

VIRCO MFG CORPORATION

Form 11-K

June 29, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 11-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

**Commission File Number 1-8777
Virco Mfg. Corporation 401(k) Plan
Virco Mfg. Corporation
2027 Harpers Way
Torrance, California 90501**

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INTRODUCTION

Virco Mfg. Corporation, a Delaware corporation, has established the 401(k) Plan (the Plan). The Plan includes a cash or deferred arrangement plan intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended.

REQUIRED INFORMATION

ITEM 1. Not applicable.

ITEM 2. Not applicable.

ITEM 3. Not applicable.

ITEM 4. Financial statements and exhibits

(a) Financial statements:

Financial statements and supplemental schedule prepared in accordance with the financial reporting requirements of ERISA filed hereunder are listed in the Index to Financial Statements in lieu of the requirements of Items 1 to 3 above.

(b) Exhibit:

Consent of Independent Registered Public Accounting Firm

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULE

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, Virco Mfg. Corporation as Plan Administrator has duly caused this Annual Report on Form 11-K for the year ended December 31, 2009, to be signed on its behalf by the undersigned hereunto duly authorized.

Virco Mfg. Corporation 401(k) Plan

Date: June 29, 2010

By: /s/ Robert E. Dose
Robert E. Dose
Vice President Finance

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Report of Independent Registered Public Accounting Firm

Virco Mfg. Corporation
as Plan Administrator of the
Virco Mfg. Corporation 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of Virco Mfg. Corporation 401(k) Plan as of December 31, 2009 and 2008, and the related statement of changes in net assets available for benefits for the year ended December 31, 2009. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2009 and 2008, and the changes in its net assets available for benefits for the year ended December 31, 2009, in conformity with US generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2009, is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Los Angeles, California
June 29, 2010

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Virco Mfg. Corporation 401(k) Plan
Statements of Net Assets Available for Benefits

	December 31	
	2009	2008
Assets		
Investments, at fair value:		
Cash and interest-bearing cash	\$ 1,508,479	\$ 1,655,829
Mutual funds	12,265,589	8,621,955
Common stocks	2,900,399	1,402,251
Participant loans	801,390	740,741
	17,475,857	12,420,776
Participants' contributions receivable	44,326	44,660
Total assets	17,520,183	12,465,436
Liabilities		
Accounts payable	657	1,002
Refund of excess contributions	43,165	13,128
Total liabilities	43,822	14,130
Net assets available for benefits	\$ 17,476,361	\$ 12,451,306

See accompanying notes.

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Virco Mfg. Corporation 401(k) Plan
Statement of Changes in Net Assets Available for Benefits

	Year ended December 31 2009
Additions to (deductions from) net assets attributed to:	
Participant contributions	\$ 1,623,899
Net investment income:	
Interest and dividends	255,852
Net appreciation in fair value of investments	3,645,485
Total net investment income	3,901,337
Benefits paid to participants	(500,181)
Net increase	5,025,055
Net assets available for plan benefits:	
Beginning of year	12,451,306
End of year	\$ 17,476,361

See accompanying notes.

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Virco Mfg. Corporation 401(k) Plan
Notes to Financial Statements
December 31, 2009

1. Plan Description

Virco Mfg. Corporation (the Company) established the Virco Mfg. Corporation Employee Stock Ownership Plan (ESOP) effective as of April 1, 1993, as a leveraged employee stock ownership plan. In January 2002, the Company amended and renamed the ESOP the Virco Mfg. Corporation 401(k) Plan (the Plan). Under the amended Plan, the leverage feature that allowed the Plan to obtain advances from the bank to purchase Company common stock was discontinued. While the Plan continues to offer the Company common stock as one of the investment options, the amended Plan no longer operates as a leveraged employee stock ownership plan.

The Plan was designed to comply with section 401(a) of Internal Section Code as a profit sharing plan, and is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The Plan is designed to enable employees to save for retirement and defer payment of income taxes on the amount saved. A Plan committee comprising of at least two persons appointed by the Company's Board of Directors administers the Plan.

The Plan's assets are held and managed by Wilmington Trust Company (Wilmington Trust). As trustee, Wilmington Trust invests cash received, interest and dividend income, and makes distributions to participants.

Employees of the Company are eligible to participate if they have attained at least 18 years of age and have completed six months of eligible service providing they worked at least 500 hours during such plan year. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Eligible employees may defer from 1% to 50% of basic compensation on a before-tax basis, limited to \$16,500 in 2009 (provision to the Internal Revenue Code); however, the maximum contribution percentage decreases for highly compensated employees. Contributions are held by Wilmington Trust in a money market account which earns interest until receipt of instructions from the Plan Administrator on how to allocate the contributions among the investment funds.

Subject to the amendment or termination of the Plan, as of the last day of a Plan year, the Company may, in its sole discretion, make a matching contribution to each participant's account to the extent that the participant has contributed to the Virco Mfg. Common Stock Fund. The Company may also make an employer contribution to the Plan at its sole discretion. Any contribution may be made in cash or in shares of Company common stock. The total amount of Company contributions cannot exceed the amount deductible by the Company for federal income

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Virco Mfg. Corporation 401(k) Plan
Notes to Financial Statements (continued)

1. Plan Description (continued)

tax purposes. The Company elected not to make any contributions during the year ended December 31, 2009. Distributions from the Plan are made when a participant retires, dies (in which case, payment shall be made to his or her beneficiary or, if none, his or her legal representatives), or otherwise terminates employment with the Company. However, participants may make withdrawals while still employed anytime after reaching the age of 59-1/2, or if the participant becomes disabled as defined in the Plan document. Withdrawals can also be made while still employed due to a hardship need. These withdrawals may be made once during any 12-month period and must comply with the Internal Revenue Code Section 401(k) and the applicable regulations. Participants in the Virco Mfg. Corporation Common Stock Fund may request Company common stock, valued at current market value, in lieu of cash.

All shares of Company common stock allocated to participant accounts are voted by Wilmington Trust in accordance with the participant's instructions. Allocated shares not voted by participants are voted pro rata by Wilmington Trust based on votes actually cast by participants.

The participant is immediately 100% vested in the value of his contributions and is automatically 100% vested in the value of any matching contributions on the participant's 65th birthday, death, or if the participant becomes permanently disabled while still employed by the Company. However, if employment terminates before the age of 65 for a reason other than death or disability, the participant's vesting in the value of any matching or other Company contributions will be based upon the participant's years of vesting service and in accordance with the following schedule:

	Years of Service	Vested Interest
Less than 2		0%
2		20%
3		40%
4		60%
5		80%
6 or more		100%

The amount to which the participant is not vested is subject to forfeiture in accordance with the provisions of the Plan.

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Virco Mfg. Corporation 401(k) Plan
Notes to Financial Statements (continued)

1. Plan Description (continued)

The Company reserves the right to change or discontinue the Plan at any time. If the Plan is fully or partially terminated within the meaning of applicable federal law, each affected participant will be 100% vested in the value of his account as of the date of the Plan termination.

Participants who maintain account balances of \$2,000 or more are eligible to borrow up to 50% of their vested account balance. The amount borrowed cannot exceed \$50,000 and the terms of the loans are generally for a period of five years. Participant loans bear interest at the prime rate plus 1% and are collateralized by the participant's vested interest.

Additional information about the Plan is contained in the Virco Mfg. Corporation 401(k) Plan Summary Plan Description. Copies of this document are available from the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on an accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

Contributions

Contributions are recorded when the Company makes payroll deductions from, or reduces the compensation of, Plan participants.

Earnings Allocation

Net investment income (loss) of each fund is allocated daily to the individual participant's accounts based on the ratio of each participant's balance to the total account balances.

Benefit Payments

Benefits due to terminated participants and participant withdrawals are recorded on the date distributions are made.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts

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Virco Mfg. Corporation 401(k) Plan
Notes to Financial Statements (continued)

Use of Estimates (continued)

reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Effect of Recently Issued Accounting Standards

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 supersedes FSP 157-3 and amends FASB Statement No. 157 (codified as Accounting Standards Codification ASC 820) to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. FSP 157-4 also provides additional guidance on circumstances that may indicate that a transaction is not orderly and on defining major categories of debt and equity securities in meeting the disclosure requirements of ASC 820. FSP 157-4 is effective for reporting periods ending after June 15, 2009. The adoption had no impact to the financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each class of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. Plan management is currently evaluating the effect that the provisions of ASU 2010-06 will have on the Plan's financial statements.

In May 2009, the FASB issued Statement of Financial Accounting Standard (SFAS) 165 now codified as FASB ASC Topic 855 *Subsequent Events*, which establishes accounting and reporting standards for events that occur after the balance sheet date but before financial

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Virco Mfg. Corporation 401(k) Plan
Notes to Financial Statements (continued)

2. Effect of Recently Issued Accounting Standards (continued)

statements are issued or are available to be issued. FASB ASC Topic 855 was effective for fiscal years and interim periods ending after June 15, 2009. The adoption of FASB ASC Topic 855 did not have a material impact on the Plan's financial statements.

In June 2009, the FASB issued SFAS No. 168 now codified as ASC 105-10 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS No. 168). ASC 105-10 establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial standards in conformity with US generally accepted accounting principles (US GAAP). Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative US GAAP for SEC registrants. ASC 105-10 is effective for financial statements issued by the Plan for interim and annual periods after September 15, 2009. On the effective date of ASC 105-10, all then-existing non-SEC accounting and reporting standards were superseded, with the exception of certain promulgations listed in ASC 105-10. The adoption of ASC 105-10 did not have a significant effect on the Plan's financial statements as the purpose of the Codification is not to create new accounting and reporting guidance. Rather, the Codification is meant to simplify user access to all authoritative US GAAP. References to US GAAP in our published financial statements included herein have been updated, as appropriate, to cite the Codification.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market prices and redemption values on the last business day of the Plan year are used to value investments in mutual funds and common stock. Participant loans are valued at their outstanding balances which approximate fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

3. Investments

Upon enrollment in the Plan, a participant may direct employee contributions among any or all of the investment options.

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Notes to Financial Statements (continued)**3. Investments (continued)**

Participants may change investment choices any business day by transferring a percentage from one investment fund to another effective as of the end of any business day. The investments in shares of the fund are valued at the closing net asset value per share as determined by the appropriate fund portfolio at year-end.

The fair values of individual investments that represent 5% or more of the Plan's net assets at December 31 are as follows:

	2009	2008
Investments at fair value:		
* American Money Market Fund A	\$ 1,388,429	
Alliance Growth & Income Fund	1,029,503	779,143
Bond Fund of America	1,531,141	1,271,105
** Cash Management Trust of America Fund		1,535,884
Capital World Growth & Income	977,980	610,867
DWS S&P 500 Index Fund-A	2,179,122	1,694,500
American Euro Pacific Growth Fund	970,494	635,666
Growth Fund of America	1,821,436	1,210,969
Income Fund of America	1,286,326	1,002,042
Virco Mfg. Corporation common stock	2,900,399	1,402,251

* This fund represents 5% or more of the Plan's net assets at December 31, 2009, but not at December 31, 2008.

** This fund represents 5% or more of the Plan's net assets at December 31, 2008, but not at December 31, 2009.

Investments held by the Plan (including investments bought, sold, as well as held during the period) appreciated as follows during the year ended December 31, 2009:

	2009
Mutual funds	\$ 2,327,176
Common stock	1,318,309
Net appreciation for the year	\$ 3,645,485

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Virco Mfg. Corporation 401(k) Plan
Notes to Financial Statements (continued)

3. Investments (continued)

The Plan's exposure to credit loss in the event of nonperformance of investments is limited to the carrying value of such investments. The Plan's concentration of credit risk and market risk are dictated by the Plan's provisions as well as those of ERISA. Due to the level of risk associated with certain investment securities and level of uncertainty related to changes in the value of these investments, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statements of net assets available for benefits and statements of changes in net assets available for benefits.

Unallocated balances are held in the Wilmington Trust Company cash account and were \$120,050 and \$119,945 at December 31, 2009 and 2008, respectively.

4. Fair Value Measurements

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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Notes to Financial Statements (continued)**4. Fair Value Measurements (continued)**

The following table sets forth by level, within the fair value hierarchy, the Plan's investment assets at fair value as of December 31, 2009 and 2008.

Investment Assets at Fair Value as of December 31, 2009

	Level			
	Level 1	2	Level 3	Total
Interest-bearing cash	\$ 1,508,479	\$	\$	\$ 1,508,479
Common stock	2,900,399			2,900,399
Allocation funds	1,711,772			1,711,772
Blend funds	3,862,334			3,862,334
Bond funds	1,531,141			1,531,141
Growth funds	1,821,436			1,821,436
Target date funds	307,232			307,232
Value funds	1,687,375			1,687,375
World stock funds	977,980			977,980
Other funds	366,319			366,319
Loans to participants			801,390	801,390
Total investment assets at fair value	\$ 16,674,467	\$	\$ 801,390	\$ 17,475,857

Investment Assets at Fair Value as of December 31, 2008

	Level			
	Level 1	2	Level 3	Total
Interest-bearing cash	\$ 1,655,829	\$	\$	\$ 1,655,829
Common stock	1,402,251			1,402,251
Mutual funds	8,621,955			8,621,955
Loans to participants			740,741	740,741
Total investment assets at fair value	\$ 11,680,035	\$	\$ 740,741	\$ 12,420,776

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Notes to Financial Statements (continued)**4. Fair Value Measurements (continued)**

The following table provides a reconciliation between the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3):

	Level 3 Assets Participant Loans
Balance at January 1, 2009	\$ 740,741
Issuances, repayments and settlements, net	60,649
Balance at December 31, 2009	\$ 801,390

5. Transactions With Parties-in-Interest

The Plan purchases Company common stock to fulfill participant contributions to the Virco Mfg. Corporation Common Stock Fund through open market purchases and, from time to time, through parties-in-interest transactions. The per share purchase price is determined to be the closing market price on the day of transaction.

6. Income Tax Status

The Plan has received a determination letter from the Internal Revenue Service dated June 11, 2002, stating that the Plan is qualified, in form, under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the Internal Revenue Service, the Plan was amended and restated and an updated determination letter is still pending. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code, and therefore, believes that the Plan, as amended, is qualified and the related trust is tax exempt.

7. Administrative Expenses

Certain administrative functions are performed by officers or employees of the Company. No officers or employees receive compensation from the Plan. Substantially all expenses associated with establishment, operation and administration of the Plan are borne by the Company.

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Notes to Financial Statements (continued)**8. Reconciliation to Form 5500**

The following is a reconciliation of net assets available for benefits per the Plan's financial statements to the Plan's Form 5500:

	December 31	
	2009	2008
Net assets available for benefits per the Plan's financial statements	\$ 17,476,361	\$ 12,451,306
Add refund of excess contribution payable at end of year	43,165	13,128
 Net assets available for benefits per the Plan's Form 5500	 17,519,526	 \$ 12,464,434

The following is a reconciliation of benefits paid to participants per the Plan's financial statements to the Plan's Form 5500:

	Year ended December 31	
	2009	2008
Benefits paid to participants per the Plan's financial statements	\$ 500,181	\$ 556,106
Add refund of excess contribution payable at beginning of year	13,128	
Less refund of excess contribution payable at end of year	43,165	13,128
 Benefits paid to participants per the Plan's Form 5500	 \$ 470,144	 \$ 542,978

9. Subsequent Events

The Company has evaluated events subsequent to December 31, 2009, to assess the need for potential recognition or disclosure in this report. Such events were evaluated through the date these financial statements were issued. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

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Supplemental Schedule

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Virco Mfg. Corporation 401(k) Plan
 EIN: 95-1613718 Plan Number: 002
 Schedule H, Line 4i Schedule of Assets (Held at End of Year)
 December 31, 2009

Identity of Issue	Description of Investment	Number of Units	Current Value
American Money Market Fund A	Cash account	N/A	\$ 1,388,429
Wilmington Trust Company*	Cash account	N/A	120,050
Alliance Growth & Income Fund	Mutual fund	350,171.07	1,029,503
American Balanced Fund	Mutual fund	12,202.25	197,799
Bond Fund of America	Mutual fund	129,757.74	1,531,141
Capital Income Builder Fund	Mutual fund	8,883.66	425,439
Capital World Growth & Income	Mutual fund	28,696.60	977,980
DWS Lifecompass 2015 Fund	Mutual fund	8,925.62	88,542
DWS Lifecompass 2040 Fund	Mutual fund	2,779.12	20,927
DWS S&P 500 Index Fund-A	Mutual fund	147,537.03	2,179,122
American Euro Pacific Growth Fund	Mutual fund	25,312.83	970,494
Growth Fund of America	Mutual fund	66,646.02	1,821,436
Hartford Target Retire 2030 R4 Fund	Mutual fund	16,687.51	137,839
Hartford Target Retirement 2020 Fund R4	Mutual fund	6,464.33	59,924
Income Fund of America	Mutual fund	83,042.37	1,286,326
Lord Abbett Value Opportunity Fund-A	Mutual fund	55,768.19	712,718
MFS Technology Fund-A	Mutual fund	30,075.47	366,319
MFS Ser Tr 1 Class A Value Fund	Mutual fund	22,150.83	460,073
Oppenheimer Quest Balanced Fund	Mutual fund	0.55	7
Virco Mfg. Corporation * (common Stock)	Common stock	730,579.04	2,900,399
Participant loans*	**		801,390
			\$ 17,475,857

* Party-in-interest.

** The participant loans represent loans to 182 plan participants. The loans bear interest at the prime rate as of the beginning of the quarter plus 1% and are collateralized by the participants vested interests.

Interest rates on
outstanding
loans ranged
from 5.0% to
9.25% in the
current year.