticipated to be slightly lower than 2007. The Company is slowly bringing production of certain items in house that were formerly acquired from outside parties, which may offset a portion of any reduction in required output.

The Company anticipates continued uncertainty and upward pressure on costs, particularly in the areas of certain raw materials, transportation, energy, and employee benefits in the coming year. Raw material costs, especially for steel and plastic, are experiencing volatility and price pressure. For more information, please see the section below entitled "Inflation and Future Change in Prices".

Selling, General and Administrative and Others

Selling, general and administrative expenses for the year ended January 31, 2008, increased by approximately $2.4 million, and were 30.1% as a percentage of sales as compared to 29.9% in the prior year. Freight costs decreased both in dollars and as a percentage of sales. Installation costs increased in both dollars and as a percentage of sales due to increased project orders, and selling expenses increased in dollars and as a percentage of sales due to expanded selling efforts.

For 2008, the Company intends to raise selling prices to cover anticipated increased raw material costs as well as maintaining tiered pricing to increase prices on smaller orders and orders requiring full service. If successful, this may cause freight and installation costs to decline as a percentage of sales in 2008, but there can be no assurance of attaining a reduction due to volatility in fuel and freight rates as well as fluctuations in the portion of business requiring full service.

Interest expense was $1,516,000 less than the prior year as a result of borrowing levels and interest rates being lower than the prior year.

Results of Operations (2006 vs. 2005)

Financial Results and Cash Flow

For the year ended January 31, 2007, the Company earned net income of $7,545,000 on net sales of $223,107,000 compared to a net loss of $9,574,000 on net sales of $214,450,000 in the same period in the prior year. Net income was $0.56 per share for the year ended January 31, 2007, compared to a net loss of $0.73 per share in the prior year. Cash flow from operations was $10,915,000 compared to $304,000 in the prior year.

Sales

Virco's sales increased by 4.0% in 2006 to $223,107,000 compared to $214,450,000 in 2005. The increased sales volume was attributable to increased prices, offset by a slight decline in unit volume. The Company benefited from increased project sales and increased sales through commercial channels. Sales of Virco's new ZUMA product line increased, but were offset by reductions in older product lines.

Cost of Sales

Cost of sales was 65% of sales in 2006 and 70% of sales for 2005. This significant improvement was achieved by increased prices combined with moderate growth in material costs and controlled spending on manufacturing costs. At the beginning of 2006, the Company raised prices with the intent of covering the increased cost of raw materials experienced in 2005 and 2004. The Company was successful in raising prices, and achieved that goal while incurring a modest reduction in unit volume, primarily in older commodity items that sell for lower prices.

Selling, General and Administrative and Others

Selling, general and administrative expenses for the year ended January 31, 2007, excluding severance costs, decreased by approximately $3 million, and were 29.9% as a percentage of sales as compared to 32.8% in 2005 (excluding severance costs). Freight costs decreased both in dollars and as a percentage of sales. Installation costs increased in both dollars and as a percentage of sales due to increased project orders, and selling expenses decreased in dollars and as a percentage of sales.

Interest expense was nearly $534,000 more than the prior year. Borrowing levels were slightly higher than the prior year, and interest rates were higher.

Provision for Income Taxes

The Company recognizes deferred income taxes under the asset and liability method of accounting for income taxes in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". Deferred income taxes are recognized for differences between the financial statement and tax basis of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Based on these considerations, at January 31, 2007, the Company believed that it was more likely than not that the net deferred tax assets would not be realized, and a 100% valuation allowance was recorded against the net deferred tax assets at January 31, 2007. During the year ended January 31, 2008, the operating results of the Company demonstrated the second consecutive year of significantly improved pre-tax operating results. A significant portion of the net deferred tax asset relating to NOL carryforwards was realized, and at the third quarter ending October 31, 2007, the Company determined that it was more likely than not that the net deferred tax assets would be realized. In the third quarter, the Company recorded a $10.7 million favorable adjustment to the valuation allowance against the net deferred tax assets.

Because the Company benefited from NOL carryforwards for both 2007 and 2006, the effective income tax expense was very low, with income tax expense being primarily attributable to alternative minimum taxes combined with income and franchise taxes as required by various states. The tax rates experienced during the past two years, and the significant adjustment to the valuation allowance in 2007, are not expected to recur in 2008. The Company has a modest amount of NOL carryforward for federal income tax purposes, after which the Company anticipates an effective federal income tax rate of 34-35%. State income taxes will continue to benefit from NOL carryforwards, offset by state alternative minimum taxes combined with income and franchise taxes.

At January 31, 2008, the Company had net operating losses carried forward for federal and state income tax purposes, expiring at various dates through 2026 if not utilized. Federal net operating losses that can potentially be carried forward totaled approximately $3,202,000 at January 31, 2008. State net operating losses that can potentially be carried forward totaled approximately $21,019,000 at January 31, 2008. The Company also had determined that it is more likely than not that some portion of the state net operating loss carryforwards will not be realized and had provided a valuation allowance of $841,000 on the deferred tax assets at January 31, 2008. In June 2006, the Financial Accounting Standards Board (the "FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods and requires increased disclosures. The Company adopted the provisions of FIN 48 on February 1, 2007, the beginning of fiscal 2007. There was no material impact as a result of the implementation of FIN 48.

Liquidity and Capital Resources

Working Capital Requirements

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

The Company's working capital requirements during and in anticipation of the peak summer season oblige management to make estimates and judgments that affect Virco's assets, liabilities, revenues and expenses. Management expends a significant amount of time during the year, and especially in the first quarter, developing a stocking plan and estimating the number of employees, the amount of raw materials, and the types of components and products that will be required during the peak season. If management underestimates any of these requirements, Virco's ability to fill customer orders on a timely basis or to provide adequate customer service may be diminished. If management overestimates any of these requirements, the Company may be required to absorb higher storage, labor and related costs, each of which may affect profitability. On an ongoing basis, management evaluates such estimates, including those related to market demand, labor costs, and inventory levels, and continually strives to improve Virco's ability to correctly forecast business requirements during the peak season each year.

As part of Virco's efforts to address seasonality, financial performance and quality without sacrificing service or market share, management has been refining the Company's ATS operating model. ATS is Virco's version of mass-customization, which assembles standard, stocked components into customized configurations before shipment. The Company's ATS program reduces the total amount of inventory and working capital needed to support a given level of sales. It does this by increasing the inventory's versatility, delaying assembly until the last moment, and reducing the amount of warehouse space needed to store finished goods.

In addition, Virco finances its largest balance of accounts receivable during the peak season. This occurs for two primary reasons. First, accounts receivable balances naturally increase during the peak season as shipments of products increase. Second, many customers during this period are government institutions, which tend to pay accounts receivable more slowly than commercial customers.

As the capital required for the summer season generally exceeds cash available from operations, Virco has historically relied on third-party bank financing to meet seasonal cash flow requirements. Virco has established a long-term (19 years) relationship with its primary lender, Wells Fargo Bank. On an annual basis, the Company prepares a forecast of seasonal working capital requirements, and renews its revolving line of credit. For fiscal 2008, Virco has entered into a revolving credit facility with Wells Fargo Bank, amended and restated March 18, 2008, which provides a secured revolving line of credit. Available borrowing under the line ranges from $20-$65 million depending upon the period of the seasonal business cycle. The interest rate paid under the loan adjusts quarterly depending upon rolling 12 month EBITDA. The Company can elect either LIBOR or Prime-based rate. The revolving line has a 23-month maturity.

The line of credit is secured by the Company's accounts receivable, inventories, and equipment and property. The credit facility with Wells Fargo Bank is subject to various financial covenants and places certain restrictions on capital expenditures, new operating leases, dividends and the repurchase of the Company's common stock. In addition, there is a "clean down" provision that requires the Company to reduce borrowings under the line to less than $10 million for a period of 30 days each fiscal year. The Company believes that normal operating cash flow will allow it to meet the "clean down" requirement with no adverse impact of the Company's liquidity. Approximately $19,074,000 was available for borrowing as of January 31, 2008.

During 2007 and 2006 the Company strengthened its balance sheet and increased liquidity through three primary methods. First, the Company earned an after-tax profit of approximately $22.2 million in 2007 and $7.5 million in 2006. The 2007 results included a $10,700,000 adjustment to deferred tax assets, but despite this large non-cash item, the Company still recorded $16,884,000 of operating cash flow. Second, in 2006 the Company raised approximately $4.8 million through a private placement of equity. Third, our continued disciplines over capital expenditures resulted in depreciation expense in excess of capital expenditures by approximately $1.8 million in 2007 and $3.6 million in 2006. This improved financial strength allowed the Company to run the factories at increased levels of production during the fourth quarter. It is the Company's intent to run production at a more level rate building for the summer of 2008. This will allow us to use our permanent work force to build component inventory early in the year, relying less on relatively inefficient temporary labor to increase production rates closer to the summer.

During fiscal year 2005, the Company incurred operating losses, yet managed to have positive cash flow from operations. This was accomplished through the following actions. In 2005, the Company spent $3.5 million on capital expenditures compared to $8.8 million of depreciation expense. Increases in inventory were substantially financed by increases in vendor credit. The Company is budgeting for capital expenditures to be slightly less than depreciation for fiscal year 2008.

As a result of the increased material costs previously described, the Company violated debt covenants related to the line of credit with Wells Fargo at the end of the third quarter of 2005. The violation of covenants was waived at the end of the quarter, and the Company re-negotiated its line of credit with the bank effective December 6, 2005.

Management believes cash generated from operations and from the previously described sources will be adequate to meet its capital requirements in the next 12 months.

Long-Term Capital Requirements

In addition to short-term liquidity considerations, the Company continually evaluates long-term capital requirements. From 1997 through 2000, the Company completed two large capital projects, which have had significant effects on cash flow for the past six years. The first project was the implementation of the SAP enterprise resources planning system. The second project was the expansion and re-configuration of the Conway, Arkansas, manufacturing and distribution facility.

Upon completion of these projects, the Company dramatically reduced capital spending. During 2001-2005 capital expenditures ranged from 25%-40% of depreciation expense. Management intends to limit future capital spending until growth in sales volume fully utilizes the new plant and distribution capacity. Capital expenditures will continue to focus on new product development along with the tooling and new processes required to produce new products. The Company has established a goal of limiting capital spending to less than $6,000,000 for 2008, which is slightly less than anticipated depreciation expense.

Asset Impairment

In 2002, Virco acquired certain assets of Furniture Focus™, including its proprietary PlanSCAPE® software. As part of this acquisition, the Company recorded goodwill of $2,200,000. During the period from 2003 to 2005, the Company rolled out the Furniture Focus package business nationwide and expended significant effort training the sales force in package selling. In 2006, Virco released the next generation of PlanSCAPE software and for 2008 the Company anticipates several enhancements to PlanSCAPE. Virco evaluates the impairment of goodwill at least annually, or when indicators of impairment occur. As of January 31, 2008, there has been no impairment to the goodwill recorded.

In December 2003, Virco acquired certain assets of Corex Products, Inc., a manufacturer of compression-molded components, for approximately $1 million. The assets have been transferred to the Company's Conway, Arkansas, location where they have been integrated with Virco's existing compression-molding operation. In connection with this acquisition, Virco acquired certain patents and other intangible assets. As of January 31, 2008, there has been no impairment to the intangible assets recorded.

Virco made substantial investments in its infrastructure in 1998, 1999, and 2000. The investments included a new factory, new warehouse, and new production and distribution equipment. The factory, warehouse, and equipment acquired are used to produce, store, and ship a variety of product lines, and the use of any one piece of equipment is not dependent on the success or volume of any individual product. New products are designed to use as many common or existing components as practical. As a result, both our ATS inventory components and the machines used to produce them become more versatile. Virco evaluates the potential for impaired assets on a quarterly basis. As of January 31, 2008, there has been no impairment to the long-term assets of the Company.

Contractual Obligations

The Company leases manufacturing, transportation, and office equipment, as well as real estate under a variety of operating leases. The Company leases substantially all vehicles, including trucks and passenger cars under operating leases where the lessor provides fleet management services for the Company. The fleet management services provide Virco with operating efficiencies relating to the acquisition, administration, and operation of leased vehicles. The use of operating leases for manufacturing equipment has enabled the Company to qualify for and use Industrial Revenue Bond financing. Real estate leases have been used where the Company did not want to make a long-term commitment to a location, or when economic conditions favored leasing. The Torrance manufacturing and distribution facility is leased under an operating lease through 2010. The Company has one five-year option to extend the lease. The Company does not have any lease obligations or purchase commitments in excess of normal recurring obligations. Leasehold improvements and tenant improvement allowances are depreciated over the lesser of the expected life of the asset or the lease term.

Contractual Obligations Payments Due by Period

In thousands	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	$ 3,727	$ 12	$ 3,680	$ 24	$ 11
Interest on long-term debt obligations	447	1	442	3	1
Capital lease obligations	119	62	57	—	—
Operating lease obligations	15,622	6,791	6,748	1,666	417
Purchase obligations	15,910	15,910	—	—	—
	$ 35,825	$ 22,776	$ 10,927	$ 1,693	$ 429

We may be required to make significant cash outlays related to our unrecognized tax benefits. However, due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, unrecognized tax benefits of $760,000 as of January 31, 2008, have been excluded from the contractual obligations table above. For further information related to unrecognized tax benefits, see Note 6, "Income Taxes," to the consolidated financial statements included in this report.

Virco's largest market is publicly funded school districts. A significant portion of this business is awarded on a bid basis. Many school districts require that a bid bond be posted as part of the bid package. In addition to bid bonds, many districts require a performance bond when the bid is awarded. At January 31, 2008, the Company had bonds outstanding valued at approximately $3,800,000. To the best of management's knowledge, in over 58 years of selling to schools, Virco has never had a bid or performance bond called.

The Company provides a warranty against all substantial defects in material and workmanship. In 2005 the Company extended its standard warranty from five years to 10 years. The Company's warranty is not a guarantee of service life, which depends upon events outside the Company's control and may be different from the warranty period. The Company accrues an estimate of its exposure to warranty claims based upon both product sales data, and an analysis of actual warranty claims incurred. At the current time, management cannot reasonably determine whether warranty claims for the upcoming fiscal year will be less than, equal to, or greater than warranty claims incurred in 2007. The following is a summary of the Company's warranty-claim activity during 2007 and 2006.

	January 31,	
	2008	2007
Beginning balance	$ 1,750	$ 1,500
Provision	938	1,154
Costs incurred	(938)	(904)
Ending balance	$ 1,750	$ 1,750

Retirement Obligations

The Company provides retirement benefits to employees and non-employee directors under three defined benefit retirement plans; the Virco Employee's Retirement Plan, the Virco Important Performers (VIP) Retirement Plan, and the Retirement Plan for Non-Employee Directors. The Virco Employee Retirement Plan is a qualified retirement plan that is funded through a trust held at Wells Fargo Bank (Trustee). The other two plans are non-qualified retirement plans. The VIP Plan is secured by life insurance policies held in a rabbi trust and the Plan for Non-Employee Directors is not funded.

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

The discount rate represents an estimate of the rate at which retirement plan benefits could effectively be settled. The Company obtains data on several reference points when setting the discount rate including current rates of return available on longer term high-grade bonds and changes in rates that have occurred over the past year. This assumption is sensitive to movements in market rates that have occurred since the preceding valuation date, and therefore, may change from year to year. For 2007, the Company used a 6.00% discount rate. For 2006 the Company used a 5.75% discount rate. For 2005 the Company used a 6.5% discount rate.

Because the Company froze future benefit accruals for all three defined benefit plans, the compensation increase assumption had no impact on pension expense, accumulated benefit obligation or projected benefit obligation for the period ended January 31, 2008 or 2007.

The assumed rate of return on plan assets represents an estimate of long-term returns available to investors who hold a mixture of stocks, bonds, and cash equivalent securities. When setting its expected return on plan asset assumptions, the Company considers long-term rates of return on various asset classes (both historical and forecasted, using data collected from various sources generally regarded as authoritative) in the context of expected long-term average asset allocations for its defined benefit pension plan. For 2007, 2006 and 2005 the Company used a 6.5% expected return on plan assets.

Effective December 31, 2003, benefit accruals were frozen for all three plans. Employees can continue to vest under the benefits earned to date, but no covered participants will earn additional benefits under the plan freeze. In 2003, as a result of the freeze, the projected benefit obligation decreased by approximately $7,500,000. The plan freeze is not intended to be permanent. It is management's intention to restore some form of a retirement benefit, in the form of a 401(k) match or restoration of the pension, when the Company's profitability and cash flow allow. During 2007, 2006, and 2005, the Company's results of operations and financial position did not allow for a retirement benefit to be restored. Benefit accruals under the plans have remained frozen.

It is the Company's intent to maintain the funded status of the qualified plan at a target of 90% of the current liability as determined by the plan's actuaries. The Company contributed $3.1 million to the trust in 2007 and made no contributions to the pension trust during 2006 or 2005. Contributions during 2008 will depend upon actual investment results and benefit payments, but are anticipated to be approximately $3 million. During 2007, 2006, and 2005, the Company paid approximately $370,000, $255,000, and $255,000 per year under the non-qualified plans. It is anticipated that contributions to non-qualified plans will be approximately $526,000 for 2008.

During 2006, the Company implemented SFAS No. 158, "Employers Accounting for Defined Benefit Pension and Other Postretirement Plans". The implementation of this standard did not impact pension expense for the year. As a result of implementing SFAS No. 158, accrued pension liability increased by approximately $1.9 million, offset by an increase in other comprehensive loss. At January 31, 2008, accumulated other comprehensive loss of approximately $6.1 million ($5.1 million net of tax) is attributable to the pension plans.

The Company does not anticipate making any significant changes to the pension assumptions in the near future. If the Company were to have used different assumptions in the fiscal year ended January 31, 2008, a 1% reduction in investment return would have increased expense by approximately $100,000, a 1% change in the rate of compensation increase would had no impact, and a 1% reduction in the discount rate would have increased expense by $225,000. A 1% reduction in the discount rate would have increased the PBO by approximately $3.6 million. If Virco elected to make the plan freeze permanent, pension expense would increase by approximately $64,000. Refer to Note 4 to the consolidated financial statements for additional information regarding the pension plans and related expenses.

Stockholders' Equity

Prior to 2003, Virco had established a track record of paying cash dividends to its stockholders for more than 20 consecutive years. As a result of operating losses, the Company discontinued paying dividends in the second quarter of 2003. The Company initiated a $0.025 per share quarterly cash dividend in the fourth quarter of 2007. The Board of Directors intends to continue payment of a quarterly cash dividend as long as the results of operations and cash flow allow. The Board must approve each quarterly dividend payment. The Company's current line of credit with Wells Fargo Bank restricts funds used for cash dividends and stock repurchases to a maximum of $5 million. The Company did not repurchase any shares of stock during 2007, 2006 and 2005.

Virco issued a 10% stock dividend or 3/2 stock split every year beginning in 1982 through 2002. Although the stock dividend has no cash consequences to the Company, the accounting methodology required for 10% dividends has affected the equity section of the balance sheet. When the Company records a 10% stock dividend, 10% of the market capitalization of the Company on the date of the declaration is reclassified from retained earnings to additional paid-in capital. During the period from 1982 through 2002, the cumulative effect of the stock dividends has been to reclassify over $122 million from retained earnings to additional paid-in capital. The equity section of the balance sheet on January 31, 2008, reflects additional paid-in capital of approximately $114 million and deficit retained earnings of approximately $37 million. Other than the losses incurred during 2003, 2004, and 2005, the retained deficit is a result of the accounting reclassification, and is not the result of accumulated losses.

On June 6, 2006, the Company sold 1,072,041 shares of its common stock (the "Shares"), and warrants to purchase 268,010 shares of its common stock, to WEDBUSH, Inc. and clients of Wedbush Morgan Securities, Inc. for an aggregate purchase price of $5 million, or $4.66 per Share. On June 26, 2006, the Company entered into a follow-on investment agreement with certain directors and members of management. The investment with directors and management was made under substantially the same terms but at a higher price, for the issuance of 57,455 shares of common stock and 14,363 warrants, yielding proceeds of approximately $288,000. The investment with directors and managers was completed in the fourth quarter of 2006. The Company incurred approximately $481,000 in closing costs which were netted against the proceeds received from the sale of shares. The cash received from the shares of stock was used to strengthen the balance sheet and finance seasonal business activities.

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. In addition to policies and programs designed to comply with environmental laws and regulations, Virco has enacted programs for recycling and resource recovery that have earned repeated commendations, including the 2005 and 2004 California Waste Reduction Awards Program, designation in 2003 as a Charter Member of the WasteWise Hall of Fame, in 2002 as a WasteWise Partner of the Year, and in 2001 as a WasteWise Program Champion for Large Businesses by the United States Environmental Protection Agency. Despite these significant accomplishments, environmental laws have changed rapidly in recent years, and Virco may be subject to more stringent environmental laws in the future. The Company has expended, and expects to continue to spend, significant amounts in the future to comply with environmental laws. Normal recurring expenses relating to operating our factories in a manner that meets or exceeds environmental laws are matched to the cost of producing inventory. Despite our significant dedication to operating in compliance with applicable laws, there is a risk that the Company could fail to comply with a regulation or that applicable laws and regulations could change. Should such eventualities occur, the Company records liabilities for remediation costs when remediation costs are probable and can be reasonably estimated.

In 2007 and 2006, the Company was self-insured for product and general liability losses ranging from $250,000-$500,000 per occurrence, for workers' compensation losses up to $250,000 per occurrence, and for auto liability up to $50,000 per occurrence. In prior years the Company has been self-insured for workers' compensation, automobile, product, and general liability losses. The Company has purchased insurance to cover losses in excess of the self-insured retention or deductible up to a limit of $30,000,000. For the insurance year beginning April 1, 2008, the Company will be self-insured for product liability losses up to $250,000 per occurrence, for workers' compensation losses up to $250,000 per occurrence, and for auto liability up to $50,000 per occurrence. In future years, the Company's exposure to self-insured retentions will vary depending upon the market conditions in the insurance industry and the availability of cost-effective insurance coverage.

During the past 10 years the Company has aggressively pursued a program to improve product quality, reduce product liability claims and losses, and to more aggressively litigate product liability cases. This program has continued through 2008 and has resulted in reductions in product liability claims and litigated product liability cases. In addition, the Company has active safety programs to improve plant safety and control workers' compensation losses. Management does not anticipate that any related settlement, after consideration of the existing reserves for claims and potential insurance recovery, would have a material adverse effect on the Company's financial position, results of operations, or cash flows.

Off-Balance Sheet Arrangements

The Company did not enter into any material off-balance sheet arrangements during its 2007 fiscal year, nor did the Company have any material off-balance sheet arrangements outstanding at January 31, 2008.

New Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted the provision of FIN 48 on February 1, 2007, the beginning of fiscal 2007. See Note 6 "Income Taxes" for additional information.

In February 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" (SFAS 155). SFAS 155 establishes, among other things, the accounting for certain derivatives embedded in other financial instruments. This statement permits fair value remeasurement for any hybrid financial instrument containing an embedded derivative that would otherwise require bifurcation. It also requires that beneficial interests in securitized financial assets be accounted for in accordance with SFAS No. 133. SFAS 155 is effective for fiscal years beginning after September 15, 2006. The Company adopted SFAS 155 on February 1, 2007, the beginning of fiscal 2007. It did not have a material impact on the Company's financial operations or financial positions.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was scheduled to be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB delayed the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company is currently evaluating the impact on its financial statements, if any, from the adoption of this standard.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", an amendment of FASB Statements No. 87, 88, 106, and 132(R). This standard requires recognition of the funded status of a benefit plan in the statement of financial position. The standard also requires recognition in other comprehensive income of certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. SFAS No. 158 provides recognition and disclosure elements to be effective as of the end of the fiscal after December 15, 2006, and measurement elements to be effective for fiscal years ending after December 15, 2008. The Company adopted the recognition provisions of SFAS No. 158 and applied them to the funded status of the defined benefit plans resulting in a decrease in Shareholders Equity of $1,900,000.

In February, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of any fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact on its financial statements, if any, from the adoption of this standard.

In December 2007, the FASB issued SFAS No. 141 (Revised), "Business Combinations" ("SFAS No. 141(R)"), replacing SFAS No. 141, "Business Combinations" ("SFAS No. 141"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 141(R) retains the fundamental requirements of

SFAS No. 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent considerations be recognized at the acquisition date and remeasured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests (i.e., minority interests) in a subsidiary, including changes in a parent's ownership interest in a subsidiary and requires, among other things, that noncontrolling interests in subsidiaries be classified as a separate component of equity. Except for the presentation and disclosure requirements of SFAS No. 160, which are to be applied retrospectively for all periods presented, SFAS No. 141 (R) and SFAS No. 160 are to be applied prospectively in financial statements issued for fiscal years beginning after December 15, 2008. The Company does not anticipate any material impact to its financial statements from the adoption of SFAS No. 160.

In October 2006, the FASB ratified EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements". This statement is effective for years beginning after December 15, 2007. This statement clarifies that FASB 106, "Employers Accounting for Post-Retirement Benefits other than Pensions", applies to endorsement split-dollar life insurance arrangements. The Company anticipates recording a liability of approximately $2,060,000 at that time. The Company has purchased life insurance on the lives of the participants that will pay death benefits of in excess of the amount promised to participants.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

Inflation and Future Change in Prices

Inflation rates had a modest impact on the Company in 2007 and 2006, and a significant impact on the results of operations for 2005 and 2004. During 2007 and 2006, raw material prices increased, but the rate of increase and volatility of pricing was substantially more moderate when compared to the prior two years. During 2005 and 2004 the Company faced substantial increases in the cost of raw materials and energy, particularly steel, plastic, and diesel fuel. For 2008, the Company anticipates continued upward pressure on costs, particularly in the areas of certain raw materials, transportation, energy and employee benefits. The prices of steel, plastic and energy have been more volatile in the first quarter of 2008 than in the prior two years. There is continued uncertainty on raw material costs that are affected by the price of oil, especially plastics. Transportation costs are also expected to be adversely affected by increased oil prices, in the form of increased operation costs for our fleet, and surcharges on freight paid to third-party carriers. Virco expects to incur continued pressure on employee benefit costs. Virco has aggressively addressed these costs by reducing headcount, freezing pension benefits, passing on a portion of increased medical costs to employees, and hiring temporary workers who are not eligible for benefit programs.

To recover the cumulative impact of increased costs, the Company raised the list prices for Virco's products in 2005, 2006, and 2007. The Company has raised prices on its more significant contracts for 2008, and will raise prices on other contracts as they are renewed. As a significant portion of Virco's business is obtained through competitive bids, the Company is carefully considering increased material costs in addition to increased transportation costs as part of the bidding process. Total material costs for 2008, as a percentage of sales, could be higher than in 2007, but it is the Company's intention to raise selling prices enough so that material costs, as a percentage of sales, will be comparable to the prior year. However, no assurance can be given that the Company will experience stable, modest or substantial increases in prices in 2008. The Company is working to control and reduce costs by improving production and distribution methodologies, investigating new packaging and shipping materials, and searching for new sources of purchased components and raw materials.

The Company uses the LIFO method of accounting for the material component of 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. Through 2001-2007, the Company significantly reduced its expenditures for capital assets, but in the previous three fiscal years (1998, 1999, and 2000) the Company made the significant fixed-asset acquisitions described above. The assets acquired result in higher depreciation charges, but due to technological advances should result in operating cost savings and improved product quality. In addition, some depreciation charges were offset by a reduction in lease expense. The Company is also subject to interest rate risk related to its $3,700,000 of borrowings as of January 31, 2008, and any seasonal borrowings used to finance additional inventory and receivables. Rising interest rates may adversely affect the Company's results of operations and cash flows related to its variable-rate bank borrowings. Accordingly, a 100 basis point upward fluctuation in the lender's base rate would have caused the Company to incur additional interest charges of approximately $192,000 for the 12 months ended January 31, 2008. The Company would have benefited from a similar interest savings if the base rate were to have fluctuated downward by a like amount.

The Company has used derivative financial instruments to reduce interest rate risks. The Company does not hold or issue derivative financial instruments for trading purposes. All derivatives are recognized as either assets or liabilities in the statement of financial condition and are measured at fair value. At January 31, 2008 and 2007, the Company had no derivative instruments.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

The following tables set forth selected historical consolidated financial data for the periods indicated. The following data should be read in conjunction with Item 8, Financial Statements and Supplementary Data, and with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

In thousands except per share data	**2007**	2006	2005	2004	2003
Summary of Operations					
Net sales	**$ 229,565**	$ 223,107	$ 214,450	$ 199,854	$ 191,852
Net income (loss) *(a)*	**$ 22,219**	$ 7,545	$ (9,574)	$ (13,995)	$ (23,607)
Income (loss) per share data					
Net income (loss) *(b)*					
Basic	**$ 1.54**	$ 0.56	$ (0.73)	$ (1.07)	$ (1.80)
Assuming dilution	**$ 1.53**	$ 0.55	$ (0.73)	$ (1.07)	$ (1.80)
Cash dividends declared per share	**$ 0.025**	$ —	$ —	$ —	$ 0.04

(a) For fiscal 2003, an adjustment of $1.6 million of income tax expense was made to reflect tax effect of minimum pension liability.

(b) Net loss per share was calculated based on basic shares outstanding due to the anti-dilutive effect on the inclusion of common stock equivalent shares.

	2007	2006	2005	2004	2003
Other Financial Data					
Total assets	**$ 127,035**	$ 116,277	$ 114,720	$ 114,041	$ 126,268
Working capital	**$ 31,996**	$ 22,994	$ 15,488	$ 15,334	$ 25,404
Current ratio	**1.9/1**	1.6/1	1.4/1	1.5/1	2.0/1
Total long-term obligations	**$ 20,369**	$ 30,101	$ 38,862	$ 34,090	$ 37,934
Stockholders' equity	**$ 72,148**	$ 48,878	$ 39,100	$ 49,265	$ 62,352
Shares outstanding at year-end *(2)*	**14,429**	14,380	13,137	13,098	13,096
Stockholders' equity per share *(1)*	**$ 5.00**	$ 3.40	$ 2.98	$ 3.76	$ 4.76

(1) Based on number of shares outstanding at year-end after giving effect for stock dividends and stock split.

(2) Adjusted for stock dividends and stock split.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Company's internal control over financial reporting is supported by written policies and procedures, that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

In connection with the preparation of the Company's annual financial statements, management of the Company has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of January 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of the Company's internal control over financial reporting.

Based on this assessment, management did not identify any material weakness in the Company's internal control, and management has concluded that the Company's internal control over financial reporting was effective as of January 31, 2008.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's financial statements, has issued a report on internal control over financial reporting, a copy of which is included in this Annual Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders of Virco Mfg. Corporation

We have audited Virco Mfg. Corporation's internal control over financial reporting as of January 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Virco Mfg. Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Virco Mfg. Corporation maintained, in all material respects, effective internal control over financial reporting as of January 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Virco Mfg. Corporation as of January 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 2008, of Virco Mfg. Corporation and our report dated April 15, 2008, expressed an unqualified opinion thereon.

Ernst & Young LLP

Los Angeles, California

April 15, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Virco Mfg. Corporation

We have audited the accompanying consolidated balance sheets of Virco Mfg. Corporation as of January 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended January 31, 2008. Our audits also included the financial statement schedule listed in the Index at Items 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set for the therein.

As discussed in Notes 1 and 5 to the consolidated financial statements, on February 1, 2006, the Company changed its method of accounting for share-based payments in accordance with Statement of Financial Accounting Standards No. 123(R).

Additionally, as discussed in Notes 1 and 4 to the consolidated financial statements, on January 31, 2007, the Company changed its method of accounting for defined benefit pension plans in accordance with Statement of Financial Accounting Standards No. 158.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Virco Mfg. Corporation's internal control over financial reporting as of January 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 15, 2008, expressed an unqualified opinion thereon.

Ernst & Young LLP

Los Angeles, California

April 15, 2008

Consolidated Balance Sheets

In thousands, except share data	January 31, 2008	2007
Assets		
Current assets		
Cash	**$ 2,066**	$ 1,892
Trade accounts receivables (net of allowance for doubtful accounts of $200 in 2007 and 2006)	**15,474**	18,596
Other receivables	**284**	228
Inventories		
Finished goods, net	**14,564**	11,651
Work in process, net	**20,653**	19,690
Raw materials and supplies, net	**7,791**	6,496
	43,008	37,837
Deferred tax assets, net	**4,189**	—
Prepaid expenses and other current assets	**1,493**	1,479
Total current assets	**66,514**	60,032
Property, plant and equipment		
Land and land improvements	**3,612**	3,596
Buildings and building improvements	**49,558**	49,555
Machinery and equipment	**114,286**	109,730
Leasehold improvements	**1,475**	1,323
	168,931	164,204
Less accumulated depreciation and amortization	**122,598**	116,116
Net property, plant and equipment	**46,333**	48,088
Goodwill and other intangible assets	**2,350**	2,350
Less accumulated amortization	**52**	39
Net goodwill and other intangible assets	**2,298**	2,311
Deferred tax assets, net	**5,652**	—
Other assets	**6,238**	5,846
Total assets	**$ 127,035**	$ 116,277

See accompanying notes.

Consolidated Balance Sheets

	January 31,	
In thousands, except share data	**2008**	2007
Liabilities		
Current liabilities		
Checks released but not yet cleared bank	**$ 4,163**	$ 2,563
Accounts payable	**14,313**	14,463
Accrued compensation and employee benefits	**7,762**	8,094
Income tax payable	**610**	989
Current portion of long-term debt	**74**	5,074
Other accrued liabilities	**7,596**	5,855
Total current liabilities	**34,518**	37,038
Non-current liabilities		
Accrued self-insurance retention and other	**3,848**	3,962
Accrued pension expenses	**12,749**	15,949
Long-term debt, less current portion	**3,772**	10,190
Total non-current liabilities	**20,369**	30,101
Deferred tax liabilities	**—**	260
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 14,428,662 shares in 2007 and 14,379,506 shares in 2006	**144**	143
Additional paid-in capital	**114,318**	113,737
Accumulated deficit	**(37,224)**	(59,082)
Accumulated comprehensive loss	**(5,090)**	(5,920)
Total stockholders' equity	**72,148**	48,878
Total liabilities and stockholders' equity	$ **127,035**	$ 116,277

See accompanying notes.

Consolidated Statements of Operations

	Year ended January 31,		
In thousands, except share data	**2008**	2007	2006
Net sales	**$ 229,565**	$ 223,107	$ 214,450
Costs of goods sold	**145,901**	144,495	149,785
Gross profit	**83,664**	78,612	64,665
Selling, general and administrative expenses	**69,213**	66,828	70,271
Separation costs	**—**	—	742
Interest expense, net	**2,276**	3,792	3,258
(Gain) loss on sale of assets, net	**(17)**	1	77
Income (loss) before income taxes	**12,192**	7,991	(9,683)
Income tax (benefit) expense	**(10,027)**	446	(109)
Net income (loss)	**$ 22,219**	$ 7,545	$ (9,574)
Net income (loss) per common share (a)			
Basic	**$ 1.54**	$ 0.56	$ (0.73)
Diluted	**$ 1.53**	$ 0.55	$ (0.73)
Weighted average shares outstanding			
Basic	**14,401**	13,590	13,114
Diluted	**14,539**	13,611	13,114

(a) Net loss per share was calculated based on basic shares outstanding due to the anti-dilutive effect on the inclusion of common stock equivalent shares.

See accompanying notes.

Consolidated Statements of Stockholders' Equity

In thousands, except share data	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Comprehensive Income (Loss)	Accumulated Comprehensive Loss	Total
Balance at January 31, 2005; as previously reported	13,098,364	$ 131	$ 107,883	$ (55,407)		$ (3,342)	$ 49,265
Adjustment to beginning balances to reflect tax effect of minimum pension liability	—	—	—	(1,646)		1,646	—
Net loss	—	—	—	(9,574)	$ (9,574)	—	(9,574)
Minimum pension liability	—	—	—	—	(851)	(851)	(851)
Comprehensive loss	—	—	—	—	(10,425)	—	—
Stock issued under option plans	38,924	—	260	—		—	260
Balance at January 31, 2006	13,137,288	131	108,143	(66,627)		(2,547)	39,100
Net income	—	—	—	7,545	7,545	—	7,545
Minimum pension liability	—	—	—	—	(1,462)	(1,462)	(1,462)
Comprehensive income	—	—	—	—	6,083	—	—
Stock based payments under stock compensation plans	112,722	—	754	—		—	754
Stock issued under private placement	1,129,496	12	4,840	—		—	4,852
Adoption of SFAS No. 158	—	—	—	—		(1,911)	(1,911)
Balance at January 31, 2007	14,379,506	143	113,737	(59,082)		(5,920)	48,878
Net income	**—**	**—**	**—**	**22,219**	**22,219**	**—**	**22,219**
Minimum pension liability, net of tax effect of $553	**—**	**—**	**—**	**—**	**830**	**830**	**830**
Comprehensive income	**—**	**—**	**—**	**—**	**23,049**	**—**	**—**
Stock based payments under stock compensation plans	**49,156**	**1**	**581**	**—**		**—**	**582**
Cash dividends	**—**	**—**	**—**	**(361)**		**—**	**(361)**
Balance at January 31, 2008	**14,428,662**	**$ 144**	**$ 114,318**	**$ (37,224)**		**$ (5,090)**	**$ 72,148**

See accompanying notes.

Consolidated Statements of Cash Flows

	Year ended January 31,		
In thousands, except share data	**2008**	2007	2006
Operating activities			
Net income (loss)	**$ 22,219**	$ 7,545	$ (9,574)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	**6,643**	7,199	8,844
Provision for doubtful accounts	**53**	72	(2)
(Gain) loss on sale of property, plant and equipment	**(17)**	1	77
Deferred income taxes	**(10,654)**	260	—
Stock based compensation	**678**	754	408
Changes in operating assets and liabilities trade accounts receivable	**3,070**	(1,399)	(1,271)
Other receivables	**(56)**	149	(212)
Inventories	**(5,171)**	(6,220)	(5,570)
Income taxes	**(379)**	142	2,126
Prepaid expenses and other current assets	**(290)**	14	(153)
Accounts payable and accrued liabilities	**788**	2,398	5,576
Other	**—**	—	55
Net cash provided by operating activities	**16,884**	10,915	304
Investing activities			
Capital expenditures	**(4,832)**	(3,622)	(3,470)
Proceeds from sale of property, plant and equipment	**17**	—	15
Net investment in life insurance	**(116)**	(167)	109
Net cash used in investing activities	**(4,931)**	(3,789)	(3,346)
Financing activities			
Proceeds from long-term debt	**3,582**	—	3,330
Repayment of long-term debt	**(15,000)**	(11,475)	—
Proceeds from issuance of common stock	**—**	4,752	9
Cash dividend paid	**(361)**	—	—
Net cash (used in) provided by financing activities	**(11,779)**	(6,723)	3,339
Net increase in cash	**174**	403	297
Cash at beginning of year	**1,892**	1,489	1,192
Cash at end of year	$ **2,066**	$ 1,892	$ 1,489
Supplemental disclosures of cash flow information			
Cash paid (received) during the year for:			
Interest, net of amounts capitalized	$ **2,276**	$ 3,792	$ 3,258
Income tax, net	**1,006**	44	(2,235)
Non-cash activities			
Accrued asset retirement obligations	$ **669**	$ 626	$ 583
Assets acquired under capital leases	**—**	186	—

See accompanying notes.

1. Summary of Business and Significant Accounting Policies

Business

Virco Mfg. Corporation (the "Company"), which operates in one business segment, is engaged in the design, production and distribution of quality furniture for the commercial and education markets. Over 58 years of manufacturing has resulted in a wide product assortment. Major products include mobile tables, mobile storage equipment, desks, computer furniture, chairs, activity tables, folding chairs and folding tables. The Company manufactures its products in Torrance, California, and Conway, Arkansas, for sale primarily in the United States.

The Company operates in a seasonal business, and requires significant amounts of working capital through the existing credit facility to fund acquisitions of inventory and finance receivables during the summer delivery season. Restrictions imposed by the terms of the existing credit facility may limit the Company's operating and financial flexibility. However, management believes that its existing cash and amounts available under the credit facility, and any cash generated from operations will be sufficient to fund its working capital requirements, capital expenditures and other obligations through the next 12 months.

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.

Management Use of Estimates

Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities — and disclosure of contingent assets and liabilities — at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include, but are not limited to, valuation of: inventory; deferred tax assets and liabilities; useful lives of property, plant, and equipment; intangible assets; liabilities under pension, warranty, self-insurance, and environmental claims; and the ultimate collection of accounts receivable. Actual results could differ from these estimates.

Fiscal Year End

Fiscal years 2007, 2006 and 2005, refer to the years ended January 31, 2008, 2007 and 2006, respectively.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. Sales to the Company's recurring customers are generally made on open account with terms consistent with the industry. Credit is extended based on an evaluation of the customer's financial condition and payment history. Past due accounts are determined based on how recently payments have been made in relation to the terms granted. Amounts are written off against the allowance in the period that the Company determines that the receivable is not collectable. The Company purchases insurance on receivables from certain commercial customers to minimize the Company's credit risk. The Company does not typically obtain collateral to secure credit risk. Customers with inadequate credit are required to provide cash in advance or letters or credit. The Company does not assess interest on receivable balances. A substantial percentage of the Company's receivables comes from low-risk government entities. No customers exceeded 10% of the Company's sales for each of the three years in the period ended January 31, 2008. Foreign sales were less than 5% for the period ended January 31, 2008, and each of the prior two fiscal years.

No single customer accounted for more than 10% of the Company's accounts receivable at January 31, 2008 or 2007. Because of the short time between shipment and collection, the net carrying value approximates the fair value for these assets.

Fair Values of Financial Instruments

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

Derivatives

The Company has used derivative financial instruments to reduce interest rate risks. The Company does not hold or issue derivative financial instruments for trading purposes. All derivatives are recognized as either assets or liabilities in the statement of financial condition and are measured at fair value. At January 31, 2008 and 2007, the Company had no derivative instruments.

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. The Company uses LIFO as it results in a better matching of costs and revenues. The Company records the cost of excess capacity as a period expense, not as a component of capitalized inventory valuation.

Property, Plant and Equipment

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

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

The Company did not capitalize interest costs as part of the acquisition cost of property, plant and equipment for the years ended January 31, 2008, 2007 and 2006. The Company capitalizes the cost of significant repairs that extend the life of an asset. Repairs and maintenance that do not extend the life of an asset are expensed as incurred. Depreciation and amortization expense was $6,643,000, $7,199,000 and $8,844,000 for fiscal year ended January 31, 2008, 2007 and 2006, respectively.

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. At January 31, 2008 and 2007, the Company had no capitalized software.

The Company leases certain computer equipment under a capital lease. The cost and accumulated depreciation are included in the property, plant, and equipment accounts. Depreciation expense was $61,000, $61,000 and $51,000 for fiscal year ended January 31, 2008, 2007 and 2006, respectively. Assets acquired under capital leases totaled approximately $0, $180,000, and $0 in fiscal 2007, 2006, and 2005 respectively. Future minimum lease payments under capital leases as of January 31, 2008 are $62,000 and $57,000 in fiscal 2008 and 2009 respectively.

The Company subleases space at one of its facilities on a month to month basis. Rental income for fiscal 2007, 2006, and 2005 was $379,000, $330,000, and $36,000 respectively.

The Company has established asset retirement obligations related to leased manufacturing facilities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations". Accrued asset retirement obligations are recorded at net present value and discounted over the life of the lease. Asset retirement obligations, included in other non-current liabilities were $669,000 and $626,000 at January 31, 2008 and 2007, respectively.

	Asset	Accumulated Depreciation	Liability
Beginning balance at January 31, 2007	$ 540,000	$ (216,000)	$ (626,000)
Additional obligation	—	—	—
Depreciation expense	—	(109,000)	—
Accretion expense	—	—	(43,000)
Ending balance at January 31, 2008	$ 540,000	$ (325,000)	$ (669,000)

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. The Company had not recorded an impairment of assets at January 31, 2008 or 2007.

Net Income (Loss) Per Share

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

In thousands, except per share data	**2007**	2006	2005
Numerator:			
Net income (loss)	**$ 22,219**	$ 7,545	$ (9,574)
Denominator:			
Weighted-average shares – basic	**14,401**	13,590	13,114
Common equivalent shares from common stock options and warrants	**138**	21	—
Weighted-average shares – diluted	**14,539**	13,611	13,114
Net income (loss) per common share *(a)*			
Basic	**$ 1.54**	$ 0.56	$ (0.73)
Diluted	**1.53**	0.55	(0.73)

(a) For the period ended January 31, 2006, approximately 253,000 shares of unvested stock awards and incentive stock options were excluded in the computation of diluted net income per share, as the effect would be anti-dilutive. For the period ended January 31, 2005, approximately 225,000 shares of incentive stock options were excluded in the computation of diluted net income per share, as the effect would be anti-dilutive.

Goodwill and Other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and intangible assets deemed to have an indefinite life are not amortized but are subject to annual impairment tests. Impairment tests are prepared in the fourth quarter of each fiscal year. Other intangible assets are amortized on a straight line basis over their useful lives (3-17 years).

Information regarding the Company's goodwill and other intangible assets is as follows (in thousands):

	2007			2006		
	Gross Amount	**Accumulated Amortization**	**Net Amount**	Gross Amount	Accumulated Amortization	Net Amount
Goodwill (not amortized)	**$ 2,200**	**$ —**	**$ 2,200**	$ 2,200	$ —	$ 2,200
Intangible assets	**150**	**52**	**98**	150	39	111
	$ 2,350	**$ 52**	**$ 2,298**	$ 2,350	$ 39	$ 2,311

The Company anticipates that amortization expense will be approximately $13,000 for 2009 and $7,000 for the next 4 years. The Company does not have amortization expense other than related to intangible assets.

Environmental Costs

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

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

Costs incurred to investigate and remediate environmental waste are expensed, unless the remediation extends the useful life of the assets employed at the site. At January 31, 2008 and 2007, the Company had not capitalized any remediation costs and had not recorded any amortization expense in fiscal years 2007, 2006 and 2005.

Advertising Costs

Advertising costs are expensed in the period in which they occur. Selling, general and administrative expenses include advertising costs of $1,883,000 in 2007, $1,506,000 in 2006 and $1,826,000 in 2005. Prepaid advertising costs reported as an asset on the balance sheet at January 31, 2008 and 2007, were $418,000 and $352,000, respectively.

Product Warranty Expense

The Company provides a product warranty on most products. The standard warranty offered on products sold through January 31, 2005, is five years. Effective February 1, 2005, the standard warranty was increased to 10 years on products sold after February 1, 2005. It generally warranties that customers can return a defective product during the specified warranty period following purchase in exchange for a replacement product or that the Company can repair the product at no charge to the customer. The Company determines whether replacement or repair is appropriate in each circumstance. The Company uses historic data to estimate appropriate levels of warranty reserves. Because product mix, production methods, and raw material sources change over time, historic data may not always provide precise estimates for future warranty expense. The Company recorded warranty reserves of $1,750,000 as of January 31, 2008 and 2007, respectively.

Self-Insurance

In 2007 and 2006, the Company was self-insured for product and general liability losses ranging from $250,000 to $500,000 per occurrence, for workers' compensation losses up to $250,000 per occurrence, and for auto liability up to $50,000 per occurrence. In prior years the Company had been self-insured for workers' compensation, automobile, product, and general liability losses. Actuaries assist the Company in determining its liability for the self-insured component of claims, which have been discounted to their net present value utilizing a discount rate of 5.75%.

Stock-Based Compensation Plans

The Company has two stock-based compensation plans, which are described more fully in Note 5, "Stock-Based Compensation". Effective February 1, 2006, the Company adopted FASB Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, ("FAS 123 (R)") using the modified prospective application method for transition for its two stock-based compensation plans. Accordingly, prior year amounts have not been restated.

Reclassifications

Certain reclassifications have been made to the prior year balance sheet to conform to the current year presentation.

Revenue Recognition

The Company recognizes all sales when title passes under its various shipping terms and when collectability is reasonably assured. The Company reports sales net of sales returns and allowances and sales tax imposed by various government authorities.

Shipping and Installation Fees

Revenues related to shipping and installation are included as revenue in net sales. Costs related to shipping and installations are included in operating expenses. For the years ended January 31, 2008, 2007 and 2006, shipping and installation costs of approximately $23,612,000, $22,579,000 and $23,745,000, respectively, were included in selling, general and administrative expenses.

Accounting for Income Taxes

The Company recognizes deferred income taxes under the asset and liability method of accounting for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes". Deferred income taxes are recognized for differences between the financial statement and tax basis of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is recorded when it is determined to be more likely than not that the asset will not be realized.

Accounting for Pensions and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of FASB Statements No. 87, 88, 106, and 132(R). This standard requires recognition of the funded status of a benefit plan in the statement of financial position. The standard also requires recognition in other comprehensive income, net of tax, of certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. SFAS No. 158 provides recognition and disclosure elements to be effective as of the end of the fiscal after December 15, 2006, and measurement elements to be effective for fiscal years ending after December 15, 2008. The Company adopted the recognition provisions of SFAS No. 158 and applied them to the funded status of its defined benefit plans resulting in a decrease in Shareholders' Equity of $1,900,000 as of January 31, 2007.

During the year ended January 31, 2008, the Company discovered a misstatement in its previously issued consolidated financial statements for the year ended January 31, 2004. The misstatement relates to the establishment of a valuation allowance against the Company's deferred tax assets for its minimum pension liability, and resulted in an understatement of income tax expense for the year ended January 31, 2004, in the amount of $1,650,000. Accumulated other comprehensive loss has also been misstated by an equal amount of $1,650,000 since the year ended January 31, 2004. Management has evaluated this prior period error and does not believe that the misstatement is material to its financial results for the year ended January

31, 2004, or in any year since that time. The Company has adjusted its 2004 beginning balances presented in the accompanying consolidated statements of stockholders' equity to correctly present accumulated deficit and accumulated other comprehensive loss with no impact on shareholders' equity.

New Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted the provision of FIN 48 on February 1, 2007, the beginning of fiscal 2007. See Note 6 "Income Taxes" footnote for additional information.

In February 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" (SFAS 155). SFAS 155 establishes, among other things, the accounting for certain derivatives embedded in other financial instruments. This statement permits fair value remeasurement for any hybrid financial instrument containing an embedded derivative that would otherwise require bifurcation. It also requires that beneficial interests in securitized financial assets be accounted for in accordance with SFAS No. 133. SFAS 155 is effective for fiscal years beginning after September 15, 2006. The Company adopted SFAS 155 on February 1, 2007, the beginning of fiscal 2007. It did not have a material impact on the Company's financial operations or financial positions.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was scheduled to be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB delayed the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company is currently evaluating the impact on its financial statements, if any, from the adoption of this standard.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of FASB Statements No. 87, 88, 106, and 132(R). This standard requires recognition of the funded status of a benefit plan in the statement of financial position. The standard also requires recognition in other comprehensive income of certain gains and losses that arise during the period but are deferred under pension accounting rules, as well as modifies the timing of reporting and adds certain disclosures. SFAS No. 158 provides recognition and disclosure elements to be effective as of the end of the fiscal after December 15, 2006, and measurement elements to be effective for fiscal years ending after December 15, 2008. The Company adopted the recognition provisions of SFAS No. 158 and applied them on the funded status of the its defined benefit plans resulting in a decrease in Shareholders Equity of $1,900,000.

In February, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of any fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact on its financial statements, if any, from the adoption of this standard.

In December 2007, the FASB issued SFAS No. 141 (Revised), "Business Combinations" ("SFAS No. 141(R)"), replacing SFAS No. 141, "Business Combinations" ("SFAS No. 141"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent considerations be recognized at the acquisition date and remeasured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests (i.e., minority interests) in a subsidiary, including changes in a parent's ownership interest in a subsidiary and requires, among other things, that noncontrolling interests in subsidiaries be classified as a separate component of equity. Except for the presentation and disclosure requirements of SFAS No. 160, which are to be applied retrospectively for all periods presented, SFAS No. 141 (R) and SFAS No. 160 are to be applied prospectively in financial statements issued for fiscal years beginning after December 15, 2008. The Company does not anticipate any material impact to its financial statements from the adoption of SFAS No. 160 and 141(R).

In October 2006, the FASB ratified EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." This statement is effective for years beginning after December 15, 2008. This statement clarifies FASB 106, "Employers Accounting for Post-Retirement Benefits other than Pensions", that applies to endorsement split-dollar life insurance arrangements. The Company anticipates recording a liability of approximately $2,060,000 at that time. The Company has purchased life insurance on the lives of the participants that will pay death benefits of in excess of the amounts promised to participants.

2. Inventories

The current material cost for inventories exceeded LIFO cost by $7,193,000 and $7,357,000 at January 31, 2008 and 2007, respectively. Liquidation of prior year LIFO layers due to a reduction in certain inventories increased income by $54,000, $75,000 and $60,000 in the years ended January 31, 2008, 2007 and 2006, respectively.

Details of inventory amounts, including the material portion of inventory which is valued at LIFO, at January 31, 2008 and 2007, are as follows (in thousands):

	January 31, 2008			
	Material Content at FIFO	**LIFO Reserve**	**Labor, Overhead and Other**	**Total**
Finished goods	$ 10,176	$ (1,849)	$ 6,237	$ 14,564
Work in process	14,402	(2,912)	9,163	20,653
Raw materials and supplies	10,210	(2,432)	13	7,791
Total	$ 34,788	$ (7,193)	$ 15,413	$ 43,008

	January 31, 2007			
	Material Content at FIFO	LIFO Reserve	Labor, Overhead and Other	Total
Finished goods	$ 8,559	$ (1,616)	$ 4,708	$ 11,651
Work in process	13,974	(3,306)	9,022	19,690
Raw materials and supplies	8,931	(2,435)	—	6,496
Total	$ 31,464	$ (7,357)	$ 13,730	$ 37,837

3. Debt

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

	January 31,	
In thousands, except per share data	**2008**	2007
Revolving credit line with Wells Fargo Bank	**$ 3,656**	$ —
Term note with Wells Fargo Bank	**—**	15,000
Other	**190**	264
	3,846	15,264
Less current portion	**74**	5,074
	$ 3,772	$ 10,190
Outstanding stand-by letters of credit	**$ 329**	$ 329

At January 31, 2007, the Company had a term loan of $15,000,000 outstanding, with interest at the bank's prime rate +0.5%. The loan was to mature in February 2008, but was extended to February 2009 by an amendment to the loan agreement in March 2007. During the year ended January 31, 2008, the Company paid off the loan in its entirety.

At January 31, 2008, the Company borrowed under an asset based line of credit. The revolving line typically provided for advances of 80% on eligible accounts receivable and 20% – 60% on eligible inventory. The advance rates fluctuated depending on the time of year and the types of assets. The agreement had an unused commitment fee of 0.375%. Interest was at prime or LIBOR +2.5%. Availability under the line was $19,074,000 at January 31, 2008.

Effective as of March 18, 2008, Virco Mfg. Corporation (the "Company") entered into the Second Amended and Restated Credit Agreement (the "Agreement"), dated as of March 12, 2008, with Wells Fargo Bank, National Association (the "Lender") and a related Revolving Line of Credit Note (the "Note"), dated as of March 12, 2008, in favor of the Lender. The Agreement provides the Company with an increased secured revolving line of credit (the "Revolving Credit") of up to $65,000,000, with seasonal adjustments to the credit limit, and includes a sub-limit of up to $10,000,000 for the issuance of letters of credit. The Revolving Credit is secured by the maintenance by the Lender of a first priority perfected security interest in certain of the personal and real property of the Company and its subsidiaries.

The Revolving Credit will mature in February 1, 2010, with interest payable monthly at a fluctuating rate equal to the Wells Fargo Bank's prime rate or LIBOR plus a fluctuating margin. The agreement has an unused commitment fee of 0.25%.

The Revolving Credit with Wells Fargo Bank is subject to various financial covenants including a liquidity requirement, a leverage requirement, a cash flow coverage requirement and profitability requirements. The agreement also places certain restrictions on capital expenditures, new operating leases, dividends and the repurchase of the Company's common stock. The revolving credit facility is secured by the Company's accounts receivable, inventories, equipment and property. The Company was in compliance with its covenants at January 31, 2008. Long-term debt repayments are approximately as follows (in thousands):

Year ending January 31,	
2009	$ 74
2010	3,725
2011	12
2012	12
2013	12
Thereafter	11

Management believes that the carrying value of debt approximated fair value at January 31, 2008 and 2007, as all of the long-term debt bears interest at variable rates based on prevailing market conditions.

4. Retirement Plans

The Company maintains three defined benefit pension plans, the Virco Employees Retirement Plan, the VIP Retirement Plan, and the Non-Employee Directors Retirement Plan. The annual measurement dates for the plans is December 31. Effective December 31, 2003, the Company froze all future benefit accruals under the plans. Employees can continue to vest under the benefits earned to date, but no covered participants will earn additional benefits under the plan freeze.

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

The discount rate represents an estimate of the rate at which retirement plan benefits could effectively be settled. The Company obtains data on several reference points when setting the discount rate including current rates of return available on longer term high-grade bonds and changes in rates that have occurred over the past year. This assumption is sensitive to movements in market rates that have occurred since the preceding valuation date, and therefore, may change from year to year.

Because the Company froze future benefit accruals for all three defined benefit plans, the compensation increase assumption had no impact on pension expense, accumulated benefit obligation or projected benefit obligation for the period ended January 31, 2008 or 2007.

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

Two of the Company's defined benefit pension plans (the VIP Plan and the Non-Employee Directors Plan) are executive benefit plans that are not funded and are subject to the Company's creditors. Because these plans are not funded, the assumed rate of return has no impact on pension expense or the funded status of the plans.

The Company maintains a trust and funds the pension obligations for the Virco Mfg. Corporation Employees Pension. The Board of Directors appoints a Retirement Plan Committee that establishes a policy for investment and funding strategies. Approximately 75% of the trust assets are managed by investment advisors and held in common trust funds with the balance managed by the Retirement Plan Committee. The Committee has established target asset allocations to its investment advisors, who invest the trust assets in a variety of institutional collective trust funds. The long-term asset allocation target provided to the investment advisors is 85% stock and 15% bond, with maximum allocations of 80% large cap stocks, 30% small cap stocks, and 30% international stock. The Company has established a custom benchmark derived from a variety of stock and bond indices that are weighted to approximate the asset allocation provided to the investment advisors. The investment advisors' performance is compared to the custom index as part of the evaluation of the investment advisors' performance. The Committee receives monthly reports from the investment advisors and meets periodically with them to discuss investment performance.

At December 31, 2007 and 2006, the amount of the plan assets invested in bond or short-term investment funds was 1% and 1%, respectively, and the balance in equity funds or investments. The trust does not hold any Company stock. It is the Company's policy to contribute adequate funds to the trust accounts to cover benefit payments under the VIP and Non-Employee Director Plans and to maintain the funded status of the Virco Mfg. Corporation Employees Pension at approximately of 90% of the current liability as determined by the plan actuaries. It is anticipated that the Company will be required to contribute approximately $526,000 to the non-qualified plans during the fiscal year ending January 31, 2009.

Payments from the qualified plan pension trust to plan participants are estimated to be $837,000 during the fiscal year ending January 31, 2009. It is anticipated that the Company will have to contribute approximately $3.0 million to the trust if the Company elects to maintain the 90% funded status. Actual contributions will depend upon investment return on the plan assets.

Payments made under the qualified plan are made from the trust fund. Payments made under the VIP Plan and Non-Employee Directors Plan are made by the Company. Estimated payments (in thousands) under the plans are as follows:

Plan Year	Qualified Plan	VIP Plan	Directors Plan	Total
2008	$ 837	$ 526	$ 0	$ 1,363
2009	856	517	51	1,424
2010	877	495	48	1,420
2011	993	478	62	1,533
2012	991	457	58	1,506
2013-2017	6,355	2,027	234	8,616

Qualified Pension Plan

The Company and its subsidiaries cover all employees under a non-contributory 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 enough to maintain a funded status of approximately 90% of the current liability as determined by the Plan actuaries. As a result of implementing the recognition provisions of SFAS No. 158, the Company recorded an adjustment to Comprehensive Loss of $1,910,000 during the year ended January 31, 2007. At January 31, 2006 and 2005, a full valuation allowance was recorded against the net deferred tax assets. At January 31, 2008, there was no valuation allowance against the net deferred tax assets. Accumulated comprehensive loss at January 31, 2008 and 2007, was composed of minimum pension liability adjustments. 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, 2007 and 2006:

	Pension Benefits	
	12/31/2007	12/31/2006
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$ 24,079**	$ 22,284
Service cost	**—**	165
Interest cost	**1,293**	1,382
Plan participant's contributions	**—**	—
Amendments	**—**	424
Actuarial (gains) losses	**(344)**	3,013
Benefits paid	**(834)**	(3,189)
Benefit obligation at end of year	**$ 24,194**	$ 24,079

	12/31/2007	12/31/2006
Change in Plan Assets		
Fair value at beginning of year	**$ 13,911**	$ 14,812
Actual return on plan assets	**1,457**	2,288
Company contributions	**2,800**	—
Benefits paid	**(834)**	(3,189)
Fair value at end of year	**$ 17,334**	$ 13,911
Funded Status		
Unfunded status of plan	**$ (6,860)**	$ (10,167)
Accrued benefit cost	**$ (6,860)**	(10,167)
Amounts Recognized in Statements of Financial Position		
Accrued benefit liability	**(6,860)**	(10,167)
Accumulated other comprehensive loss	**6,650**	8,459
Net amount recognized	**$ (210)**	$ (1,708)
Items not yet Recognized as a Component of Net Periodic Pension Expense:		
Unrecognized net actuarial losses	**$ 4,357**	$ 5,670
Unamortized prior service costs	**2,293**	2,804
Net initial asset recognition	**—**	(15)
	$ 6,650	$ 8,459
Supplementary Data		
Projected benefit obligation	**$ 24,194**	$ 24,079
Accumulated benefit obligation	**24,194**	24,079
Fair value of plan assets	**17,334**	13,911
Components of Net Cost		
Service cost	**$ —**	$ 165
Interest cost	**1,293**	1,382
Expected return on plan assets	**(801)**	(896)
Amortization of transition amount	**(15)**	(37)
Amortization of prior service cost	**510**	469
Recognized net actuarial loss	**313**	196
Benefit cost	**$ 1,300**	$ 1,279
Estimated Future Benefit Payments		
FYE 01-31-2009	**837**	
FYE 01-31-2010	**856**	
FYE 01-31-2011	**877**	
FYE 01-31-2012	**993**	
FYE 01-31-2013	**991**	
FYE 01-31-2014 to 2018	**6,355**	
Total	**$ 10,909**	
Weighted Average Assumptions		
Discount rate	**6.00%**	5.75%
Expected return on plan assets	**6.50%**	6.50%
Rate of compensation increase	**N/A**	N/A

VIP Retirement Plan

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 benefits are secured by a life insurance program. The cash surrender values of the policies securing the VIP Plan were $2,633,000 and $2,488,000 at January 31, 2008 and 2007, respectively. These cash surrender values are included in other assets in the consolidated balance sheets.

The Company maintains a rabbi trust to hold assets related to the VIP Retirement Plan. Substantially all assets securing the VIP Plan are held in the rabbi trust.

The following table sets forth (in thousands) the funded status of the VIP Plan at December 31, 2007 and 2006:

	Non-Qualified Pension	
	12/31/2007	12/31/2006
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$ 5,764**	$ 5,675
Service cost	**—**	202
Interest cost	**324**	360
Plan participant's contributions	**—**	—
Amendments	**—**	(424)
Actuarial losses	**102**	207
Benefits paid	**(370)**	(256)
Benefit obligation at end of year	**$5,820**	$ 5,764
Change in Plan Assets		
Company contributions	**370**	256
Benefits paid	**(370)**	(256)
Fair value at end of year	**$ —**	$ —
Funded Status		
Unfunded status of plan	**$ (5,820)**	$ (5,764)
Accrued benefit cost	**$ (5,820)**	$ (5,764)
Amounts Recognized in Statements of Financial Position		
Accrued benefit liability	**(5,820)**	(5,764)
Accumulated other comprehensive loss	**(238)**	—
Net amount recognized	**$ (6,058)**	$ (5,764)
Items not yet Recognized as a Component of Net Periodic Pension Expense:		
Unrecognized net actuarial losses	**$ 1,992**	$ 2,034
Unamortized prior service costs	**(2,230)**	(2,729)
	$ (238)	$ (695)
Supplementary Data		
Projected benefit obligation	**$ 5,820**	$ 5,764
Accumulated benefit obligation	**5,820**	5,764
Fair value of plan assets	**—**	—
Components of Net Cost		
Service cost	**$ —**	$ 202
Interest cost	**324**	360
Amortization of prior service cost	**(499)**	(535)
Recognized net actuarial loss	**144**	119
Benefit cost	**$ (31)**	$ 146

	Non-Qualified Pension	
	12/31/2007	12/31/2006
Estimated Future Benefit Payments		
FYE 01-31-2009	**526**	
FYE 01-31-2010	**517**	
FYE 01-31-2011	**495**	
FYE 01-31-2012	**478**	
FYE 01-31-2013	**457**	
FYE 01-31-2014 to 2018	**2,027**	
Total	**$ 4,500**	
Weighted Average Assumptions		
Discount rate	**6.00%**	5.75%
Expected return on plan assets	**N/A**	N/A
Rate of compensation increase	**N/A**	N/A

Non-Employee Directors Retirement Plan

In April 2001, the Board of Directors established a non-qualified plan for non-employee directors of the Company. The plan provides a lifetime annual retirement benefit equal to the director's annual retainer fee for the fiscal year in which the director terminates his or her position with the Board, subject to the director providing 10 years of service to the Company. At January 31, 2008, the plan did not hold any assets.

The following table sets forth (in thousands) the funded status of the Non-Employee Directors Retirement Plan at December 31, 2007 and 2006:

	Non-Qualified Outside Directors	
	12/31/2007	12/31/2006
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$ 471**	$ 419
Service cost	**28**	26
Interest cost	**27**	27
Actuarial (gains)	**(56)**	(1)
Benefits paid	**—**	—
Benefit obligation at end of year	**$ 470**	$ 471
Funded Status		
Unfunded status of plan	**$ (470)**	$ (471)
Accrued benefit cost	**$ (470)**	$ (471)
Amounts Recognized in Statements of Financial Position		
Accrued benefit liability	**$ (470)**	$ (471)
Accumulate other comprehensive loss	**—**	—
Net amount recognized	**$ (470)**	$ (471)
Items not yet Recognized as a Component of Net Periodic Pension Expense:		
Unrecognized net actuarial gain	**$ (230)**	$ (198)
Unamortized prior service costs	**—**	
Net initial asset recognition	**—**	
	$ (230)	(198)

	Non-Qualified Outside Directors	
	12/31/2007	12/31/2006
Supplementary Data		
Projected benefit obligation	**$ 470**	$ 471
Accumulated benefit obligation	**470**	471
Fair value of plan assets	**—**	—
Components of Net Cost		
Service cost	**$ 28**	$ 26
Interest cost	**27**	27
Amortization of prior service cost		23
Recognized net actuarial loss	**(25)**	(28)
Benefit cost	**$ 30**	$ 48
Estimated Future Benefit Payments		
FYE 01-31-2009	**—**	
FYE 01-31-2010	**51**	
FYE 01-31-2011	**48**	
FYE 01-31-2012	**62**	
FYE 01-31-2013	**58**	
FYE 01-31-2014 to 2017	**234**	
Total	**$ 453**	
Weighted Average Assumptions		
Discount rate	**6.00%**	5.75%
Expected return on plan assets	**N/A**	N/A
Rate of compensation increase	**N/A**	N/A

Implementation of SFAS No. 158

The Company adopted the recognition provisions of SFAS No. 158 and initially applied them to the funded status of its defined benefit plans as of December 31, 2006. The initial recognition of the funded status of its defined benefit plans resulted in a decrease in Shareholders' Equity of $1,900,000.

The amounts in accumulated other comprehensive (loss) that are expected to be recognized as components of net periodic pension expense during 2008 are as follows:

In thousands	Qualified Plan	VIP Plan	Directors Plan
Actuarial (gain)/loss recognition	$ 190	$ 143	$ (32)
Prior service cost recognition	510	(318)	—
Net initial obligation/(asset) recognition	—	—	—

The incremental effect of applying SFAS No. 158 on individual lines of the Consolidated Balance Sheet at January 31, 2007 was (in thousands):

In thousands	Before SFAS No. 158	Effect of SFAS No. 158	After SFAS No. 158
Assets:			
Other non-current assets	$ 2,804	$ (2,804)	$ —
Liabilities:			
Accrued pension expenses	$ 16,842	$ 893	$ 15,949
Shareholders' equity:			
Accumulated comprehensive loss	$ 50,789	$ (1,911)	$ 48,878

401(k) Retirement Plan

The Company's retirement plan, which covers all U.S. employees, allows participants to defer from 1% to 50% of their eligible compensation through a 401(k) retirement program. Through December 31, 2001, the plan included an employee stock ownership component. The plan continues to include Virco stock as one of the investment options. At January 31, 2008 and 2007, the plan held 494,478 shares and 512,783 shares of Virco stock, respectively. For the fiscal years ended January 31, 2008, 2007 and 2006, there was no employer match and therefore no compensation cost to the Company.

Life Insurance

The Company provided current and post-retirement life insurance to certain salaried employees with split-dollar life insurance policies under the Dual Option Life Insurance Plan. Effective January 2004, the Company terminated this plan for active employees. Cash surrender values of these policies, which are included in other assets in the consolidated balance sheets, were $3,070,000 and $2,946,000 at January 31, 2008 and 2007 respectively. The Company maintains a rabbi trust to hold assets related to the Dual Options Life Insurance Plan. Substantially all assets securing this plan are held in the rabbi trust.

In the first quarter of fiscal year ending January 31, 2009, the Company will implement EITF 06-04 which requires the Company to record a liability equal to the present value of death benefits promised to participants. The Company anticipates recording a liability of approximately $2,060,000 at that time. The Company has purchased life insurance on the lives of the participants that will pay death benefits of approximately $5,950,000.

5. Stock Based Compensation and Stockholders Rights

Stock Incentive Plans

The Company's two stock plans are the 2007 Employee Incentive Plan (the 2007 Plan) and the 1997 Employee Incentive Stock Plan (the 1997 Plan). Under the 2007 Plan, the Company may grant an aggregate of 1,000,000 shares to its employees and non-employee directors in the form of stock options or awards. Restricted stock or stock units awarded under the 2007 Plan are expensed ratably over the vesting period of the awards. The Company granted 275,387 awards during fiscal 2007. As of January 31, 2008, there were approximately 724,613 shares available for future issuance under the 2007 Plan.

The 1997 Plan expired in 2007 and had 161,433 unexercised options outstanding. There was no stock option grant for the fiscal year ended January 31, 2008, under the 1997 Plan. Stock options awarded to employees under the 1997 Plan must be at exercise prices equal to the fair market value of the Company's common stock on the date of grant. Stock options generally have a maximum term of 10 years and generally become exercisable ratably over a five-year period.

The shares of common stock issued upon exercise of a previously granted stock option are considered new issuances from shares reserved for issuance upon adoption of the various plans. While the Company does not have a formal written policy detailing such issuance, it requires that the option holders provide a written notice of exercise to the stock plan administrator and payment for the shares prior to issuance of the shares.

Accounting for the Plans

Prior to February 1, 2006, the Company accounted for incentive stock plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related Interpretations, as permitted by FASB Statement No. 123, "Accounting for Stock Based Compensation". No stock based employee compensation was reflected in net income, as all options granted under those plans had an exercise price equal to the fair value of the underlying common stock on the date of grant. Effective February 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), "Share-Based Payment", using the modified prospective-transition. The modified prospective method was applied to those unvested options issued prior to the Company's adoption that have historically been accounted for under the Intrinsic Value Method. All outstanding options were 100% vested prior to the adoption and no options were granted during fiscal 2007. Accordingly, no compensation expense was recorded on the Company's options during the twelve months ended January 31, 2008. At January 31, 2008, the Company had no unrecognized compensation expense relating to options.

The following table illustrates the impact on net earnings and earnings per common share if the fair value method had been applied for all periods presented.

in thousands except per share data	Year ended January 31, 2006
Net loss, as reported	$ (9,574)
Deduct: Total stock based employee compensation expense determined under the fair value based method for all awards, net of tax effects	(51)
Net loss, pro forma	$ (9,625)
Basic earnings per share:	
Net income loss, as reported	$ (0.73)
Net income loss, pro forma	(0.73)
Diluted earnings per share:	
Net income loss, as reported	$ (0.73)
Net income loss, pro forma	(0.73)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Expected life	5 years
Risk-free interest rate	4.5%
Expected volatility	0.26
Expected dividend yield	0%

The Company has estimated the fair value of all stock option awards as of the date of grant by applying the Black-Scholes pricing valuation model. The application of this valuation model involves assumptions that are judgmental and sensitive in the determination of compensation expense. Historical information was the primary basis for the selection of the expected volatility and life of the option. The risk-free interest rate was selected based upon the yield of the U.S. Treasury issue with a term equal to the expected life of the option being valued.

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

	2008		2007		2006	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Option	Weighted-Average Exercise Price
Outstanding at beginning of year	234,594	$ 12.53	292,571	$ 11.56	367,888	$ 11.39
Granted	—	—	—	—	14,000	7.20
Exercised	—	—	—	—	(2,922)	2.91
Forfeited	(73,161)	14.89	(57,977)	7.66	(86,395)	9.28
Outstanding at end of year	161,433	11.46	234,594	12.53	292,571	11.56
Exercisable at end of year	161,433	11.46	234,594	12.53	292,571	11.56
Weighted-average fair value of options granted during the year		—		—		2.78

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

Information regarding stock options outstanding as of January 31, 2008, is as follows:

	Options Outstanding		Options Exercisable	
Price	Number of Shares	Remaining Contractual Life	Number of Shares	Price
$ 8.82	12,100	3.55	12,100	$ 8.82
$ 11.06	90,769	1.47	90,769	$ 11.06
$ 12.64	58,564	0.70	58,564	$ 12.64
$ 11.46	161,433	1.35	161,433	$ 11.46

As all options had vested prior to February 1, 2007, there was no effect on the statement of operations or cash flows due to the adoption of FASB Statement No. 123(R).

Restricted Stock Unit Awards

On June 30, 2004, the Company granted a total of 270,000 restricted stock units, with an estimated fair value of $6.92 per unit and exercise price of $0.01 per unit, to eligible employees under the 1997 Plan. Interests in such restricted stock units vest ratably over five years, with such units vesting 20% at each anniversary date. At such time that the restricted stock units vest, they become exchangeable for shares of common stock. Compensation expense is recognized based on the estimated fair value of restricted stock units and vesting provisions. Compensation expense incurred in connection with this award was $353,000 for the fiscal year ended January 31, 2008 and 2007; and $367,000 for the fiscal year ended January 31, 2006. As of January 31, 2008, there was approximately $500,000 of unrecognized compensation cost related to non-vested restricted stock unit awards, which is expected to be recognized through June 30, 2009.

On January 13, 2006, the Company granted a total of 73,881 restricted stock units, with an estimated fair value of $5.21 per unit and exercise price of $0.01 per unit, to non-employee directors under the 1997 Plan. Interests in such restricted stock units vested 100% on July 5, 2006. Compensation expense is recognized based on the estimated fair value of restricted stock units and vesting provisions. For the twelve months ended January 31, 2007, compensation expense incurred in connection with this award was $343,000. As of January 31, 2008, there was no recognized or unrecognized compensation cost related to this award.

On June 20, 2006, the Company granted a total of 17,640 shares of restricted stock, with an estimated fair value of $4.96 per unit and exercise price of $0.01 per unit, to non-employee directors under the 1997 Plan. Interests in such restricted stock vested 100% on June 19, 2007. Compensation expense is recognized based on the estimated fair value of restricted stock and vesting provisions. Compensation expense incurred in connection with this award was $29,000 for the fiscal year ended January 31, 2008 and $58,000 for the fiscal year ended January 31, 2007. As of January 31, 2008, there was no unrecognized compensation cost related to non-vested restricted stock awards. As the compensation cost for the restricted stock units was measured using the estimated fair value on the date of grant and recognized over the vesting period, there was no effect on the statements of operations due to the adoption of FASB Statement No. 123(R). At February 1, 2006, the Company recorded a reclassification of $247,000 from current liabilities to additional paid-in capital.

On June 19, 2007, the Company granted a total of 12,887 shares of restricted stock, with an estimated fair value of $6.79 per unit and exercise price of $0.01 per unit, to non-employee directors under the 2007 Plan. Compensation expense is recognized based on the estimated fair value of restricted stock units and vesting provisions. Compensation expense incurred in connection with this award was $58,000 for the fiscal year ended January 31, 2008. As of January 31, 2008, there was approximately $29,000 of unrecognized compensation cost related to non-vested restricted stock awards, which is expected to be recognized through June 18, 2008.

On June 19, 2007, the Company also granted a total of 262,500 restricted stock units, with an estimated fair value of $6.79 per unit and exercise price of $0.01 per unit, to eligible employees under the 2007 Plan. Interests in such restricted stock units vest ratably over five years, with such units vesting 20% at each anniversary date. At such time that the restricted stock units vest, they become exchangeable for shares of common stock. Compensation expense is recognized based on the estimated fair value of restricted stock units and vesting provisions. Compensation expense incurred in connection with this award was $238,000 for the fiscal year ended January 31, 2008. As of January 31, 2008, there was approximately $1,542,000 of unrecognized compensation cost related to non-vested restricted stock unit awards, which is expected to be recognized through June 18, 2012.

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

	2008		2007		2006	
	Restricted Stock Units	Weighted-Avg. Fair Value of Restricted Stock Units	Restricted Stock Units	Weighted-Avg. Fair Value of Restricted Stock Units	Restricted Stock Units	Weighted-Avg. Fair Value of Restricted Stock Units
Outstanding at beginning of year	153,000	$ 6.91	277,881	$ 6.91	270,000	$ 6.92
Granted	275,387	6.79	17,640	4.96	73,881	5.21
Vested	(63,887)	6.64	(142,521)	4.99	(54,000)	6.80
Forfeited	—		—	—	(12,000)	6.92
Outstanding at end of year	364,500	6.82	153,000	6.91	277,881	6.91
Weighted-average fair value of restricted stock units granted during the year		$ 6.79		$ 4.96		$ 5.21

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

Stockholders' Rights

On October 15, 1996, the Board of Directors declared a dividend of one preferred stock purchase right (the "Rights") for each outstanding share of the Company's common stock. Each of the Rights entitles a stockholder to purchase for an exercise price of $50.00 ($20.70, as adjusted for stock splits and stock dividends), 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 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 (483,153 shares as adjusted by stock splits and stock dividends) of Series A Junior Participating Cumulative Preferred Stock reserved for issuance upon exercise of the Rights. On July 31, 2007, the Company and Mellon Investor Services LLC entered into an amendment to the Rights Agreement governing the Rights. The amendment, among other things, extended the term of the Rights issued under the Rights Agreement to October 25, 2016, removed the dead-hand provisions from the Rights Agreement, and formally replaced the former Rights Agent, The Chase Manhattan Bank, with its successor-in-interest, Mellon Investor Services LLC.

6. Income Taxes

The income (benefit) expense for the last three years is reconciled to the statutory federal income tax rate using the liability method as follows (in thousands):

	January 31,		
	2008	2007	2006
Statutory	**$ 4,145**	$ 2,717	$ (3,292)
State taxes (net of federal tax)	**458**	272	(329)
Change in valuation allowance	**(14,750)**	(2,432)	3,721
Other	**120**	(111)	(209)
	$ (10,027)	$ 446	$ (109)

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

	January 31,		
	2008	2007	2006
Current			
Federal	**$ 284**	$ 220	$ —
State	**343**	(34)	(109)
	627	186	(109)
Deferred			
Federal	**3,927**	2,205	(3,502)
State	**169**	487	(219)
	4,096	2,692	(3,721)
Valuation allowance	**(14,750)**	(2,432)	3,721
	(10,654)	260	—
	$ (10,027)	$ 446	$ (109)

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

	January 31, 2008	January 31, 2009
Deferred tax assets		
Accrued vacation and sick leave	**$ 1,232**	$ 979
Retirement plans	**5,213**	6,517
Insurance reserves	**1,256**	1,060
Inventory	**989**	858
Warranty	**665**	655
Net operating loss carry forwards	**2,517**	6,872
	11,872	16,941
Deferred tax liabilities		
Tax in excess of book depreciation	**(985)**	(1,407)
Other	**(205)**	(204)
	(1,190)	(1,611)
Valuation allowance	**(841)**	(15,591)
Net deferred tax asset (liability)	**$ 9,841**	$ (260)

In June 2006, the Financial Accounting Standards Board (the "FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods and requires increased disclosures. The Company adopted the provisions of FIN 48 on February 1, 2007, the beginning of fiscal 2007. There was no material impact as a result of the implementation of FIN 48. The following table summarizes the activity related to our gross unrecognized tax benefits from February 1, 2007 to January 31, 2008 (in thousands):

Balance as of February 1, 2007	$ 525,000
Increases related to prior year tax positions	90,000
Decreases related to prior year tax positions	(150,000)
Increases related to current year tax positions	60,000
Decreases related to settlements with taxing authorities	—
Decreases related to lapsing of statue of limitations	—
Balance as of January 31, 2008	$ 525,000

Our total unrecognized tax benefits that, if recognized, would affect our effective tax rate were $346,000 as of February 1, 2007 and January 31, 2008.

The Company recognized interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses which is consistent with the recognition of these items in prior reporting. The Company had recorded a liability for interest and penalties related to unrecognized tax benefits of $240,000 at January 31, 2008 and 2007. The Internal Revenue Service (the "IRS") has completed the examination of all federal income tax returns through 2004 with no issues pending or unresolved. The years 2005 through 2007 remain open for examination by the IRS.

The specific timing of when the resolution of each tax position will be reached is uncertain. As of January 31, 2008, we do not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income or reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on this consideration, the Company anticipates that it is more likely than not that the net of certain deferred tax assets will be realized, and a $14,750,000 valuation allowance previously recorded against certain of the net deferred tax assets at January 31, 2007 was released at October 31, 2007. The Company also had determined that it is more likely than not that some portion of the state net operating loss carryforwards will not be realized and had provided a valuation allowance of $841,000 on the deferred tax assets at January 31, 2008.

At January 31, 2008, the Company had net operating losses carried forward for federal and state income tax purposes, expiring at various dates through 2027. Federal net operating losses that can potentially be carried forward total approximately $3,202,000 at January 31, 2008. State net operating losses that can potentially be carried forward total approximately $21,019,000 at January 31, 2008. The Company also had determined that it is more likely than not that some portion of the state net operating loss carryforwards will not be realized and had provided a valuation allowance of $841,000 on the deferred tax assets at January 31, 2008.

7. Commitments

The Company has operating leases on real property and equipment, which expire at various dates. The Torrance manufacturing and distribution facility is leased under a 5-year operating lease that expires at the end of 2010. The Company leases machinery and equipment under a 10-year operating lease arrangement. The Company has the option of buying out the leases three to five years into the lease period. The Company leases trucks, automobiles, and forklifts under operating leases that include certain fleet management and maintenance services. 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, 2008, are as follows:

Year ending January 31,		
2009	$	6,791
2010		5,607
2011		1,141
2012		934
2013		732
Thereafter		417

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

Year ending January 31,		
2008	$	7,491
2007		8,019
2006		9,457

The Company has issued purchase commitments for raw materials at January 31, 2008, of approximately $15,910,000. There were no commitments in excess of normal operating requirements. All purchase commitments will be settled in the fiscal year ending January 31, 2009.

8. Contingencies

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

The Company is subject to contingencies pursuant to environmental laws and regulations that in the future may require the Company to take action to correct the effects on the environment of prior disposal practices or releases of chemical or petroleum substances by the Company or other parties. We have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response Compensation and Liability Act, or CERCLA, for remediation costs associated with waste disposal sites previously used by us. In general, CERCLA can impose liability for costs to investigate and remediate contamination without regard to fault or the legality of disposal and, under certain circumstances, liability may be joint and several, resulting in one party being held responsible for the entire obligation. We reserve amounts for such matters when expenditures are probable and reasonably estimable. At January 31, 2008 and 2007, the Company had reserves of approximately $100,000 for such environmental contingencies. An estimate of liability in excess of this amount cannot be made.

The Company has a self-insured retention for product and general liability losses ranging from $250,000 to $500,000 per occurrence, workers' compensation liability losses up to $250,000 and automobile liability losses up to $50,000 per occurrence. The Company has purchased insurance to cover losses in excess of the retention up to a limit of $30,000,000. The Company has obtained an actuarial estimate of its total expected future losses for liability claims and recorded a liability equal to the net present value of $3,450,000 and $2,835,000 at January 31, 2008 and 2007, respectively, based upon the Company's estimated payout period of four years using a 5.75% 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. Estimated payments under the self-insurance programs are as follows (in thousands):

Year ending January 31,	
2009	$ 750
2010	750
2011	750
2012	750
2013	750
Total	3,750
Discount to net present value	(300)
Thereafter	$ 3,450

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

9. Warranty

The Company accrues an estimate of its exposure to warranty claims based upon both current and historical product sales data and warranty costs incurred. The majority of the Company's products sold through January 31, 2006, carry a five-year warranty. Effective February 1, 2006, the Company extended its standard warranty period to 10 years. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The warranty liability is in accrued liabilities in the accompanying consolidated balance sheets.

Changes in the Company's warranty liability were as follows (in thousands):

	January 31,	
	2008	2007
Beginning balance	**$ 1,750**	$ 1,500
Provision	**938**	1,154
Costs incurred	**(938)**	(904)
Ending balance	**$ 1,750**	$ 1,750

10. Other Financing Activities

On June 6, 2006, WEDBUSH, Inc. and Wedbush Morgan Securities, Inc. (together with WEDBUSH, Inc., the "Purchasers"), entered into a stock purchase agreement (the "Agreement") with the Company. Pursuant to the Agreement, (a) the Purchasers purchased from the Company shares (the "Shares") of the Company's common stock yielding gross proceeds to the Company of $5,000,000 at a purchase price per share of $4.66 (the "Per Share Purchase Price") and (b) the Company issued warrants to the Purchasers exercisable for 268,010 shares of common stock pursuant to which the Purchasers will have the right to acquire the 268,010 shares at an exercise price of 120% of the Per Share Purchase Price during the first three years following the closing of the transaction and at 130% of the Per Share Purchase Price during the fourth and fifth years following the closing of the transaction. The Company filed a Registration Statement on Form S-3 registering the resale of the Shares on July 6, 2006, and amended that registration statement on August 17, 2006. The Registration Statement became effective on September 18, 2006. Wedbush Morgan holds the securities purchased pursuant to the Agreement as nominee on behalf those of its clients which purchased the securities.

On June 26, 2006, certain members of management and certain Directors (the "Follow-on Purchasers") entered into a stock purchase agreement with the Company to purchase shares of common stock and warrants. On August 29, 2007, this agreement was rescinded and replaced with a similar agreement for the purchase of 57,455 shares at a purchase price per share of $5.02 (the "Follow-on Per Share Purchase Price") yielding gross proceeds to the Company of approximately $288,000. Additionally the Company issued warrants to the Follow-on Purchasers exercisable for 14,364 shares of common stock pursuant to which the Follow-on Purchasers will have the right to acquire the 14,364 shares at an exercise price of 120% of the Follow-on Per Share Purchase Price during the first three years following the closing of the transaction and at 130% of the Follow-on Per Share Purchase Price during the fourth and fifth years following the closing of the transaction. The transaction closed during the third quarter ended October 31, 2006.

The securities sold to the Purchasers and Follow-on Purchasers were issued pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), afforded by Section 4(2) of the Securities Act and Rule 506 of Regulation D thereunder, as a transaction to accredited and sophisticated investors not involving a public offering. The proceeds from the sale of the Shares were used for general corporate purposes, and the proceeds, if any, received from the exercise of the warrant agreements will be used to reduce outstanding indebtedness and for general corporate purposes. The Company incurred $537,000 in closing costs, which were netted against the proceeds received.

11. Quarterly Results (Unaudited)

The Company's quarterly results for the years ended January 31, 2008 and 2007, are summarized as follows (in thousands, except per share data):

	Three months ended			
	Apr. 30	Jul. 31	Oct. 31	Jan. 31
Year ended January 31, 2008				
Net sales	$ 31,122	$ 88,931	$ 76,977	$ 32,535
Gross profit	11,550	33,716	27,939	10,459
Net (loss) income	(2,980)	11,611	16,738	(3,150)
Per common share				
Net (loss) income *(1)*				
Basic	$ (0.21)	$ 0.81	$ 1.16	$ (0.22)
Assuming dilution	(0.21)	0.80	1.15	(0.22)
Year ended January 31, 2007				
Net sales	$ 34,515	$ 78,595	$ 73,678	$ 36,319
Gross profit	11,494	28,383	27,092	11,643
Net (loss) income	(3,267)	7,832	5,833	(2,853)
Per common share *(1)*				
Net (loss) income				
Basic	$ (0.25)	$ 0.58	$ 0.41	$ (0.20)
Assuming dilution	(0.25)	0.58	0.41	(0.20)

(1) Per common share amounts for the quarters and full years have each been calculated separately. Accordingly, quarterly amounts may not add to the annual amounts because of differences in the average common shares outstanding during each period and with regard to diluted per common share amounts only, because of the effect of potentially dilutive securities only in the periods in which the effect would have been dilutive.

Supplemental Stockholders' Information

Annual Meeting

The Annual Meeting of Virco stockholders will be held on Tuesday, June 17, 2008, at 10:00 a.m., at 2027 Harpers Way, Torrance, California 90501. The record date for this meeting is May 5, 2008. The Proxy Statement and Proxy pertaining to this meeting will be mailed on or about May 19, 2008.

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
www.virco.com

Virco Common Stock

The American Stock Exchange is the principal market on which Virco Mfg. Corporation (VIR) stock is traded. As of May 5, 2008, there were approximately 350 registered stockholders according to the transfer agent records. There are approximately 850 beneficial stockholders.

Stockholder Records

Records pertaining to stockholdings and dividends are maintained by Mellon Investor Services. Inquiries with respect to these matters, as well as notices of address changes, should be directed to:

Mellon Investor Services, LLP
Stock Transfer Department
Newport Office Center VII
480 Washington Blvd.
Jersey City, NJ 07310
Phone: (800) 522-6645
Foreign: (201) 680-6578
TDD for Hearing Impaired: (800) 231-5469
TDD for Foreign Shareowners: (201) 680-6610
website address: www.bnymellon.com/shareowner/isd

If a stock certificate is lost or mutilated, immediately communicate with Mellon Investor Services at the above addresses.

Additional Services for Stockholders

Information about the Company is now available to stockholders at the Company's website (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			
	2007	2006	**2007**		2006	
			High	**Low**	High	Low
1st Quarter	**$ _**	$ _	**$ 9.60**	**$ 6.34**	$ 6.63	$ 4.40
2nd Quarter	_	_	**7.40**	**5.59**	5.11	4.50
3rd Quarter	_	_	**11.66**	**4.85**	6.00	4.36
4th Quarter	**.025**	_	**13.79**	**5.05**	9.50	5.62

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

Directors

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

Donald S. Friesz
Former Vice President - Sales
and Marketing

Thomas J. Schulte
Partner, RBZ, LLP

Robert K. Montgomery
Partner, Gibson Dunn & Crutcher

Albert J. Moyer
Board Member of California
Amplifier, Inc., Collectors Universe,
Inc., and LaserCard Corporation

Glen D. Parish
Former Vice President and General
Manager Conway Division

Donald A. Patrick
Management Consultant
Former Vice President, Diversified
Business Resources, Inc.

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

Douglas A. Virtue
Executive Vice President

J. Scott Bell
Vice President and General Manager
Conway Division

Robert E. Dose
Vice President - Finance
Secretary and Treasurer

Angelica Gamble
Vice President - Human Resources

Patricia Quinones
Vice President
Logistics and Marketing Services and
Information Technology

D. Randal Smith
Vice President - Marketing

Lori L. Swafford
Vice President - Legal Affairs

Nick Wilson
Vice President and General Manager
Torrance Division

Larry O. Wonder
Vice President - Sales

Bassey Yau
Corporate Controller,
Assistant Secretary and Treasurer

Independent Registered Public Accounting Firm

Ernst & Young LLP
725 South Figueroa Street,
Suite 500
Los Angeles, CA 90017

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

2007 Annual Report

VIRCO MFG. CORPORATION

equipment for educators™

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2027 HARPERS WAY
TORRANCE, CA 90501

HIGHWAY 65, SOUTH
CONWAY, AR 72032

PHONE: 800-448-4726
www.virco.com

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