

VIRCO MFG CORPORATION

Form DEF 14A

May 18, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

**(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a- 6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

VIRCO MFG. CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i) (1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials:
 - o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:

 - (2) Form, Schedule or Registration Statement No.:

 - (3) Filing Party:

 - (4) Date Filed:
-

Table of Contents

Virco Mfg. Corporation
2027 Harpers Way
Torrance, California 90501
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on June 16, 2009

The 2009 Annual Meeting of Stockholders (Annual Meeting) of Virco Mfg. Corporation, a Delaware corporation (the Company), will be held on Tuesday, June 16, 2009, at 10:00 a.m. Pacific Time at the Company s principal executive offices located at 2027 Harpers Way, Torrance, CA 90501, for the following purposes:

1. To elect three directors to serve until the 2012 Annual Meeting of Stockholders and until their successors are elected and qualified;
2. To ratify the appointment of Ernst & Young LLP as the Company s independent auditors for fiscal year 2009;
3. To transact such other business as may properly come before the Annual Meeting.

These items are more fully described in the following pages, which are made part of this notice.

The Board of Directors has fixed the close of business on April 24, 2009, as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and any adjournments and postponements thereof. To ensure that your vote is recorded promptly, please vote as soon as possible, even if you plan to attend the Annual Meeting. Most stockholders have three options for submitting their vote: (1) via the Internet, (2) by phone or (3) by mail, using the paper proxy card. For further details, see your proxy card. If you have Internet access, **we encourage you to record your vote on the Internet.** It is convenient for you, and it also saves the Company significant postage and processing costs.

By Order of the Board of Directors

/s/ Robert E. Dose

Robert E. Dose
Secretary

Torrance, California
May 18, 2009

TABLE OF CONTENTS

<u>NOTICE OF ANNUAL MEETING OF STOCKHOLDERS</u>	
<u>PROXY STATEMENT</u>	
<u>GENERAL INFORMATION</u>	
<u>RECORD DATE AND VOTING</u>	
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	2
<u>BOARD COMMITTEES & MEETINGS</u>	3
<u>SECURITY OWNERSHIP</u>	5
<u>EXECUTIVE COMPENSATION</u>	7
<u>DIRECTOR COMPENSATION</u>	15
<u>CODE OF ETHICS</u>	17
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	17
<u>REPORT OF THE AUDIT COMMITTEE</u>	18
<u>RELATIONSHIP WITH INDEPENDENT AUDITORS</u>	18
<u>PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS</u>	20

Table of Contents

**Virco Mfg. Corporation
2027 Harpers Way
Torrance, California 90501**

**PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS, June 16, 2009**

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on
June 16, 2009**

The Proxy Statement and accompanying Annual Report to Stockholders are available at www.virco.com.

GENERAL INFORMATION

This Proxy Statement is being mailed to stockholders of Virco Mfg. Corporation, a Delaware corporation (the Company), on or about May 18, 2009, in connection with the solicitation by the Board of Directors of proxies to be used at the 2009 Annual Meeting of Stockholders (the Annual Meeting) of the Company to be held on Tuesday, June 16, 2009, at 10:00 a.m. Pacific Time at the Company's principal executive offices located at 2027 Harpers Way, Torrance, CA 90501, and any and all adjournments and postponements thereof.

The cost of preparing, assembling and mailing the Notice of the Annual Meeting, Proxy Statement and form of proxy and the solicitation of proxies will be paid by the Company. Proxies may be solicited in person or by telephone, telegraph, e-mail or other electronic means by personnel of the Company who will not receive any additional compensation for such solicitation. The Company will pay brokers or other persons holding stock in their names or the names of their nominees for the expenses of forwarding soliciting material to their principals.

RECORD DATE AND VOTING

The close of business on April 24, 2009, has been fixed as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting. On that date there were 14,172,422 shares of the Company's common stock, par value \$.01 per share (Common Stock), outstanding. All voting rights are vested exclusively in the holders of the Company's Common Stock. Each share of Common Stock is entitled to one vote on any matter that may be presented for consideration and action by the stockholders, except that as to the election of directors, stockholders may cumulate their votes. Because three directors are to be elected, cumulative voting means that each stockholder may cast a number of votes equal to three times the number of shares actually owned. That number of votes may be cast for one nominee, divided equally among each of the nominees or divided among the nominees in any other manner.

In all matters other than the election of directors, the affirmative vote of the majority of shares of Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the subject matter will be the act of the stockholders. Directors will be elected by a plurality of the votes of the Common Stock present in person or represented by proxy at the Annual Meeting. Abstentions will have no effect on Proposal One, but will have the same effect as a negative vote on Proposal Two (because abstentions will be considered votes cast).

Each proxy received will be voted for management's nominees for election as directors and in accordance with the recommendations of the Board of Directors contained in this Proxy Statement, unless the stockholder otherwise directs in his or her proxy. Where the stockholder has appropriately directed how the proxy is to be voted, it will be voted according to his or her direction. Stockholders wishing to cumulate their votes should make an explicit statement of the intent to cumulate votes by so indicating in writing on the proxy card. Stockholders holding shares beneficially in street name who wish to cumulate votes should contact their broker, trustee or nominee. Cumulative voting applies only to the election of directors. For all other matters, each share of Common Stock outstanding as of the close of business on the record date is entitled to one vote.

Any stockholder has the power to revoke his or her proxy at any time before it is voted at the Annual Meeting by submitting written notice of revocation to the Secretary of the Company at the Company's principal executive offices located at 2027 Harpers Way, Torrance, California 90501, by appearing at the Annual Meeting and voting in person or by filing a duly executed proxy bearing a later date, either in person at the Annual Meeting, via the Internet, by telephone, or by mail. Please consult the instructions included with your proxy card.

Table of Contents

PROPOSAL 1
ELECTION OF DIRECTORS

The Certificate of Incorporation of the Company provides for the division of the Board of Directors into three classes as nearly equal in number as possible. In accordance with the Certificate of Incorporation, the Board of Directors has nominated Robert A. Virtue, Robert K. Montgomery, and Donald A. Patrick to serve as Class II directors on the Board of Directors with a term expiring at the 2012 Annual Meeting of Stockholders.

It is intended that the proxies solicited by this Proxy Statement will be voted in favor of the election of Messrs. Virtue, Montgomery, and Patrick, unless authority to do so is withheld. Should any of such nominees be unable to serve as a director or should any additional vacancy occur before the election (which events are not anticipated), proxies may be voted for a substitute nominee selected by the Board of Directors or the authorized number of directors may be reduced. If for any reason the authorized number of directors is reduced, the proxies will be voted, in the absence of instructions to the contrary, for the election of the remaining nominees named in this Proxy Statement. In the event that any person other than the nominees named below should be nominated for election as a director, the proxies may be voted cumulatively for less than all of the nominees.

The following table sets forth certain information with respect to each of the nominees, as well as each of the six continuing directors. **The Board of Directors recommends that you vote FOR the election of the Class II nominees.**

Name	Age	Principal Occupation	Director Since
Nominees for Directors Whose Terms Expire in 2012:			
Robert A. Virtue	76	Chairman of the Board and Chief Executive Officer of the Company since 1990; President of the Company since August 1982.	1956
Robert K. Montgomery	70	Senior counsel of Gibson, Dunn & Crutcher LLP, a law firm in which Mr. Montgomery was a Partner from 1971 to 2008.	2000
Donald A. Patrick	84	Vice President and founder of Diversified Business Resources, Inc. (mergers, acquisitions and business consultants) from 1988 to 2004.	1983
Continuing Directors Whose Terms Expire in 2010:			
Douglas A. Virtue	50	Executive Vice President of the Company since December 1997; previously General Manager of the Torrance Division of the Company	1992
Thomas J. Schulte	52	Managing Partner of RBZ, a public accounting firm from 1997 to 2007. Currently Partner-In-Charge of RBZ Audit Group since 2007.	2007
Albert J. Moyer	65	Board member of LaserCard Corporation, Occam Networks Inc., Collectors Universe, Inc. and CALAMP Corporation; Chief Financial Officer of Allergan Inc. (1995-1998); Chief	2004

Financial Officer for QAD Inc. (1998-2000); President of the commercial division of the Profit Recovery Group International, Inc. (2000); consultant to QAD Inc. (2000-2002);

Continuing Directors Whose Terms Expire in 2011:

Donald S. Friesz

79

Vice President Sales and Marketing of the Company from 1982 to February 1996. Mr. Friesz has been retired since 1996.

1992

2

Table of Contents

Name	Age	Principal Occupation	Director Since
Glen D. Parish	71	Vice President of the Company and General Manager of the Conway Division from 1999 to 2004; previously Vice President of Conway Sales and Marketing. Mr. Parish has been retired since 2004.	1999
James R. Wilburn	76	Dean of the School of Public Policy, Pepperdine University, since September 1997; previously Dean of the School of Business and Management, Pepperdine University (1982-1994); Professor of Business Strategy, Pepperdine University (1994-1996); Board member of The Olsen Company since 1990, Independence Bank since 2004, and Electronic Sensor Tech since 2005.	1986

BOARD COMMITTEES & MEETINGS**Meetings and Independence**

Each director of the Company serving in fiscal 2008 with the exception of Mr. Montgomery attended at least 75% of the meetings of the Board of Directors and committees on which he served. Mr. Montgomery attended all Board of Director meetings and committee meetings on which he served during fiscal 2008 except for the meetings of the Board of Directors, Compensation Committee, and Corporate Governance/Nominating Committee on December 9, 2008, which Mr. Montgomery could not attend because he was suffering from a severe case of the flu. The Board of Directors held six meetings in fiscal 2008. The Board of Directors has determined that the following directors, who constitute a majority of the Board of Directors, are independent directors as defined by the NASDAQ Stock Market listing standards: Messrs. Friesz, Moyer, Montgomery, Patrick, Parish, Schulte and Wilburn. Mr. R. Virtue is Mr. D. Virtue's father.

Audit Committee

The Board of Directors has a standing Audit Committee that in fiscal 2008 was composed of Messrs. Schulte (Chair), Friesz, Moyer and Patrick. The Audit Committee held two on-site meetings and four telephonic meetings in fiscal 2008. The Audit Committee acts pursuant to a written charter adopted by the Board of Directors. The functions of the Audit Committee include: reviewing the financial statements of the Company; reviewing the scope of the annual audit by the Company's independent auditors; and reviewing the audit reports rendered by such independent auditors. Among other things, the Audit Committee is directly responsible for: the appointment, compensation, retention and oversight of the independent auditors; reviewing the independent auditors' qualifications and independence; reviewing the plans and results of the audit engagement with the independent auditors; approving professional services provided by the independent auditors and approving financial reporting principles and policies; considering the range of audit and non-audit fees; reviewing the adequacy of the Company's internal accounting controls; and working to ensure the integrity of financial information supplied to stockholders. The Audit Committee also has the other responsibilities enumerated in its charter, and examines and considers additional matters as it deems appropriate. The Audit Committee's charter is available on the Company's website at www.virco.com. Each of the Audit Committee members is an independent director as defined by the listing standards of the NASDAQ Stock Market. The Board of Directors has determined that Mr. Schulte, who is the chair of the Audit Committee, qualifies as an audit committee financial expert, as that term is defined in Item 407(d)(5) of Regulation S-K of the Securities Exchange Act of 1934 (the Exchange Act). The Board reevaluates the composition of the Audit Committee on an annual basis to ensure that its composition remains in the best interests of the Company and its stockholders.

Compensation Committee

The Board of Directors has a standing Compensation Committee that in fiscal 2008 was composed of Messrs. Moyer (Chair), Patrick, Montgomery and Wilburn, all of whom are independent directors as defined in the listing standards of the NASDAQ Stock Market. The function of Compensation Committee is, among other

Table of Contents

things, to: set the Company's compensation policy and administer the Company's compensation plans; make decisions on the compensation of key Company executives (including the review and approval of merit/other compensation budgets and payouts under the Company's incentive plans); review and approve compensation and employment agreements of the Company's executive officers; and recommend pay levels for members of the Board of Directors for consideration and approval by the full Board of Directors. The Compensation Committee may consult with the Chief Executive Officer and other members of senior management as it deems necessary and engage the assistance of outside consultants to assist in determining and establishing the Company's compensation policies. [During fiscal 2008, the Company did not engage the assistance of compensation consultants.] The Compensation Committee held two on-site meetings in fiscal 2008. The Compensation Committee acts pursuant to a written charter adopted by the Board of Directors, a copy of which is available on the Company's website at www.virco.com.

Corporate Governance/Nominating Committee

The Board of Directors has a standing Corporate Governance/Nominating Committee which is comprised of Messrs. Montgomery (Chair), Friesz, Moyer, Patrick, Parish, Schulte and Wilburn, all of whom are independent directors as defined in the listing standards of the NASDAQ Stock Market. During fiscal 2008, the Corporate Governance/Nominating Committee held two meetings. Each of these meetings were held outside the presence of management.

The Corporate Governance/Nominating Committee's function is to identify and recommend from time to time candidates for nomination for election as directors of the Company. Candidates may come to the attention of the Corporate Governance/Nominating Committee through members of the Board of Directors, stockholders or other persons. Consideration of new Board nominee candidates typically involves a series of internal discussions, review of information concerning candidates and interviews with selected candidates. Candidates are evaluated at regular or special meetings, and may be considered at any point during the year, depending on the Company's needs. The Corporate Governance/Nominating Committee acts pursuant to a written charter adopted by the Board of Directors, a copy of which is available to stockholders on the Company's website at www.virco.com. In evaluating nominations, the Corporate Governance/Nominating Committee considers a variety of criteria, including business experience and skills, independence, judgment, integrity, the ability to commit sufficient time and attention to Board of Directors activities and the absence of potential conflicts with the Company's interests. The Corporate Governance/Nominating Committee has not established any specific minimum qualification standards for nominees to the Board of Directors, although from time to time the Corporate Governance/Nominating Committee may identify certain skills or attributes (e.g., financial experience, business experience) as being particularly desirable to meet specific Board of Director needs that may arise. To recommend a prospective nominee for the Corporate Governance/Nominating Committee's consideration, you may submit, in accordance with the Company's Bylaws, a candidate's name and qualifications to the Company's Corporate Secretary at 2027 Harpers Way, Torrance, California 90501, Attention: Robert E. Dose.

Communications with the Board of Directors

Any stockholder interested in communicating with individual members of the Board of Directors, the Board of Directors as a whole, any of the committees of the Board or the independent directors as a group may send written communications to the Board of Directors, any committee of the Board of Directors or any director or directors of the Company at 2027 Harpers Way, Torrance, California 90501, Attention: Robert E. Dose, Secretary. Communications received in writing are forwarded to the Board of Directors, or the committee or individual director or directors to whom the communication is directed, unless, at his discretion, the Secretary determines that the communication is of a commercial or frivolous nature, is unduly hostile, threatening, illegal, does not reasonably relate to the Company or its business, or is otherwise inappropriate for the Board of Directors' consideration. In such cases, such correspondence may be forwarded elsewhere in the Company for review and possible response. The Secretary has the authority to discard or disregard any inappropriate communications or to take other appropriate actions with respect to any such inappropriate communications. Directors are expected to attend the Annual Meeting of Stockholders. Last year all of the directors attended the 2008 Annual Meeting of Stockholders. The independent directors hold two regularly scheduled executive session meetings each fiscal year outside the presence of management as well as additional meetings as are necessary. Mr. Moyer currently functions as the lead independent director. The lead independent director position rotates among the independent directors periodically as determined by the independent directors.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Shares Owned By Directors, Management and Principal Stockholders**

The following table sets forth information as of April 24, 2009 (unless otherwise indicated), relating to the beneficial ownership of the Company's Common Stock (i) by each person known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock of the Company, (ii) by each director or nominee of the Company, (iii) by each Named Executive Officer of the Company as named in the Summary Compensation Table and (iv) by all executive officers and directors of the Company as a group. Unless otherwise indicated, the mailing address of each of the persons named is c/o Virco Mfg. Corporation, 2027 Harpers Way, Torrance, California 90501.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Wedbush Inc.(2)	1,759,273	12.18%
Nancy Virtue-Cutshall(3)	865,856	6.10%
David P. Cohen(4)	804,134	5.67%
Towle & Co.(5)	780,300	5.51%
Robert A. Virtue(6) (7) Chairman of the Board of Directors, President and Chief Executive Officer	304,807	2.15%
Douglas A. Virtue(7) Director, Executive Vice President	612,214	4.32%
Donald S. Friesz Director	72,159	(8)
Thomas J. Schulte Director	6,933	(8)
Albert J. Moyer Director	13,453	(8)
Robert K. Montgomery Director	24,404	(8)
Glen D. Parish Director, Former Vice President, General Manager	36,045	(8)
Donald A. Patrick Director	57,382	(8)
James R. Wilburn Director	24,259	(8)
Robert E. Dose Vice President Finance, Secretary, Treasurer	26,092	(8)
Lori L. Swafford Vice President & Corporate Counsel	20,186	(8)
Larry O. Wonder Vice President, Sales	43,108	(8)
All executive officers and directors as a group (18 persons)	1,379,117	9.67%

(1) Except as indicated in the footnotes to this table and pursuant to

applicable
community
property laws,
to the
knowledge of
the Company,
the persons
named in this
table have sole
voting and
investment
power with
respect to all
shares
beneficially
owned by them.
For purposes of
this table, a
person is
deemed to be
the beneficial
owner of any
security if the
person has the
right to acquire
beneficial
ownership of
such security
within 60 days
of April 24,
2009, including
but not limited
to, any right to
acquire through
the exercise of
any option,
warrant or right
or through the
conversion of a
security.
Amounts for
Messrs. Robert
Virtue, Douglas
Virtue, Friesz,
Schulte, Moyer,
Montgomery,
Parish, Patrick,
Wilburn, Dose,
Swafford,
Wonder, and all
executive

officers and
directors as a
group, include

5

Table of Contents

5,196, 5,196, 0, 0, 0,
0, 12,100, 0, 0,
5,196, 5,196, 5,196
and 73,085 shares
issuable upon
exercise of options
or conversion of
restricted stock
units, respectively,
and 28,796, 20,781,
0, 0, 0, 0, 6,675, 0,
0, 5,401, 786,
20,503 and 71,889
shares held under
the Company's
401(k) Plan as of
April 24, 2009,
respectively.

- (2) Reflects information
as of December 31,
2008 as reported in
a Schedule 13G/A
filing on
February 18, 2009
by Wedbush, Inc.,
Edward W.
Wedbush and
Wedbush Morgan
Securities, Inc.
Includes the total
number of shares of
Common Stock and
shares issuable
under currently
exercisable
warrants, that are
held by each of
Wedbush, Inc.,
Edward W.
Wedbush and
Wedbush Morgan
Securities, Inc. Also
includes 281,480
shares of Common
Stock, and 53,925
shares of Common
Stock issuable under
currently

exercisable warrants, that are beneficially owned by customers of Wedbush Morgan Securities, Inc., over which Wedbush Morgan Securities, Inc. has dispositive power. The reporting persons disclaim any beneficial ownership over such shares. The reporting persons share voting power with respect to 1,423,868 shares of Common Stock and share dispositive power with respect to 1,759,273 shares of Common Stock. Business addresses of the above filers are as follows:
Wedbush, Inc. 1000 Wilshire Blvd., Los Angeles, CA 90017-2457;
Edward W. Wedbush P.O. Box 30014, Los Angeles, CA 90030-0014;
Wedbush Morgan Securities, Inc. P.O. Box 30014, Los Angeles, CA 90030-0014.

- (3) Reflects information as of December 31, 2008 as reported in a Schedule 13G/A filing on February 10, 2009. Includes 281,423 shares held by a trust of which Ms. Virtue-Cutshall

is the sole trustee.

- (4) Reflects information as of December 31, 2008 as reported in a Schedule 13G/A filing on February 11, 2009 by David P. Cohen, Athena Capital Management, Inc., and Minerva Group, LP. The address for each of David P. Cohen, Athena Capital Management, Inc. and Minerva Group, LP is 50 Monument Road, Suite 201, Bala Cynwyd, PA 19004.
- (5) Reflects information as of December 18, 2008 as reported in a Schedule 13D filing on January 2, 2009 by Towle & Co. The address for Towle & Co. is 1610 Des Peres Road, Suite 250, St. Louis, MO 63131.
- (6) Excludes 1,704,442 shares owned beneficially by Mr. Robert Virtue's adult children, including Mr. Douglas Virtue, as to which Mr. Robert Virtue disclaims beneficial ownership.
- (7) Douglas A. Virtue is Robert A. Virtue's son. The total number of shares

beneficially owned by Mr. Robert A. Virtue, his brothers Raymond W. Virtue and Richard J. Virtue, his sister, Nancy Virtue-Cutshall, their children (which includes Mr. Douglas A. Virtue) and their mother, Mrs. Julian A. Virtue, aggregate 5,727,389 shares or 40.38% of the total shares of Common Stock outstanding. Robert A. Virtue, Richard J. Virtue, Raymond W. Virtue, Nancy Virtue-Cutshall and certain of their respective spouses and children (including Douglas A. Virtue) (collectively, the Virtue Stockholders) and the Company have entered into an agreement with respect to certain shares of the Company's Common Stock received by the Virtue Stockholders as gifts from the founder, Julian A. Virtue, including shares received in subsequent stock dividends in respect of such shares. Under the agreement, each Virtue Stockholder who proposes to sell

any of such shares is required to provide the remaining Virtue Stockholders notice of the terms of such proposed sale. Each of the remaining Virtue Stockholders is entitled to purchase any or all of such shares on the terms set forth in the notice. The Company may purchase any shares not purchased by such remaining Virtue Stockholders on such terms. The agreement also provides for a similar right of first refusal in the event of the death or bankruptcy of a Virtue Stockholder, except that the purchase price for the shares is to be based upon the then prevailing sales price of the Company's Common Stock on the NASDAQ Market Exchange.

(8) Less than 1%.

Table of Contents

EXECUTIVE COMPENSATION
Compensation Discussion and Analysis

Objectives of the Compensation Program

The objectives of the Company's executive compensation program are to: 1) attract, motivate and retain highly qualified executives; 2) link total compensation to stockholder returns; 3) reflect individual contributions to the performance of the Company; 4) insure appropriate balance between long-term value creation and short-term performance by including equity as part of total compensation; and 5) maintain internal fairness and morale by benchmarking executive compensation, including perquisites and non-cash benefits, against the aggregated average compensation and benefits of the Company's top 25 managers.

The Compensation Committee recommends and the Board approves the base salaries, annual bonus plan, and long term incentives of the Company's Chief Executive Officer (the CEO), Chief Financial Officer (the CFO), and the three other most highly compensated executives. Throughout this Compensation Discussion & Analysis (CD&A), the CEO, CFO and three other most highly compensated executives are referred to collectively as the Named Executive Officers.

What the Compensation Program is Designed to Reward

The program is designed to support annual and long-term business goals that create profitable growth and long-term value for stockholders.

Elements of Compensation Program

The Company's executive compensation program consists of three main elements: 1) base salary, which is tied to individual job duties; 2) annual bonus plan cash incentives, which are mathematically linked to the Company's Annual Operating Plan, including pre-tax profit; and 3) long-term equity incentives, the value of which are contingent upon successful execution of the Company's multi-year strategic growth and market development initiatives. Ancillary benefits such as health insurance, retirement benefits, and an automobile allowance are also part of the executive compensation program. As with the three main elements of the program, these ancillary benefits are benchmarked against similar benefits provided to the Company's top 25 managers.

The combination of base salary, annual incentive, long-term incentive, and ancillary benefits is referred to as Total Compensation. The Company has established a target of market median for the Total Compensation of Named Executive Officers as determined by scale-, geography- and date-adjusted national compensation surveys from Wyatt Total Reward, Wyatt CQ Survey, Mercer Manufacturing Compensation Survey, Mercer Manufacturing Industry Market View, National Assoc. of Manufacturers, and Employers Group Research Services Survey.

All of these surveys are given equal weighting. The Company intentionally uses a broad comparison group for executive compensation because the competition for executive talent extends beyond the Company's direct competitors and industry. The Company believes that this breadth of executive compensation data, conservatively adjusted for firm size, geographic location and cost of living, and the age of the data, provides for the fairest and most equitable market median. The same method of establishing a market median total compensation target is used for the Company's top 25 managers.

In determining the final Total Compensation for Named Executive Officers, the Compensation Committee attempts to balance external equity as defined by market median, with internal equity as defined by the aggregated average Total Compensation for the Company's top 25 managers. It is the Company's belief that this approach to establishing Total Compensation for Named Executive Officers results in better teamwork and morale

Table of Contents

among the entire management team, thus linking executive and management compensation with short- and long-term value creation for stockholders.

Base Salary

Base salary is intended to reward Named Executive Officers and other employees for their roles within the Company and their performance in those roles. The Company determines the base salary range for a particular position by evaluating 1) the duties, complexities and responsibilities of the position; 2) the level of experience required; and 3) the compensation for positions having similar scope and accountability within and outside the Company (through survey data as described above). The Company did not increase base salaries for the Named Executive Officers for fiscal 2008 and does not anticipate increasing base salaries for Named Executive Officers in fiscal 2009.

Annual Incentives

The Named Executive Officers are eligible for annual cash incentives under the Company's Annual Bonus Plan, which is approved by the Board of Directors at the beginning of the Company's fiscal year as part of its Annual Operating Plan. To reward Named Executive Officers and other salaried managers for achieving the financial performance set forth in the Annual Operating Plan, the Board of Directors establishes a minimum level of financial performance and return to stockholders above which a cash bonus will be paid. For achieving the minimum threshold, the Named Executive Officers receive a cash bonus equal to 15% of their base salary. For achieving the target pre-tax earnings, Named Executive Officers receive a 35% cash bonus. The maximum possible cash bonus for Named Executive Officers is capped at 50% of base salary. The threshold, target and maximum bonus levels for each Named Executive Officer were determined by reference to the survey data and other factors described above.

For fiscal 2008, the threshold for receiving a minimum bonus was \$10,000,000 in pre-tax earnings, after accruing an earned bonus provision of approximately \$206,000 for the Named Executive Officers. No cash bonus payment was made to the Named Executive Officers under the Annual Bonus Plan for fiscal 2008 as the Company's pre-tax earnings did not exceed this threshold.

For fiscal 2008, the Board of Directors approved a discretionary bonus for all employees that participated in the Annual Bonus Plan, including the Named Executive Officers. The Board determined that although the Company did not meet the profit objective, the Company had met several significant objectives and had achieved these objectives in an extremely challenging economic environment. Metrics considered by the Board of Directors included:

The Company ended the fiscal year with no bank debt for the first time in over 20 years.

The Company successfully extended its \$65 million line of credit to February 2011.

The Company reduced inventory by \$10 million and generated \$11 million in operating cash flow.

The Company anticipated the recession, and reduced inventory and expenses without incurring layoffs or restructuring charges.

The Company successfully enhanced the Virco brand through new product launches, extensions of significant customer contracts, and expanded relationships with strategic vendor partners.

The actual discretionary bonus payout for the Named Executive Officers for fiscal 2008 was \$64,218, equal to approximately 9% of each Named Executive Officers base salary for fiscal 2008. Robert A. Virtue and Douglas A. Virtue declined to accept payment of any discretionary bonus.

Long-Term Incentives

The Company believes that the most powerful incentive to focus Named Executive Officers on long-term value creation is long-term ownership of Company stock. Under the Company's current long-term incentive program, Named Executive Officers and top managers receive periodic grants of Restricted Stock Units (RSUs). The Company uses RSUs rather than options because it has been the Company's experience that RSUs

Table of Contents

are more likely to result in a growing ownership position of Company stock and thereby align the interests of executives and stockholders. The Company did not grant RSUs to Named Executive Officers in fiscal 2008. On the date of the 2007 Annual Meeting of Stockholders and Board of Directors meeting on June 19, 2007, each Named Executive Officer was granted 15,000 RSUs, vesting ratably over a five year period. The number of RSUs granted to each Named Executive Officer in fiscal 2007 was determined by reference to historical grant levels provided to Company executives, as well as the factors described above. Each Named Executive Officer received the same number of RSUs in order to foster internal pay equity and the Company's one-team management approach.

If awarded, grants of RSUs are typically approved at the Board of Directors meeting immediately following the Annual Meeting of Stockholders. The meeting dates are set well in advance and occur approximately two weeks following the release of the First Quarter results. Scheduling decisions are made without regard to anticipated earnings or other major announcements by the Company.

Other Compensation Elements

Perquisites The Company provides Named Executive Officers with a Company automobile or cash allowance of \$22,800 per year under a program available to all Officers of the Company. The Company does not provide Named Executive Officers with any other perquisites such as country club memberships and the Company does not own or lease an aircraft. Company-provided travel for executives is for business purposes only.

Other Benefits Executives participate in the same health, disability and life insurance programs as are provided to other Company employees. In addition, the Named Executive Officers participate in the Company's tax-qualified defined benefit pension plan (the Virco Mfg. Corporation Employees Retirement Plan) and nonqualified supplement retirement plan (the Virco Important Performers (VIP) Plan). As more fully disclosed in the MD&A and Footnote 4 to the financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009 (Form 10-K), these retirement plans were frozen effective December 31, 2003, and additional benefit accruals for all Named Executive Officers ceased on that date.

Post-Employment and Other Events

The Company does not have employment agreements with any of the Named Executive Officers, and is not obligated to provide termination pay or other severance benefits to any of its Named Executive Officers. In general, the benefits provided or available to Named Executive Officers upon retirement, death, disability or other termination of employment or upon the occurrence of a change-in-control event are the same as those provided or made available to salaried employees generally.

Pursuant to the Company's 1997 and 2007 Stock Incentive Plans, vesting of all outstanding stock and option awards is accelerated upon a change-in-control. In addition, under the Virco Important Performers (VIP) Plan, vesting of retirement benefits is accelerated upon the occurrence of a change-in-control or the death of the participant. All Named Executive Officers are currently fully vested in all retirement programs, and would receive no additional benefit upon occurrence of a change-in-control. These benefits are provided to salaried employees generally and are intended to ensure that management remains focused on stockholder value when evaluating strategic alternatives.

Tax Deductibility of Executive Compensation

The Company seeks to structure its compensation arrangements to maximize the tax deductibility of all components of executive compensation unless the benefit of such deductibility is outweighed by the need for flexibility or the attainment of other corporate objectives. The Compensation Committee will continue to monitor issues concerning the deductibility of executive compensation and will take appropriate action if and when it is warranted. Since corporate objectives may not always be consistent with the requirements for full deductibility, the Compensation Committee is prepared, if it deems appropriate, to enter into compensation arrangements under which payments may not be fully deductible. Thus, deductibility will not be the sole factor used by the Compensation Committee in ascertaining appropriate levels or modes of compensation. In fiscal 2008, all compensation paid to executives was fully deductible; no executive officer

Table of Contents

exceeded the \$1 million limit under Section 162(m) of the Internal Revenue Code with regard to non-performance-based compensation.

Impact of Prior Compensation in Setting Elements of Compensation

Prior compensation of the Named Executive Officers does not impact how the Company sets elements of current compensation. The Compensation Committee believes the competitive environment that the Company operates in mandates that current total compensation be set at levels sufficient to attract, motivate and retain top management, which requires the Company to set compensation amounts based on current Company and business conditions.

Executive Stock Ownership Guideline

The Company has not adopted executive stock ownership guidelines. While there are no guidelines, two of the Named Executive Officers, Robert A. Virtue and Douglas A. Virtue, own 2.2% and 4.3%, respectively, of the outstanding shares of the Company's Common Stock. Messrs. R. Virtue and D. Virtue are members of the Virtue Family and subject to the terms of the Virtue Family Agreement discussed in the Security Ownership section of this Proxy Statement. The Virtue Family owns approximately 40% of the Company's outstanding Common Stock.

Impact of Restatements that Retroactively Impact Financial Goals

The Company has not restated or retroactively adjusted financial information that has impacted the financial statements or goals related to previous bonus or long-term award payouts. If financial results are significantly restated due to fraud or intentional misconduct, the Board will review any performance-based compensation paid to Named Executive Officers who are found to be personally responsible for the fraud or intentional misconduct that led to the restatement and may, to the extent permitted by applicable law, seek to recover amounts paid in excess of the amounts that would have been paid based on the restated financial results.

The Role of the Executives in Determining Compensation

While the Compensation Committee is primarily responsible for reviewing and making determinations with respect to executive compensation, the CEO and Executive Vice President provide input and views with respect to compensation for the other Named Executive Officers. The Compensation Committee believes that the CEO's and Executive Vice President's views are critical in determining the compensation of other Named Executive Officers because the CEO and Executive Vice President have day-to-day involvement with these Named Executive Officers and are in the best position to assess their performance, abilities, and contribution to the success of the Company.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis for the year ended January 31, 2009, as required by Item 402(b) of Regulation S-K under the Exchange Act of 1934 with management, and based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion & Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE

Albert J. Moyer, Chair

Donald A. Patrick

Robert K. Montgomery

Dr. James R. Wilburn

Table of Contents

The above report of the Compensation Committee will not be deemed to be incorporated by reference into any filing by the Company under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Compensation Committee Interlocks and Insider Participation

During fiscal 2008, the Compensation Committee was comprised of Messrs. Moyer, Patrick, Montgomery, and Wilburn, none of whom is a current or former officer of the Company. Mr. Montgomery is a senior counsel of the law firm Gibson, Dunn & Crutcher LLP, which has provided legal services to the Company. The Company expects that such law firm will continue to render legal services to the Company in the future. There are no interlocking board memberships between officers of the Company and any member of the Compensation Committee.

Summary Compensation Table for Fiscal 2008, 2007 & 2006

The table below sets forth the compensation awarded to, earned by, or paid to, each of the Named Executive Officers for Fiscal 2008, 2007 and 2006. The Company has no employment agreements with any of its executives. While employed, executives are entitled to base salary, participation in the executive compensation programs identified in the tables below and discussed in the CD&A and other benefits common to all employees. The performance-based conditions associated with the Bonus Plan as well as salary and bonus in proportion to total compensation are discussed in detail throughout the CD&A.

Name and Position	Year	Salary	Bonus	Stock Awards	Non-Equity	Change in Pension	All Other Compensation	Total
					Incentive Plan (Bonus Plan)			
Robert A. Virtue President & CEO	2008	\$ 420,580	\$	\$ 20,340	\$	\$	\$ 11,156	\$ 452,076
	2007	408,768		11,865	153,972	115,239	15,142	704,986
	2006	427,058			159,257	93,191	23,246	702,752
Douglas A. Virtue Executive Vice President	2008	261,234		20,340			7,592	289,166
	2007	258,715		11,865	98,982		8,372	377,934
	2006	228,371			100,404	118,663	18,498	465,936
Robert E. Dose Vice President Finance	2008	270,292	23,906	41,070			22,750	358,018
	2007	248,080		32,595	93,483	2,228	26,200	402,586
	2006	225,000		20,730	96,131	108,112	34,780	484,753
Lori L. Swafford Vice President & Corporate Counsel	2008	230,580	21,563	41,070			26,168	319,381
	2007	224,330		32,595	84,318		29,244	370,487
	2006	205,000		20,730	87,586	73,317	38,372	425,005
Larry O. Wonder Vice President Sales	2008	200,580	18,750	41,070			12,418	272,818
	2007	197,068		32,595	73,320	8,229	16,277	327,489
	2006	189,630		20,730	77,161	116,740	24,155	428,416

(1) The amounts shown in this column reflect the discretionary bonus approved by the Board of Directors.

(2)

The amounts is the compensation expense recognized by the Company in the financial statements for the applicable fiscal year pursuant to Statement of Financial Accounting Standards No. 123R (FAS 123R). The assumptions used to calculate these figures are described in Footnote #5 of the Company s Form 10-K. The Value on Vesting of RSUs granted in June 2004 is calculated by multiplying the number of shares vested by the difference between the market price on grant date of \$4.99 per share on the date of vesting less the \$0.01 par value of the share of Common Stock that is paid by the Named Executive Officer. The Value on Vesting of RSUs granted in June 2007 is calculated by

multiplying the number of shares vested by the difference between the market price on grant date of \$4.92 per share on the date of vesting less the \$0.01 par value of the share of Common Stock that is paid by the Named Executive Officer.

Table of Contents

(3) The amounts shown in this column are based on the same assumptions used in the preparation of the Company's fiscal 2008 financial statements, which are described in the MD&A and Footnote #4 to the Company's Form 10-K. The Pension Plans that Executive Officers participate in were frozen in 2003. The Executive Officers did not accrue any additional benefits during fiscal 2008. The Change in Pension amount includes the effect of a change in discount rate from 6.00% in fiscal 2007 to 6.75% in fiscal 2008, and the decrease in the discount period. Due to the change in discount rates, the change in pension value for Robert A. Virtue

decreased by
\$310,578,
Douglas A.
Virtue
decreased by
\$37,957, Robert
E. Dose
decreased by
\$30,391, Lori
Swafford
decreased by
\$34,404, and
Larry O.
Wonder
decreased by
\$22,228.

- (4) The amounts in this column include automobile allowances, the value of personal use of a Company provided vehicle, payments under a mortgage assistance plan that was terminated in May 2007, and medical insurance for domestic partners

Grants of Plan-Based Awards for Fiscal 2008

The table below sets forth the grants of plan-based awards to the Named Executive Officers during fiscal 2008 under the Bonus Plan. Such awards include monetary compensation under the Bonus Plan.

Name and Position	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		
		Threshold (\$)	Target (\$)	Maximum(\$)
Robert A. Virtue President & CEO	N/A	63,000	147,000	210,000
Douglas A. Virtue Executive Vice President	N/A	40,500	94,500	135,000
Robert E, Dose Vice President Finance	N/A	38,250	89,250	127,500

Lori L. Swafford Vice President & Corporate Counsel	N/A	34,500	80,500	115,000
Larry O. Wonder Vice President Sales	N/A	30,000	70,000	100,000

(1) Cash amounts in this table pertain to the Bonus Plan described under Annual Incentives in the CD&A.

Outstanding Equity Awards at Fiscal Year-End 2008

The following table sets forth the Named Executive Officers' outstanding equity awards as of the end of fiscal 2008. All outstanding stock option awards reported in this table expire 10 years from the date of grant. All outstanding grants of RSUs vest over a five year period from the grant date.

Name and Title	Year of Award	Option Exercise Price (\$)	Stock Awards		Market Value of Shares or Units of Stock That Have Not Vested (\$)
			Option Expiration Date	Shares or Units of Stock That Have Not Vested (#)	
Robert A. Virtue President & CEO	2007	11.06	07/23/2009	12,000	25,080

12

Table of Contents

Name and Title	Year	Option	Stock Awards		Market Value of Shares or Units of Stock That Have Not Vested (\$)
			Option	Shares or Units of Stock That Have Not Vested (#)	
	of	Exercise	Expiration		
	Award	Price (\$)	Date	Vested (#)	
Douglas A. Virtue Executive Vice President	2007	11.06	07/23/2009	12,000	25,080
Robert E. Dose Vice President Finance	2004 2007	11.06	07/23/2009	3,000 12,000	6,270