Risk Factors Comparison 2024-04-12 to 2023-04-28 Form: 10-K

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The following risk factors and other information included in this Annual Report on Form 10- K 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. RISKS RELATED TO SCHOOL FUNDING Our product sales are significantly affected by education funding, which is a function of tax revenues and general economic conditions. If the economy weakens, funding for education may fail to improve or decrease, which would adversely affect our business and results of operations. Our sales are significantly impacted by the level of education funding primarily in North America, which, in turn is a function of the general economic environment. In a weak economy, state and local tax revenues for many of our customers are flat or decline, restricting funding for K- 12 education spending, which typically leads to a decrease in demand for school furniture. Sustained declines in the per- student funding levels provided for in state and local budgets in the future could have a materially adverse impact on our business, financial condition, and results of operations as they have in the past. In addition, public health emergencies such as COVID- 19, 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, which in turn would affect 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, any of which would likely adversely affect our business, operating results, cash flows and financial condition. Gaps in state budgets may adversely affect our revenue and results of operations. Virtually all states are required to balance their operating budgets either on an annual or biannual basis. Unlike the federal government, states cannot maintain services during an economic downturn by running a deficit. Many states are adversely impacted by underfunded retirement and health insurance obligations and face competing requests for available funding. Tax revenues and other state funds may be allocated to underfunded benefit obligations instead of education. If states in which we do business cut spending for education to address such budgetary shortfalls or for other reasons, our sales in those states will likely decline and our revenue and results of operations will be adversely affected. Reduced levels of spending on education may significantly impact spending on furniture and increase price competition in the furniture market. If price competition increases, we may need to reduce our prices to build or maintain our market share, which in turn could lower our profit margins. The educational furniture market is characterized by price competition, as many sales occur on a bid basis and are based on demand related to educational funding available to schools. When funding for education declines, schools typically reduce spending on all budget line items prior to reducing teacher and administrator salaries and benefits. This in turn can result in reduced demand for school furniture, which in turn can intensify price competition in our industry. This price competition could impact our ability to implement price increases or, in some cases, such as during an industry downturn, maintain prices. In addition, when market conditions warrant, we may need to reduce prices to build or maintain our market share. If we are unable to increase or maintain prices for our products, our profit margins could decline. Such decline will be compounded to the extent we are unable to maintain or reduce the cost of our products, which may be especially difficult in the current environment given the volatility of the commodities markets. STRATEGIC AND OPERATIONAL RISKS 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 other standards for the education environment and for product performance, we must periodically introduce new products or modify existing ones. The introduction of new or modification of existing 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 a year or more, and further time may be required to achieve customer acceptance. Accordingly, the launch of any product may be later or less successful than we originally anticipated. 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. Difficulties or delays in introducing new or modified products or lack of customer acceptance of such products could limit our sales growth or cause our sales to decline. We depend on a global network of outside suppliers for raw materials and components, who may be unable to meet our volume and quality requirements on a timely basis, and we may be unable to obtain alternative sources. We require substantial amounts of raw materials and components to manufacture our products, which we purchase from a global network of third- party suppliers. Materials comprised our single largest total cost. 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. In a deteriorating economic environment, including the current economic disruption caused by COVID- 19 and global supply chain disruptions, many of the Company' s suppliers may experience difficulty obtaining financing and may go out of business. The Company may have difficulty replacing these suppliers, especially if the supplier fails as the Company is entering the seasonal summer shipping season. 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. In addition, because we purchase components from international sources, primarily China, we are subject to tariffs, fluctuations in currency exchange rates as well as the impact of natural disasters, war and other factors that may disrupt the transportation systems, ports, or shipping lines used by our suppliers, and other uncontrollable factors such as changes in foreign regulation or economic conditions. In fiscal 2022, the cost of raw materials and components, including steel and plastic, was extremely volatile and unfavorably impacted our results of operations. In addition, the current conflict in Ukraine and global sanctions recently placed on Russia have increased the cost and negatively impacted the availability of fuel, plastic and other materials. In fiscal **2024 the cost of commodities was relatively stable. In fiscal** 2023, the cost of commodities ~~remained~~ **was** volatile, but the volatility dampened noticeably compared to fiscal 2022 ~~. Some commodities decreased in cost, but others increased, resulting in a net modest increase in costs~~ . 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 and deliver products ordered by our customers in a timely fashion and increase our cost of obtaining raw materials and components in excess of our ability to pass along such costs to customers, any of which could have a negative impact on our reputation, sales and profitability. Cost and availability of third- party freight can adversely affect our profitability and results of operations. Approximately 80 % our sales are FOB destination and include freight from Virco' s facilities to the customer location. Virco depends upon third- party carriers for more than 90 % of customer deliveries. Increased regulation and more stringent enforcement of federal regulations governing the transportation industry (especially regarding drivers) have adversely impacted the cost and availability of transportation services. Further, there may be a lack of available trained and licensed drivers, which may reduce the availability of transportation services. Inability to obtain adequate third- party freight on a timely basis during the summer delivery season can adversely affect cost to deliver products to customers and the level of customer service, which can in turn adversely impact future sales. The Company imports component parts from international sources (primarily China). During fiscal 2022, freight costs for containers from China increased by a factor of nearly eight. The cost of ocean freight declined during fiscal 2023, nearly returning to more typical levels **and remained stable in 2024** . Ongoing disruptions in the cost or availability of ocean freight or disruptions in port operations, may adversely impact the Company' s ability to obtain adequate component parts on a cost- effective basis to support sales, particularly in the busy summer season, which could have an adverse effect on our sales and profitability. There can be no assurance that our suppliers in China will not experience material disruptions in the future, whether due to COVID- 19 or otherwise. The majority of our sales are priced through one contract, under which we are the exclusive supplier of classroom furniture. We utilize a nationwide contract / price list for the pricing of a significant portion of our sales. This contract / price list allows schools and school districts to purchase furniture without bidding and is sponsored by a nationwide purchasing organization that does not purchase products from the Company. By providing a public bid specification and authorization service to publicly funded agencies, the organization' s contract / price list enables such agencies to make authorized expenditures of taxpayer funds. For all sales under this contract / price list, Virco has a direct selling relationship with the purchaser, whether it is a school, a district, or another publicly funded agency. In addition, Virco can ship directly to the purchaser; perform delivery services at the purchaser' s location; and finally bill directly to, and collect from, the purchaser. Although Virco sells direct to hundreds of individual schools and school districts, these schools and school districts can purchase our products and services under several bids and contracts available to them. Approximately 64 % of Virco' s sales in fiscal ~~2023~~ **2024** and ~~69~~ **64** % of Virco' s sales in fiscal ~~2022~~ **2023** were priced under this nationwide contract / price list. In November 2017, the Company was awarded a five- year contract extending through December 2022 along with two two- year extensions through 2026. If Virco were to lose its exclusive supplier status under this contract / price list, and other manufacturers were allowed to sell under this contract / price list, it could cause Virco' s sales, or growth in sales, to decline. In addition, this contract / price list determines selling prices for goods and services for periods of one year and occasionally longer. Though the Company has negotiated increased flexibility under many of these contracts that may allow the Company to increase prices on future orders, the Company has limited ability to raise prices on orders received prior to any announced price increase. Due to the intensely seasonal nature of our business, the Company may receive significant orders during the first and second quarters for delivery in the second and third quarters. With respect to any of the contracts described above, if the costs of providing our products or services increase between the date the orders are received and the shipping date, we will likely not be able to implement corresponding increases in our sales prices for such products or services to offset the related increased costs. Significant cost increases in providing either the services or products during a given contract period could therefore lower our profit margins. 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 classroom delivery 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, and we are required to meet financial covenants under our credit facility. Our credit facility with PNC, among other things, largely prevents us from incurring any additional indebtedness, limits capital expenditures, limits dividends and stock repurchases, and provides for seasonal variations in the maximum borrowing amount, including a reduced maximum level of borrowing during the fourth fiscal quarter. Our credit facility also provides for periodic financial covenants, which currently includes a minimum fixed charge coverage ratio requirement. As a result of the foregoing, our operational and financial flexibility may be limited, which may prevent us from engaging in transactions that might further our growth strategy or otherwise be considered beneficial to us. Under our credit facility, substantially all of our accounts receivable is automatically and promptly swept to repay amounts outstanding under the credit facility upon our receipt. Due to this automatic liquidating nature, if we breach any covenant, violate any representation or warranty or suffer any deterioration in our ability to borrow pursuant to the borrowing base calculation contained in the credit facility, we may not have access to cash liquidity unless provided by the lender in its discretion. 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. In addition, certain of the covenants and representations and warranties set forth in our credit facility contain limited or no materiality thresholds, and all of the representations and warranties must be true and correct in all material respects upon each borrowing, which we expect to occur on an ongoing basis. There can be no assurance that we will be able to comply with all such covenants and be able to continue to make such representations and warranties on an ongoing basis. There can be no assurance that the Company will meet the requirements of its financial covenants on an ongoing basis or that, should we fail to meet such covenants, the Agent and Lender under our credit facility will agree to waivers or amendments with respect thereto. If we breach any of our financial covenants without receiving a corresponding waiver or amendment, the Agent and Lender may accelerate our credit facility and impose default interest and other fees, any of which could have a material adverse effect on our financial condition and results of operations. INDUSTRY AND ECONOMIC RISKS The COVID- 19 pandemic may continue to adversely affect our operations and financial performance. The COVID- 19 pandemic and the actions taken by various governments and third parties to combat the spread of COVID- 19, including mandatory quarantines and other suspensions of non- essential business operations, caused significant disruptions in our product sales and marketing, manufacturing and distribution operations, and supply chains during fiscal 2021 and 2022. While the disruption to demand for our products from the COVID- 19 pandemic is currently expected to be temporary, there remains a great deal of uncertainty around the long- term structural effects of the pandemic on in- person learning in the United States. In addition, the resurgence of COVID- 19 or its variants, as well as an outbreak of other widespread public health epidemics or pandemics, could cause new disruptions to our product sales, manufacturing and distribution operations, supply chains and demand for our products by our customers, which could adversely affect our business, financial condition, and results of operations. Increases in basic commodity, raw material and component costs could adversely affect our profitability. Fluctuations in the price, availability and quality of the commodities, raw materials and components used in manufacturing our products could have an adverse effect on our costs of sales, profitability and our ability to meet customers' demand. The price of commodities, raw materials and components, including steel and plastics, our largest raw material categories, have been volatile in prior years, and the cost, quality and availability of such commodities have been significantly affected in recent years by, among other things, changes in global supply and demand, changes in laws and regulations (including tariffs and duties), changes in exchange rates and worldwide price levels, natural disasters, public health issues such as the current COVID- 19 pandemic (or other future pandemics), labor disputes, terrorism and political unrest or instability. These factors could lead to further price increases or supply interruptions in the future. As discussed above, in the short term, rapid changes in raw material costs can be very difficult for us to offset with price increases because, in the case of many of our contracts, we have committed to selling prices for goods and services for periods of one year, and occasionally longer. Our profit margins could be adversely affected if commodity, raw material, and component costs remain high or escalate further, and we are unable to pass along a portion of the higher costs to our customers. In fiscal 2022, the Company incurred material increases in commodity costs and shortages in commodity availability that were material and adversely impacted the results of operations. Both availability and volatility in cost moderated in fiscal **2024 and** 2023. Total material costs for fiscal ~~2024~~ **2025**, as a percentage of sales, could be higher than in fiscal ~~2023~~ **2024**. The Company has increased list prices for its products in fiscal ~~2023 and~~ 2024 **and 2025** in an effort to recover anticipated increases in material costs. We are affected by the cost of petroleum- based products and increases in petroleum prices could reduce our margins and profits. The profitability of our operations is sensitive to the cost of fuel, which materially affects our transportation costs, the costs of petroleum- based materials (like plastics) and the costs of energy (including electricity and natural gas) used in operating our manufacturing facilities. Petroleum prices have fluctuated significantly in recent years and are expected to rise from current levels. Prices and availability of petroleum products are subject to political, economic and market factors that are generally outside our control. Political events in petroleum- producing regions, as well as hurricanes and other weather- related events may cause petroleum prices to increase. If such prices increase, our transportation costs may be adversely affected in the form of increased operation costs for our fleet and surcharges on freight paid to third- party carriers. If our transportation costs increase or, the price of petroleum- based products and cost of operating our manufacturing facilities increase and we are unable to pass a material portion of these increased costs to our customers, our gross margins and profitability would be adversely affected. FINANCING RISKS We may not be able to renew our credit facility on favorable terms, or at all, which would adversely affect our results of operations. We have historically relied on third- party bank financing to meet our seasonal cash flow requirements. Our current credit facility with PNC Bank was originally scheduled to mature on March 19, 2023. Subsequent to fiscal 2022, the Company extended the final maturity date of the credit line with PNC Bank to April 2027. At various times during the COVID- 19 pandemic, we were in non- compliance with certain financial covenants under our credit facility with PNC Bank, and in each case, we received a waiver of such violations from PNC Bank. In addition, on an annual basis, we prepare a lender- approved forecast of seasonal working capital requirements and use borrowings under our credit facility with PNC Bank to help meet these seasonal cash flow and working capital requirements. Uncertainty in the credit markets may negatively impact our ability to obtain approval of our annual forecast, make changes in our forecast or renew our credit facility upon its maturity in 2027 on favorable terms or at all. If we are unable to access or renew our credit facility on favorable terms (including available borrowing line and the rate of interest charged thereunder), or at all, or we are in violation of our financial covenants in the future and do not receive a waiver, our ability to fund our operations would be impaired, which would have a material adverse effect on our results of operations. If management does not accurately forecast the Company' s requirements for the peak summer season, the Company' s results of operations could be adversely affected. The Company' s business is highly seasonal and requires significant working capital in anticipation of and during the peak summer season. This requires management to make estimates and judgments with respect to the Company' s working capital requirements during, and in anticipation of, the peak summer season ~~. These estimates are complicated by the lingering economic impact of the COVID- 19 pandemic, particularly with respect to anticipated future demand and the ability to maintain our supply chain~~ . Management expends a significant amount of time in the fourth quarter of the prior year and the first quarter of each year developing a stocking plan and estimating the number of temporary summer employees, the amount of raw materials and the types of components and products that will be required during the peak season. If management does not accurately forecast the Company' s requirements, the Company' s results of operations could be adversely affected. For example, if management underestimates any of these requirements, Virco' s ability to meet customer orders in a timely manner 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 negatively affect the Company' s results of operations. 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. Volatility in the equity markets or interest rates could substantially increase our pension costs and have an adverse effect on our operating results. We sponsor one qualified defined benefit pension plan, the Virco Employee Retirement Plan (" Employee Plan "), and one nonqualified pension plan. Benefits under the Plans were frozen in 2003. The difference between plan obligations and assets, or the funded status of the Employee Plan, significantly affects net periodic benefit costs of our Employee Plan and our ongoing funding requirements with respect to the Employee Plan. The Employee Plan is funded with trust assets invested in a diversified portfolio of debt and equity securities and other investments. Among other factors, changes in interest rates, investment returns, and the market value of plan assets can (i) affect the level of plan funding; (ii) cause volatility in the net periodic pension cost; and (iii) increase our future contribution requirements. Because the recent economic environment was characterized by historically low interest rates, we may be required to make additional cash contributions to the Employee Plan and recognize further increases in our net pension cost to satisfy our funding requirements. A significant decrease in investment returns or the market value of plan assets or a significant decrease in interest rates could increase our net periodic pension costs and adversely affect our results of operations. These factors are further complicated by the substantial intervention in the U. S. credit markets by the Federal Reserve Board and Treasury Department in response to the COVID- 19 pandemic, which could have the effect of artificially affecting market interest rates. LEGAL AND REGULATORY RISKS An inability to protect our intellectual property could have an adverse effect 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 the infringing products. 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 and other legal requirements. Violations of, and liabilities under, these 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. If new environmental laws and regulations are introduced and enforced domestically, but not implemented or enforced internationally, we will operate at a competitive disadvantage compared to competitors who source product primarily from international sources. In addition, in the past we have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response Compensation and Liability Act (" 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. 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. In addition to environmental laws and regulations affecting our manufacturing activities, the Company is subject to laws and regulations related to consumer product regulation. The Company sells products that are subject to the Consumer Product Safety Improvement Act of 2008 and the California Air Resources Board rule and Toxic Control Substances Act rule, concerning formaldehyde emissions from composite wood products. We are subject to potential labor disruptions, which could have an adverse effect on our business. None of our work force is represented by unions, and while we believe that we have good relations with our work force, 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 cover for any product liability claims. We maintain product liability and other insurance coverage that we believe to be generally in accordance with industry practices. Our insurance coverage may not be adequate to protect us fully against substantial claims and costs that may arise from product defects, particularly if we have a large number of defective products that we must repair, retrofit, replace or recall. Holders of approximately 30 % of the shares of our stock have entered into an agreement restricting the sale of the stock. Certain shares of the Company' s common stock received by the holders thereof as gifts from Julian A. Virtue, including shares received in subsequent stock dividends, are subject to an agreement that restricts the sale or transfer of those shares. Because of the share ownership and representation on the board and in management, the parties to the agreement have significant influence on affairs and actions of the Company, including matters requiring stockholder approval such as the election of directors and approval of significant corporate transactions. In addition, these transfer restrictions and concentration of ownership could have the effect of impeding an acquisition of the Company. Our corporate documents and Delaware law contain provisions that could discourage, delay or prevent a change in control of our company. Provisions in our certificate of incorporation and our amended and restated bylaws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our certificate of incorporation currently provides for a staggered board of directors, whereby directors serve for three-year terms, with approximately one- third of the directors coming up for reelection each year. Having a staggered board will make it more difficult for a third party to obtain control of our board of directors through a proxy contest, which may be a necessary step in an acquisition of us that is not favored by our board of directors. In addition, provisions in our certificate of incorporation require the affirmative vote of the holders of at least 75 % of our outstanding shares for any business combination with a shareholder who beneficially holds, directly or indirectly, 5 % or more of our outstanding stock, except where such transaction is approved by the Board of Directors of the Company prior to the acquisition of the 5 % ownership position. We are also subject to the anti- takeover provisions of Section 203 of the Delaware General Corporation Law. Under these provisions, if anyone becomes an " interested stockholder, " we may not enter into a " business combination " with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 203, " interested stockholder " means, generally, someone owning 15 % or more of our outstanding voting stock or an affiliate of ours that owned 15 % or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203. We may be affected by climate change and new regulations and requirements relating to climate issues. Various aspects of our business, including our manufacturing operations, suppliers, and customers, may be negatively affected by severe weather events tied to climate change, including extreme storms, flooding, wildfires, extreme temperatures, and chronic changes in meteorological patterns. The frequency and severity of severe weather conditions affecting our business may be impacted by climate change, although it is currently impossible to predict with accuracy the scale of such impact. These impacts could have a material adverse effect on our business, results of operations and financial condition. In addition, a number of state, federal and municipal governments are considering a variety of mandatory legal or regulatory requirements or voluntary initiatives in relation to climate change or environmental issues. Many entities in private industry are also considering and introducing climate change and environmental criteria as a factor or commercial term in decisions relating to activities, including purchasing, lending, insurance and investing. The Company is unable to predict what climate change or environmental criteria, or requirements may be adopted or supported by governments and private sector entities in the future, or the impacts of such initiatives on its financial condition, results of operations, access to and cost of capital and cash flows. In addition, the SEC has published proposed rules that would require companies to provide significantly expanded climate- related disclosures in their periodic reporting, which may require us to incur significant additional costs to comply, including the implementation of significant additional internal controls processes and procedures regarding matters that have not been subject to such controls in the past, and impose increased oversight obligations on our management and Board of Directors. GENERAL RISK FACTORS 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. Failure in our information technology and storage systems or cybersecurity incidents could adversely affect our business. Our ability to execute our business plan and maintain operations depends on the continued and uninterrupted performance of our information technology systems. These systems are vulnerable to risks and damages from a variety of sources, including telecommunications or network failures, malicious human acts, and natural disasters. Moreover, despite network security and backup measures, some of our computer servers and those of our vendors are potentially vulnerable to physical or electronic break- ins, including cyberattacks, ransomware attacks, computer viruses and similar disruptive problems. These events could lead to the unauthorized access, disclosure and use of non- public information and disruption of our accounting, sales and purchasing systems and overall operations. Cybersecurity incidents or other unauthorized access to systems may result in disruption to our operations, corruption or theft of critical data, confidential information, or intellectual property. As reliance on technology continues to grow and more business activities have shifted online, the risk associated with any cybersecurity incidents have grown. While we and our third- party vendors have implemented security systems and infrastructure to prevent, detect and / or mitigate the risk of unauthorized access to technology systems or platforms, there can be no assurance that these measures will be effective. The techniques used by criminal elements to attack computer systems are sophisticated, change frequently and may originate from less regulated and remote areas of the world. As a result, we may not be able to address these techniques proactively or implement adequate preventative measures. If any of our computer systems are compromised, our business could be interrupted and we could be subject to fines, damages, litigation and enforcement actions and we could lose trade secrets, the occurrence of which could harm our business. In addition, any cybersecurity or data breach involving confidential information of our business, or our customers could result in negative publicity, damage to our reputation, loss of revenues, disruption of our business, litigation, and regulatory actions. Additional capital investments or expenditures may also be required to remediate any problems, infringements, misappropriations, or other third- party claims. Any failure by us to comply with a variety of privacy and consumer protection laws may harm us. Any failure by us or our vendor or other business partners to comply with privacy, data protection or security laws or regulations relating to the processing, collection, use, retention, security, and transfer of personally identifiable information could result in regulatory or litigation- related actions against us, legal liability, fines, damages, ongoing audit requirements and other significant costs. Substantial expenses and operational changes may be required in connection with maintaining compliance with such laws, and in particular certain emerging privacy laws are still subject to a high degree of uncertainty as to their interpretation and application. The California Consumer Privacy Act took effect on January 1, 2020 and imposes certain legal obligations on our use and processing of personal information related to California residents, including certain personal information regarding our California employees. In November 2020, California voters passed the California Privacy Rights and Enforcement Act of 2020, which further expands the California Consumer Privacy Act with additional data privacy compliance requirements that may impact our business, and establishes a regulatory agency dedicated to enforcing those requirements. Aspects of these new laws and their interpretation and enforcement remain uncertain, and their potential effects are far- reaching and may require us to modify our data processing practices and policies and incur substantial costs and expenses in order to comply. These new laws may also lead other states to pass comparable legislation, with potentially greater penalties and more rigorous compliance requirements relevant to our business. Our stock price has historically been volatile, and investors in our common stock could suffer a decline in value. There has been significant volatility in the market price and trading volume of equity securities, which may be unrelated to the financial performance of the companies issuing the securities. The economic impact and uncertainty of the COVID- 19 pandemic has exacerbated this volatility in both our common stock and the overall stock markets. The limited " float " of shares available for purchase or sale of Virco stock can magnify this volatility. These broad market fluctuations may negatively affect the market price of our common stock. Some specific factors that may have a significant effect on our common stock market price include: • actual or anticipated fluctuations in our operating results or future prospects; • our announcements or our competitors' announcements of new products; • the public' s reaction to our press releases, our other public announcements and our filings with the SEC; • strategic actions by us or our competitors, such as acquisitions or restructurings; • new laws or regulations or new interpretations of existing laws or regulations applicable to our business; • changes in our growth rates or our competitors' growth rates; • our inability to raise additional capital; • conditions of the school furniture industry as a result of changes in funding or general economic conditions, including those resulting from war, incidents of terrorism and responses to such events; and • changes in stock market analyst recommendations or earnings estimates regarding our common stock, other comparable companies or the education furniture industry generally.