VIRCO MFG CORPORATION
Form S-3/A
September 18, 2006

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As filed with the Securities and Exchange Commission on September 18, 2006

Registration No. 333-135618

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

AMENDMENT NO. 2
to
FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

VIRCO MFG. CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**95-1613718**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

2027 Harpers Way, Torrance
Torrance, California 90501
(310) 533-0474
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Robert E. Dose
Vice President, Secretary and Treasurer
2027 Harpers Way, Torrance
Torrance, California 90501
(310) 533-0474
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:
Robert K. Montgomery
Gibson, Dunn & Crutcher LLP
2029 Century Park East Suite 4000
Los Angeles, CA 90067
(310) 552-8500

Approximate Date of Commencement of Proposed Sale to the Public: From time to time after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following
box. þ

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, Check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Aggregate Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, par value $0.01 per share	1,340,051 shares	N/A	$6,700,255	$717(2)

(1) Estimated solely for the purposes of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based upon the average of the high and low prices of the registrant s common stock on July 3, 2006, as reported on the American Stock Exchange.

(2) Previously paid.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling security holders may not sell these securities until the Registration Statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 18, 2006

PROSPECTUS

VIRCO MFG. CORPORATION

1,340,051 Shares of Common Stock

This prospectus relates to 1,340,051 shares of Virco common shares that may be offered for sale or otherwise transferred from time to time by certain selling security holders. The selling security holders acquired the offered shares directly from us in a private placement that closed on June 6, 2006. For a further discussion of the transactions and the selling security holders see Selling Security Holders below. The selling security holders, or their pledgees, donees, transferees or other successors-in-interest, may offer the shares from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices.

The offering of the Virco common stock pursuant to this prospectus is not being underwritten. The common stock may be sold by the selling security holders as set forth in the discussion entitled Plan of Distribution. All expenses of registration incurred in connection with this offering are being borne by Virco. Nevertheless, the selling security holders will receive all of the net proceeds from the sale of the offered shares of common stock. Virco will not receive any proceeds from the disposition of common stock by the selling security holders, though Virco did receive proceeds from the private placements to the selling security holders.

This prospectus and the documents incorporated by reference provide a description of the common stock the selling security holders may offer from time to time. We may amend or supplement this prospectus from time to time to update the disclosures set forth herein. Investors should read this prospectus and any applicable prospectus supplement carefully before investing in Virco common stock.

Virco s common stock is traded on the American Stock Exchange (symbol: VIR). On September 15, 2006, the last reported per share sale price of Virco common stock was $5.10.

Investing in Virco common stock involves a high degree of risk. See the Risk Factors discussion beginning on page 8 to read about factors to consider in connection with purchasing Virco common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

This date of this prospectus is September 18, 2006.

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You should rely only upon the information contained in, or incorporated by reference into, this prospectus and in any accompanying prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The common stock to which this prospectus relates is not being offered in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this document is accurate only as of the date on the front cover of this document. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless the context otherwise requires, the terms we, us, our, Virco and the Company refer to Virco Mfg. Corporation, a Delaware corporation, and its subsidiaries.

This prospectus forms a part of a registration statement Virco Mfg. Corporation filed with the Securities and Exchange Commission, referred to in this prospectus as the SEC or the Commission , covering the Virco common stock issued to the selling security holders in private placements, for a further discussion of the selling security holders see Selling Security Holders below. All of the Virco common stock issued in the private placements may be offered and resold from time to time by the selling security holders pursuant to this prospectus.

This prospectus incorporates information by reference. You should carefully read the entire document and the other documents referred to and incorporated by reference in this document. For a guide to where you can obtain more information on Virco Mfg. Corporation, see Where You Can Find More Information; Incorporation of Documents by Reference .

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The Company

Designing, producing and distributing high-value furniture for a diverse family of customers is a 56-year tradition at Virco Mfg. Corporation. Over the years, Virco has become the largest manufacturer of moveable educational furniture and equipment for the preschool through 12th grade market in the United States.

Virco produces the broadest line of furniture for the K-12 market of any manufacturer in the United States. By supplementing products manufactured by Virco with products from other manufacturers, Virco provides a comprehensive product assortment that covers virtually everything that is traditionally included on the furniture, fixtures and equipment (FF&E) line item on a new school project or school budget. Virco also provides a variety of products for the preschool markets and has recently developed products that are targeted for college, university, and corporate learning center environments. The Company has an ambitious and on-going product development program featuring products developed in-house as well as products developed with accomplished designers. The Company s primary furniture lines are constructed of tubular metal legs and frames, combined with wood and plastic tops, plastic seats and backs, upholstered seats and backs, and upholstered rigid polyethylene and polypropylene shells. Virco s principal manufactured products include:

SEATING Among the Company s newest chair offerings are the ZUMA®, ZUMAfrd , Ph.D.®, I.Q.® and Virtuoso® lines. Traditional favorites include best-selling Classic Series stack chairs and a variety of Martest 21® hard plastic seating. In addition, Virco provides a wide selection of upholstered stack chairs, plastic stack chairs, ergonomic office chairs, and folding chairs.

TABLES Virco tables range from the innovative Plateau® table system to lightweight Core-a-Gator® folding tables. The Future Access® Series delivers functional computer-support solutions, while Lunada® bases by Peter Glass may be used in a wide variety of environments. The Company offers a full spectrum of traditional folding and banquet tables, activity tables, mobile tables, cafe tops and bases, and office tables.

COMPUTER FURNITURE Virco s full range of computer furniture includes versatile Future Access and 8700 Series computer tables. In addition, the Company s Plateau Office Solutions collection offers a variety of technology-support furniture alternatives, as does the Plateau Library/Technology Solutions product line.

DESKS/CHAIR DESKS Virco s extensive offerings include a complete spectrum of student desks, chair desks, combo units, tablet arms and teachers desks. Selected models are available with durable, colorfast Martest 21 hard plastic seats, backs and work surfaces.

MOBILE FURNITURE Virco offers a complete line of sturdy mobile cabinets for storage needs. In addition, the Company offers mobile tables for situations where quick set-up and tear-down are desirable, such as in banquet facility and lunchroom settings.

STORAGE EQUIPMENT Virco offers a complete line of chair and table trucks, as well as large-scale storage units for arenas, convention centers and similar venues.

In order to provide a comprehensive product offering for the education market Virco supplements manufactured products with products purchased for re-sale, including wood and steel office furniture, early learning products for the pre-school and kindergarten classrooms, science laboratory furniture, and library furniture.

In addition to product offerings, Virco includes various levels of service and delivery. Products can be purchased FOB factory, FOB destination (including delivery), with Virco full service including installation in the classroom, and with full project management for the acquisition of FF&E items for new schools or renovations of schools. These services are only offered in connection with the purchase of Virco product.

Please note that this prospectus includes trademarks of Virco, including, but not limited to, the following: ZUMA®, ZUMAfrd , Ph.D.®, I.Q.®, Virtuoso®, Classic Series , Martest 21®, Lunada®, Plateau®, Core-a-Gator®, Future Access® and Sigma . Other names and brands included in this prospectus may be claimed by Virco as well or by third parties.

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Virco s major customers include educational institutions, convention centers and arenas, hospitality providers, government facilities, and places of worship.

Virco was incorporated in California in February 1950, and reincorporated in Delaware in April 1984. Virco s principal executive offices are located at 2027 Harpers Way, Torrance, Torrance, California 90501. Virco s telephone number is (310) 533-0474. Our internet address is www.virco.com.

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The Offering

Virco securities being offered	Virco common stock, par value $0.01
Number of shares of Virco common stock offered by selling security holders	1,340,051 shares
Number of shares of Virco common stock outstanding as of June 6, 2006	13,137,288 shares
Use of proceeds	We will not receive any proceeds from the sale of the shares of common stock by the selling security holders pursuant to this prospectus. The proceeds from the sale of the shares offered by this prospectus are solely for the account of the selling security holders. The Company intends that the proceeds, if any, we receive from the exercise of the warrant agreements will be used for general corporate purposes.
American Stock Exchange Symbol	VIR

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RISK FACTORS

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

Our product sales are significantly affected by education funding, which is outside of our control. Our sales and/or growth in our sales would be adversely affected by a recessionary economy characterized by decreased state and local revenues which in turn cause decreased funding for education.

Our sales are significantly impacted by the level of education spending primarily in North America, which, in turn, is a function of the general economic environment. In a recessionary economy, state and local revenues decline, restricting funding for K-12 education spending which typically leads to a decrease in demand for school furniture.

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

We may have difficulty increasing or maintaining our prices as a result of price competition, which could lower our profit margins. Our competitors may develop new services or product designs that give them an advantage over us in making future sales.

Furniture companies in the education market compete on the basis of value, service, product offering and product assortment price, and track record of dependable delivery. Since our competitors offer products that are similar to ours, we face significant price competition, which tends to intensify during an industry downturn. This price competition impacts our ability to implement price increases or, in some cases, such as during an industry downturn, maintain prices, which could lower our profit margins. Additionally, our competitors may develop new product designs that achieve a high level of customer acceptance, which could give them a competitive advantage over us in making future sales.

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

To keep pace with industry trends, such as changes in education curriculum and increases in the use of technology, and with evolving regulatory and industry requirements, including environmental, health, safety and similar standards for the education environment and for product performance, we must periodically introduce new products. The introduction of new products requires the coordination of the design, manufacturing and marketing of such products, which may be affected by factors beyond our control. The design and engineering of certain of our new products can take up to a year or more, and further time may be required to achieve client acceptance. Accordingly, the launch of any particular product may be later or less successful than we originally anticipated. Difficulties or delays in introducing new products or lack of customer acceptance of new products could limit our sales growth or cause our sales to decline.

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

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

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The majority of our sales are made under annual contracts, which limit our ability to raise prices during a given year in response to increases in costs.

We commit to annual contracts that determine selling prices for goods and services for periods of one year, and occasionally longer. If the costs of providing our products or services increase, we cannot be certain that we will be able to implement corresponding increases in our sales prices for such products or services in order to offset such increased costs. Significant cost increases in providing either the services or product during a given contract period could therefore lower our profit margins.

We are dependent on the pricing and availability of raw materials and components, and price increases and unavailability of raw materials and components could lower sales, increase our cost of goods sold and reduce our profits and margins.

We require substantial amounts of raw materials and components, which we purchase from outside sources. Raw materials comprised our single largest total cost for the years ended January 31, 2006, 2005 and 2004. Steel, plastics and wood related materials are the main raw materials used in the manufacture of our products. The prices of plastics are sensitive to the cost of oil, which is used in the manufacture of plastics, and oil prices increased significantly during 2005. The cost and availability of steel are subject to worldwide supply and demand, and the ability to import steel can be subject to political considerations. The cost and availability of steel has been volatile in recent years.

Contracts with most of our suppliers are short-term. These suppliers may not continue to provide raw materials and components to us at attractive prices, or at all, and we may not be able to obtain the raw materials we need in the future from these or other providers on the scale and within the time frames we require. Moreover, we do not carry significant inventories of raw materials, components or finished goods that could mitigate an interruption or delay in the availability of raw materials and components. Any failure to obtain raw materials and components on a timely basis, or any significant delays or interruptions in the supply of raw materials, could prevent us from being able to manufacture products ordered by our clients in a timely fashion, which could have a negative impact on our reputation and could cause our sales to decline.

We are affected by the cost of energy and increases in energy prices could reduce our margins and profits.

The profitability of our operations is sensitive to the cost of energy through our transportation costs, the costs of petroleum-based materials, like plastics, and the costs of operating our manufacturing facilities. If the price of petroleum-based products, the cost of operating our manufacturing facilities and our transportation costs continue to increase, these could have a negative impact on our gross margins and profitability.

Approximately 30% of our sales are priced under one contract, under which we are the exclusive supplier of classroom furniture.

A significant portion of our sales are priced by a nationwide price list and contract that allows schools to purchase furniture without preparing bids. Although Virco sells direct to hundreds of individual schools and school districts, and these schools and school districts can purchase our products and services under several bids and contracts available to them, nearly 30% of Virco s sales were priced under this contract. If Virco were to lose its exclusive supplier status under this contract, and other manufacturers were allowed to sell under this contract, it could cause our sales or growth in sales to decline.

We operate in a seasonal business, and require significant amounts of working capital through our existing credit facility to fund acquisitions of inventory, fund expenses for freight and installation, and finance receivables during the summer delivery season. Restrictions imposed by the terms of our existing credit facility may limit our operating and financial flexibility.

Our credit facility prevents us from incurring any additional indebtedness, limits capital expenditures, restricts dividends, and requires a clean down during the fourth quarter. Amounts available at any time are limited by certain asset balances, specifically inventory and receivables. Our credit facility is also subject to quarterly covenants.

The Company violated certain debt covenants in the fiscal third quarter of 2004 and the fiscal third quarter of 2005. In each case, the violation of covenants was waived and the credit facility was renewed for an additional

year. The credit facility in place at January 31, 2006, includes quarterly covenants that include EBITDA requirements. In order to comply with the quarterly covenants, the Company will be required to substantially improve operating results for 2006 compared to 2005.

As a result of the foregoing, we may be prevented from engaging in transactions that might further our growth strategy or otherwise be considered beneficial to us. A breach of any of the covenants in our credit facility could result in a default, which, if not cured or waived, may permit acceleration of the indebtedness under the credit facility. If the indebtedness under our credit facility were to be accelerated, we cannot be certain that we will have sufficient funds available to pay such indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. Any such acceleration could also result in a foreclosure on all or substantially all of our assets, which would have a negative impact on the value of our common stock and jeopardize our ability to continue as a going concern.

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

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

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

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

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

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

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

Our past and present ownership and operation of manufacturing plants are subject to extensive and changing federal, state, and local environmental laws and regulations, including those relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste and the cleanup of properties affected by hazardous substances. As a result, we are involved from time to time in administrative and judicial proceedings and

inquiries relating to environmental matters and could become subject to fines or penalties related thereto. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist. Compliance with more stringent laws or regulations, or stricter interpretation of existing laws, may require additional expenditures by us, some of which may be material. 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. Liability may also include damages for harm to natural resources. The remediation costs and our allocated share at some of these CERCLA sites are unknown. We may also be subject to claims for personal injury or contribution relating to CERCLA sites. We reserve amounts for such matters when expenditures are probable and reasonably estimable.

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

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

Our insurance coverage may not adequately insulate us from expenses for product defects.