CAVCO INDUSTRIES INC
Form 10-Q
August 06, 2010

Table of Contents

UNITED STATES
SECURITIES & EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____ to ____

Commission File Number 000-08822

Cavco Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware	56-2405642
(State or other jurisdiction of incorporation)	(IRS Employer Identification Number)
1001 North Central Avenue, Suite 800, Phoenix, Arizona	85004
(Address of principal executive offices)	(Zip Code)

(602) 256-6263

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last year)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes o No þ

As of August 6, 2010, there were 6,541,841 shares of the registrant s common stock, $.01 par value, issued and outstanding.

CAVCO INDUSTRIES, INC.
FORM 10-Q
June 30, 2010
Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAVCO INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2010 (Unaudited)	March 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 75,635	$ 74,988
Restricted cash	123	227
Accounts receivable	9,379	9,428
Inventories	15,829	15,751
Prepaid expenses and other current assets	5,766	6,278
Deferred income taxes	6,037	6,240
Total current assets	112,769	112,912
Property, plant and equipment, at cost:		
Land	16,194	16,194
Buildings and improvements	20,249	20,345
Machinery and equipment	11,054	10,983
	47,497	47,522
Accumulated depreciation	(10,242)	(9,933)
	37,255	37,589
Inventory finance notes receivable, net	17,335	12,929
Goodwill and intangible assets, net	68,899	68,912
Total assets	$ 236,258	$ 232,342
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 5,721	$ 5,375
Accrued liabilities	29,508	26,919
Total current liabilities	35,229	32,294
Deferred income taxes	19,687	19,694
Commitments and contingencies		

Cavco Industries, Inc. stockholders equity		
Preferred Stock, $.01 par value; 1,000,000 shares authorized;		
No shares issued or outstanding		
Common Stock, $.01 par value; 20,000,000 shares authorized;		
Outstanding 6,541,841 and 6,541,684 shares, respectively	65	65
Additional paid-in capital	127,290	127,152
Retained earnings	19,077	18,559
Total Cavco Industries, Inc. stockholders equity	146,432	145,776
Noncontrolling interest	34,910	34,578
Total equity	181,342	180,354
Total liabilities and stockholders equity	$ 236,258	$ 232,342

See accompanying Notes to Consolidated Financial Statements

1

Table of Contents

CAVCO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Net sales	$ 47,505	$ 13,595
Cost of sales	41,064	13,501
Gross profit	6,441	94
Selling, general and administrative expenses	5,236	2,469
Income (loss) from operations	1,205	(2,375)
Interest income	180	27
Income (loss) before income taxes	1,385	(2,348)
Income tax (expense) benefit	(535)	899
Net income (loss)	850	(1,449)
Less: net income attributable to noncontrolling interest	332	
Net income (loss) attributable to Cavco Industries, Inc. common stockholders	$ 518	$ (1,449)
Net income (loss) per share attributable to Cavco Industries, Inc. common stockholders:		
Basic	$ 0.08	$ (0.22)
Diluted	$ 0.08	$ (0.22)
Weighted average shares outstanding:		
Basic	6,541,739	6,506,898
Diluted	6,753,265	6,506,898

See accompanying Notes to Consolidated Financial Statements

Table of Contents

CAVCO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
OPERATING ACTIVITIES		
Net income (loss)	$ 850	$ (1,449)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	338	284
Provision for credit losses	109	
Deferred income taxes	196	(653)
Share-based compensation expense	138	45
Loss on disposal of property, plant and equipment	246	
Changes in operating assets and liabilities:		
Restricted cash	104	(69)
Accounts receivable	49	(42)
Inventories	(78)	607
Prepaid expenses and other current assets	512	57
Inventory finance notes receivable	(4,515)	(848)
Accounts payable and accrued liabilities	2,935	(802)
Net cash provided by (used in) operating activities	884	(2,870)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(239)	(10)
Proceeds from sale of property, plant and equipment	2	
Purchases of short-term investments		(1,488)
Proceeds from sale of short-term investments		744
Net cash used in investing activities	(237)	(754)
FINANCING ACTIVITIES		
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	647	(3,624)
Cash and cash equivalents at beginning of period	74,988	70,557
Cash and cash equivalents at end of period	$ 75,635	$ 66,933

Supplemental disclosures of cash flow information:			
Cash paid during the period for income taxes	$	26	$

See accompanying Notes to Consolidated Financial Statements

3

CAVCO INDUSTRIES, INC.
Notes to Consolidated Financial Statements
June 30, 2010
(Dollars in thousands, except per share data)
(Unaudited)

1. Basis of Presentation

The accompanying Consolidated Financial Statements of Cavco Industries, Inc., and its subsidiaries (collectively, the Company or Cavco), have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, these statements include all the normal recurring adjustments necessary to fairly state the Company s Consolidated Financial Statements. The Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year. Certain prior period amounts have been reclassified to conform to current period classification. The Company suggests that these Consolidated Financial Statements be read in conjunction with the audited Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K filed with the SEC on May 21, 2010 (the Form 10-K).

As previously reported, the Company and an investment partner, Third Avenue Value Fund (Third Avenue), acquired certain manufactured housing assets and liabilities of Fleetwood Enterprises, Inc. on August 17, 2009 (Acquisition Date) through their jointly owned corporation, FH Holding, Inc., subsequently re-named Fleetwood Homes, Inc. (Fleetwood Homes). Third Avenue Management is an investment advisor to Third Avenue Value Fund and is a principal stockholder of the Company.

The transaction included seven operating manufactured housing plants located in Nampa, Idaho; Woodburn, Oregon; Riverside, California; Waco, Texas; Lafayette, Tennessee; Douglas, Georgia; and Rocky Mount, Virginia, and two idle factories located in Woodland, California and Waco, Texas. The idle Woodland, California facility was leased to a third party during the first quarter of fiscal 2011. The Company is evaluating its options with respect to the idle Waco factory, including the potential sale or lease of the facility. Also, Fleetwood Homes purchased all related equipment, accounts receivable, inventory, certain trademarks and trade names, intellectual property, and specified contracts and leases; and assumed express warranty liabilities pertaining to certain of the previous operations. The purchase price of the transaction was $25,800 and was paid in cash. Neither Fleetwood Homes nor the Company incurred debt in connection with the purchase or subsequent operations.

The results of the Fleetwood Homes operations have been included in the Consolidated Financial Statements and the related Notes since the Acquisition Date in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 810, *Consolidation*. Management has determined that, although Fleetwood Homes is only fifty-percent owned by the Company, Cavco has a controlling interest and is required to fully consolidate the results of Fleetwood Homes. The primary factors that contributed to this determination were Cavco s board and management control of Fleetwood Homes. To that end, members of Cavco s management hold two out of three total seats on the board of directors of Fleetwood Homes. In addition, as part of a management services agreement among Cavco, Fleetwood Homes and Third Avenue, Cavco provides all executive-level management services to Fleetwood Homes including, among other things, general management oversight, marketing and customer relations, accounting and cash management. Third Avenue s financial interest in Fleetwood Homes is considered a noncontrolling interest, as determined by Generally Accepted Accounting Principles (GAAP), and is designated as such in the Consolidated Financial Statements.

The Company s deferred tax assets primarily result from financial statement accruals not currently deductible for tax purposes, and its deferred tax liabilities primarily result from tax amortization of goodwill. The Company complies with the provisions of FASB ASC 740, *Income Taxes* (ASC 740), which clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has recorded an insignificant amount of unrecognized tax benefits and there would be an insignificant effect on the effective tax rate if all unrecognized tax benefits were recognized. The Company classifies interest and penalties related to unrecognized tax benefits in tax expense.

Income tax returns are filed in the U.S. federal jurisdiction and in several state jurisdictions. In July 2010, the Company received a notice of examination from the Internal Revenue Service (IRS) for the Company s federal income tax return for the fiscal year ended March 31, 2009. The Company is no longer subject to examination by the IRS or by tax authorities in Arizona and California for years before fiscal year 2007. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to the Company s financial position. The total amount of unrecognized tax benefit related to any particular tax position is not anticipated to change significantly within the next 12 months.

During the first quarter of fiscal year 2010, the Company moved its park model and vacation cabin manufacturing operations from its Specialty plant to a second production line at its Cavco West facility. Both of these plants are located in the metropolitan area of Phoenix, Arizona. This move provided greater capabilities for the production of park models, cabins, and other specialty buildings, created improved overall operational efficiencies at the Cavco West factory, and is serving to gradually reduce overhead expenses. The costs associated with this transition were not material. The Company is evaluating its options with respect to the idle Specialty plant, including the potential sale or lease of the facility.

The Company previously had plans to dispose of certain of its retail sales operations, considered discontinued retail operations in prior periods. During the first quarter of fiscal year 2011, because of better than anticipated results, the Company decided to not close these retail operations. The results of these retail operations are included in continuing operations commencing the first quarter of fiscal year 2011. There were no operating losses for the three months ended June 30, 2009 for the operations identified for disposal as the costs related to the liquidation of inventory were consistent with management s expectations of net realizable values.

Revenue from homes sold to independent retailers is generally recognized when the home is shipped, at which time title passes to the independent retailer, and collectability is reasonably assured. Homes sold to independent retailers are generally either paid for prior to shipment or financed by the independent retailer through standard industry arrangements, which include repurchase agreements. Manufacturing sales financed under repurchase agreements are reduced by a provision for estimated repurchase obligations (see Note 5). Revenue from homes sold under inventory finance programs involving funds provided by the Company is deferred until such time that payment for the related inventory finance note receivable is received by the Company (see Note 3). Retail sales by Company-owned retail locations are recognized when funding is reasonably assured, the customer has entered into a legally binding sales contract, title has transferred and the home is accepted by the customer, delivered and permanently located at the customer s site.

In December 2007, the FASB issued its pronouncements regarding business combinations and noncontrolling interest in consolidated financial statements, currently contained in FASB ASC 805, *Business Combinations*, and FASB ASC 810, *Consolidation*, respectively, which significantly changed the financial accounting and reporting of business combination transactions and noncontrolling interests in consolidated financial statements. The pronouncements were effective for fiscal years beginning after December 15, 2008. Therefore, effective April 1, 2009, the Company adopted the new business combination and consolidation guidance, which affected the accounting for the Fleetwood Homes transaction that closed on August 17, 2009. As a result of the new business combinations pronouncement, $772 in acquisition-related transaction costs were required to be expensed as incurred in fiscal year 2010 rather than capitalized as part of the purchase price. Also, the differing treatment of these transaction-related costs for tax purposes affected the deferred income taxes recorded as of the Acquisition Date. In addition, the new noncontrolling interest guidance resulted in classifying Third Avenue s financial interest in Fleetwood Homes as a noncontrolling interest in the equity section of the Consolidated Balance Sheet rather than being presented as a mezzanine item between liabilities and equity.

5

In May 2009, the FASB issued its pronouncement regarding subsequent events intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The pronouncement is now included in FASB ASC 855, *Subsequent Events* (ASC 855). In February 2010, the FASB issued Accounting Standards Update (ASU) 2010-09, *Amendments to Certain Recognition and Disclosure Requirements (ASC 855)*, which provides that public companies no longer need to disclose the date through which subsequent events have been evaluated, and was effective upon issuance. The Company has evaluated subsequent events after the balance sheet date of June 30, 2010 through the date of the filing of this report with the SEC and there were no disclosable subsequent events.

For a description of other significant accounting policies used by the Company in the preparation of its Consolidated Financial Statements, please refer to Note 1 of the Notes to Consolidated Financial Statements in the Form 10-K.

2. Composition of Certain Financial Statement Captions

Inventories consist of the following (in thousands):

	June 30, 2010	March 31, 2010
Raw materials	$ 9,972	$ 10,158
Work in process	2,626	2,614
Finished goods	3,231	2,979
	$ 15,829	$ 15,751

Accrued liabilities consist of the following (in thousands):

	June 30, 2010	March 31, 2010
Estimated warranties	$ 12,991	$ 13,891
Salaries, wages and benefits	4,795	3,407
Deferred margin	3,828	2,615
Accrued insurance	1,651	1,589
Customer deposits	1,249	1,610
Accrued volume rebates	1,243	701
Reserve for repurchase commitments	740	760
Other (various)	3,011	2,346
	$ 29,508	$ 26,919

Table of Contents

3. Inventory Finance Notes Receivable and Allowance for Loan Loss

The Company s inventory finance notes receivable balance consists of amounts loaned by the Company under inventory financing programs provided for the benefit of our independent retailers home product inventory needs. Under the terms of these programs, the Company provides a significant portion of the funds that third-party financiers then lend to finance retail inventories of our products. In certain of these programs, the Company provides all of the inventory finance funds and also assumes additional risk of loss, for which the Company recorded an applicable allowance for loan loss of $149 and $40 at June 30, 2010 and March 31, 2010, respectively.

The allowance for loan loss is estimated based on industry practice and Company experience. The risk of loss is spread over numerous independent retailers. In conjunction with third-party servicers, independent retailer activity and inventory levels are monitored to estimate the potential for loss on the related notes receivable, considering potential exposures including repossession costs, remarketing expenses, impairment of collateral value and the risk of collateral loss. If the Company determines that it is probable that a retailer will default, a specific reserve is recorded within the allowance for loan loss.

The Company s policy is to place loans on nonaccrual status when either principal or interest is past due and remains unpaid and when there is a clear indication that the independent retailer has the inability or unwillingness to meet payments as they become due. At June 30, 2010, management was not aware of any potential problem loans that would have a material effect on the inventory finance notes receivable balance.

4. Warranties

Homes are warranted against manufacturing defects for a period of one year commencing at the time of sale to the retail customer. Estimated costs relating to home warranties are provided at the date of sale. The Company has recorded a liability for estimated future warranty costs relating to homes sold based upon management s assessment of historical experience factors, an estimate of the amount of homes in the distribution channel and current industry trends. Activity in the liability for estimated warranties was as follows (in thousands):

	Three Months Ended June 30,	
	2010	2009
Balance at beginning of period	$ 13,891	$ 5,902
Charged to costs and expenses	1,213	752
Payments and deductions	(2,113)	(1,237)
Balance at end of period	$ 12,991	$ 5,417

5. Contingencies

Repurchase Contingencies The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for retailers of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to retailers in the event of default by the retailer. The risk of loss under these agreements is spread over numerous retailers. The price the Company is obligated to pay generally declines over the period of the agreement (generally 18 to 36 months) and is further reduced by the resale value of the homes. The maximum amount for which the Company was contingently liable under such agreements approximated $13,125 at June 30, 2010, without reduction for the resale value of the homes. The Company applies FASB ASC 460, *Guarantees* (ASC 460), and FASB ASC 450-20, *Loss Contingencies* (ASC 450-20), to account for its liability for repurchase commitments. Under the provisions of ASC 460, the Company records the greater of the estimated value of the non-contingent obligation or a contingent liability for each repurchase arrangement under the provisions of ASC 450-20. The Company recorded an estimated liability of $740 at June 30, 2010 related to these commitments.

Table of Contents

Letter of Credit The Company maintains a $550 outstanding letter of credit with J.P. Morgan Chase Bank N.A. for any remaining claims under a self-funded workers compensation program, which concluded on September 30, 2006. There have been no draws against the letter of credit.

Legal Matters The Company is party to certain legal proceedings that arise in the ordinary course and are incidental to its business. Certain of the claims pending against the Company in these proceedings allege, among other things, breach of contract and warranty, product liability, construction defect and personal injury. Although litigation is inherently uncertain, based on past experience and the information currently available, management does not believe that the currently pending and threatened litigation or claims will have a material adverse effect on the Company s consolidated financial position, liquidity or results of operations. However, future events or circumstances currently unknown to management will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on the Company s consolidated financial position, liquidity or results of operations in any future reporting periods.

6. Stock-Based Compensation

The Company maintains stock incentive plans whereby stock option grants or awards of restricted stock may be made to certain officers, directors and key employees. The plans, which are shareholder approved, permit the award of up to 1,350,000 shares of the Company s common stock, of which 358,126 shares were still available for grant at June 30, 2010. When options are exercised, new shares of the Company s common stock are issued. Stock options may not be granted below 100% of the fair market value of the Company s common stock at the date of grant and generally expire seven years from the date of grant. Stock options and awards of restricted stock vest over a one- to five-year period. The stock incentive plans provide for accelerated vesting of stock options and removal of restrictions on restricted stock awards upon a change in control (as defined in the plans).

The following table summarizes the option activity within the Company s stock-based compensation plans for the three months ended June 30, 2010:

	Number of Shares
Outstanding at March 31, 2010	681,580
Granted	56,500
Outstanding at June 30, 2010	738,080
Exercisable at June 30, 2010	523,705

A summary of restricted stock activity within the Company s share-based compensation plans and changes for the three months ended June 30, 2010 is as follows:

	Number of Shares
Nonvested at March 31, 2010	840
Vested	(157)
Nonvested at June 30, 2010	683

Table of Contents

7. Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period increased by the weighted-average number of dilutive common stock equivalents outstanding during the period, using the treasury stock method. However, when a net loss exists, no potential common stock equivalents are included in the computation of the diluted per-share amount because the computation would result in an anti-dilutive per-share amount. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Net income (loss) attributable to Cavco Industries, Inc. common stockholders	$ 518	$ (1,449)
Weighted average shares outstanding:		
Basic	6,541,739	6,506,898
Common stock equivalents treasury stock method	211,526	
Diluted	6,753,265	6,506,898
Net income (loss) per share attributable to Cavco Industries, Inc. common stockholders:		
Basic	$ 0.08	$ (0.22)
Diluted	$ 0.08	$ (0.22)

Anti-dilutive common stock equivalents excluded from the computation of diluted earnings per share for the three months ended June 30, 2010 and 2009 were 547 and 120,579, respectively.

8. Stockholders Equity

The following table represents changes in equity, including stockholders equity attributable to Cavco s stockholders and non-controlling interests (in thousands):

	Cavco Industries, Inc. Stockholders				Equity Attributable to Noncontrolling Interest	Total
	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Retained earnings		
Balance, March 31, 2010	6,541,684	$ 65	$ 127,152	$ 18,559	$ 34,578	$ 180,354
Stock option exercises and associated tax benefits	157					
Share-based compensation			138			138
Net income				518	332	850
Balance, June 30, 2010	6,541,841	$ 65	$ 127,290	$ 19,077	$ 34,910	$ 181,342

9

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following should be read in conjunction with the Company s Consolidated Financial Statements and the related Notes that appear in Item 1 of this Report. References to Note or Notes refer to the Notes to the Company s Consolidated Financial Statements.

Overview

Headquartered in Phoenix, Arizona, the Company designs and produces factory-built homes, which are sold to a network of retailers located throughout the continental United States. The products we manufacture are sold under a variety of brand names including *Cavco Homes* and *Fleetwood Homes*. We are one of the largest producers of HUD code manufactured homes in the United States, based on wholesale shipments of both Cavco and Fleetwood Homes. The Company is also a leading producer of park model homes and vacation cabins in the United States.

Company Growth

As previously reported, the Company and an investment partner, Third Avenue Value Fund, acquired certain manufactured housing assets and liabilities of Fleetwood Enterprises, Inc. on August 17, 2009 through their jointly owned corporation, FH Holding, Inc., subsequently re-named Fleetwood Homes, Inc. Third Avenue Management is an investment advisor to Third Avenue Value Fund and is a principal stockholder of the Company.

Financial information for Fleetwood Homes is included in the Company s Consolidated Financial Statements and the related Notes that appear in Item 1 of this report. Fleetwood Homes was formed by the Company and Third Avenue with each contributing $35.0 million in exchange for equal ownership interests. Although the Company holds a fifty-percent financial interest in Fleetwood Homes, its results of operations are required to be fully consolidated. Third Avenue s financial interest in Fleetwood Homes is considered a noncontrolling interest, as determined by generally accepted accounting principles, and is designated as such in the Consolidated Financial Statements.

The Fleetwood Homes transaction included seven operating manufactured housing plants located in Nampa, Idaho; Woodburn, Oregon; Riverside, California; Waco, Texas; Lafayette, Tennessee; Douglas, Georgia; and Rocky Mount, Virginia, and two idle factories located in Woodland, California and Waco, Texas. The idle Woodland, California facility was leased to a third party during the first quarter of fiscal 2011. The Company is evaluating its options with respect to the idle Waco factory, including the potential sale or lease of the facility.

Also, Fleetwood Homes purchased all related equipment, accounts receivable, inventory, certain trademarks and trade names, intellectual property, and specified contracts and leases and assumed express warranty liabilities pertaining to certain of the previous operations. The purchase price of the transaction was $25.8 million and was paid in cash. Neither Fleetwood Homes nor the Company incurred debt in connection with the purchase or subsequent operations.

In addition to the seven operating factories listed above, the Company operates two homebuilding facilities located in the Phoenix, Arizona area and one factory in Seguin, Texas. The integration of the Cavco and Fleetwood Homes operations has progressed well. Operating styles and management philosophies have been merged and the business has begun to operate as a cohesive organization. We are in the process of expanding our product offerings throughout the combined organization via the sharing of product designs and production methods. The supportive response by our customer base to the acquisition has been encouraging. We believe we are in a position to realize some operating efficiency improvements as a result of our larger size and buying power although for a period of time, transition-related expenses will mask a portion of such cost savings. We believe that the acquisition will be a positive long-term strategic move for both the Cavco and Fleetwood Homes brands.

Cash and cash equivalents of the Company totaled approximately $75.6 million on June 30, 2010. We believe this level of capitalization should provide resources to the operations of the Company sufficient to endure depressed current market conditions and to establish a solid base for continued growth as conditions improve.

Industry and Company Outlook

The manufactured housing industry and the Company continue