CAVCO INDUSTRIES INC
Form 10-Q
August 09, 2011

UNITED STATES
SECURITIES AND 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, 2011

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 No.)
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 o No þ

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 þ 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 Smaller reporting company o

(Do not check if a smaller reporting company)

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 5, 2011, there were 6,890,013 shares of the registrant s common stock, $.01 par value, issued and outstanding.

CAVCO INDUSTRIES, INC.
FORM 10-Q
June 30, 2011
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2011 (Unaudited)	March 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 33,537	$ 76,513
Restricted cash, current	6,541	436
Accounts receivable, net	11,428	6,571
Short term investments	4,727	
Current portion of consumer loans receivable, net	20,347	
Inventories	59,030	16,036
Assets held for sale	9,278	
Prepaid expenses and other current assets	8,179	2,495
Debtor-in-possession note receivable		40,060
Deferred income taxes	6,062	4,720
Total current assets	159,129	146,831
Restricted cash	453	
Investments	10,806	
Consumer loans receivable, net	105,804	
Inventory finance receivable, net	18,244	17,759
Property, plant and equipment, net	50,344	35,993
Goodwill and other intangibles, net	83,746	68,859
Total assets	$ 428,526	$ 269,442
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 10,851	$ 3,495
Accrued liabilities	60,829	26,245
Construction lending line	4,782	
Current portion of securitized financings	11,934	
Noncontrolling interest note payable		36,000
Total current liabilities	88,396	65,740
Securitized financings	87,571	
Deferred income taxes	10,881	17,214

Redeemable noncontrolling interest	80,843	35,819
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 6,889,513 and 6,817,606 shares, respectively	69	68
Additional paid-in capital	130,831	129,211
Retained earnings	29,998	21,390
Accumulated other comprehensive loss	(63)	
Total stockholders equity	160,835	150,669
Total liabilities, redeemable noncontrolling interest and stockholders equity	$ 428,526	$ 269,442

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,	
	2011	2010
Net sales	$ 98,981	$ 47,505
Cost of sales	82,821	41,064
Gross profit	16,160	6,441
Selling, general and administrative expenses	16,990	5,236
(Loss) income from operations	(830)	1,205
Interest expense	(1,461)	
Other income	360	180
Gain on bargain purchase	18,780	
Income before income taxes	16,849	1,385
Income tax benefit (expense)	610	(535)
Net income	17,459	850
Less: net income attributable to noncontrolling interest	8,851	332
Net income attributable to Cavco common stockholders	$ 8,608	$ 518
Net income per share attributable to Cavco common stockholders:		
Basic	$ 1.26	$ 0.08
Diluted	$ 1.25	$ 0.08
Weighted average shares outstanding:		
Basic	6,838,324	6,541,739
Diluted	6,894,380	6,753,265

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,	
	2011	2010
OPERATING ACTIVITIES		
Net income	$ 17,459	$ 850
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	867	338
Provision for credit losses	(84)	109
Deferred income taxes	(414)	196
Share-based compensation expense	185	138
Non-cash interest income	(624)	
Non-cash interest expense	188	
Loss on sale of property, plant and equipment		246
Gain on bargain purchase	(18,780)	
Gain on sale of loans	(950)	
Gain on sale of investments	(14)	
Changes in operating assets and liabilities:		
Restricted cash	(634)	104
Accounts receivable	(1,652)	49
Consumer loans originated	(14,014)	
Principal payments on consumer loans originated	2,194	
Proceeds from sales of consumer loans	13,188	
Inventories	(960)	(78)
Prepaid expenses and other current assets	(2,903)	512
Inventory finance receivable	(489)	(4,515)
Accounts payable and accrued liabilities	12,639	2,935
Net cash provided by operating activities	5,202	884
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,029)	(239)
Proceeds from sale of property, plant and equipment		2
Purchase of Palm Harbor assets and certain liabilities, net of cash acquired	(67,639)	
Purchases of investments	(75)	
Proceeds from sale of investments	1,129	
Investment in debtor-in-possession note receivable	(6,238)	
Proceeds from payoff of debtor-in-possession note receivable	45,301	
Net cash used in investing activities	(28,551)	(237)

FINANCING ACTIVITIES				
Proceeds from exercise of stock options		1,436		
Net proceeds from construction lending line		808		
Payments on Virgo debt		(19,456)		
Payments on securitized financings		(2,415)		
Net cash used in financing activities		(19,627)		
Net (decrease) increase in cash and cash equivalents		(42,976)		647
Cash and cash equivalents at beginning of period		76,513		74,988
Cash and cash equivalents at end of period	$	33,537	$	75,635
Supplemental disclosures of cash flow information:				
Cash paid during the period for income taxes	$	1,160	$	26

See accompanying Notes to Consolidated Financial Statements

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CAVCO INDUSTRIES, INC.
Notes to Consolidated Financial Statements
June 30, 2011
(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 (GAAP) 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 of 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 has evaluated subsequent events after the balance sheet date of June 30, 2011 through the date of the filing of this report with the SEC and there were no disclosable subsequent events. 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 June 3, 2011 (the Form 10-K).

During fiscal year 2010, the Company and an investment partner, Third Avenue Value Fund (Third Avenue), formed Fleetwood Homes, Inc. (Fleetwood Homes), with a contribution of $35.0 million each for equal fifty-percent ownership interests. On August 17, 2009, Fleetwood Homes acquired seven operating manufactured housing plants, two idle factories, 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 of a predecessor company.

The results of the Fleetwood Homes operations have been included in the Consolidated Financial Statements and the related Notes in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 810, *Consolidation* (ASC 810). Management has determined that, under GAAP, 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 all of the 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 redeemable noncontrolling interest, and is designated as such in the Consolidated Financial Statements (see Note 20).

During fiscal year 2011, Fleetwood Homes, through its wholly-owned subsidiary, Palm Harbor Homes, Inc., a Delaware corporation (Palm Harbor or Palm Harbor Delaware), entered into an agreement (the Purchase Agreement) with Palm Harbor Homes, Inc., a Florida corporation, and certain of its subsidiaries (collectively Palm Harbor Florida) to purchase substantially all of the assets and assume specified liabilities of Palm Harbor Florida, pursuant to an auction process under Section 363 of the U.S. Bankruptcy Code. The effective date of the transaction was April 23, 2011 (the Acquisition Date), except for the stock of Standard Casualty Co. The aggregate gross purchase price was $83.9 million and is exclusive of transaction costs, specified liabilities assumed and post-closing adjustments. Approximately $45.3 million of the purchase price was used to retire the Debtor-In-Possession (DIP) loan previously made by Fleetwood Homes to Palm Harbor Florida. The purchase price was funded by Fleetwood Homes cash on hand, along with equal contributions of $36.0 million each from the Company and Third Avenue. On June 7, 2011, regulatory approval of the acquisition of Standard Casualty Co. was received from the Texas Department of Insurance and on June 10, 2011 (the SCC Acquisition Date), Palm Harbor Delaware completed the purchase of the insurance subsidiary.

Palm Harbor Delaware acquired five operating manufactured housing production facilities, idled factories in nine locations, 49 operating retail locations, one office building, real estate, all related equipment, accounts receivable, customer deposits, inventory, certain trademarks and trade names, intellectual property, and specified contracts and leases. In addition, as of the Acquisition Date, Palm Harbor Delaware purchased all of the outstanding shares of CountryPlace Acceptance Corp., CountryPlace Mortgage, Ltd. and their wholly-owned finance subsidiaries (collectively, CountryPlace). Palm Harbor Delaware also acquired all of the outstanding shares of Standard Casualty Co., Standard Insurance Agency, Inc. and its subsidiary (collectively, Standard). Further, Palm Harbor Delaware assumed certain liabilities of Palm Harbor Florida, including primarily debt facilities of the finance subsidiaries (see Note 19). The results of the Palm Harbor operations since the Acquisition Date have been included in the Consolidated Financial Statements and the related Notes in accordance with the provisions of ASC 810.

Revenue Recognition. 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 floorplan 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 12). The recognition of 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 6). 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.

At the Acquisition Date, management evaluated consumer loans receivable held for investment to determine whether there was evidence of deterioration of credit quality prior to acquisition and if it was probable that the Company would be unable to collect all amounts due according to the loan s contractual terms. The Company also considered expected prepayments and estimated the amount and timing of undiscounted expected principal, interest and other cash flows. The Company determined the excess of the pool s scheduled contractual principal and contractual interest payments over the undiscounted cash flows expected as of the acquisition date as an amount that should not be accreted (the non-accretable difference). The remaining difference is accreted into interest income over the remaining life of the loans (referred to as accretable yield). Interest income on consumer loans receivable is recognized as net sales.

Interest income on consumer loans receivable originated after the Acquisition Date is recognized in net sales on an accrual basis. When a loan held for investment is determined to be partially or fully uncollectible, the estimated loss is charged against the allowance for loan losses. Recoveries on losses previously charged to the allowance are credited to the allowance at the time the recovery is collected. For loans held for investment originated after the acquisition, loan origination fees are deferred and amortized into net sales over the contractual life of the loan using the interest method. For loans held for sale, loan origination fees and gains or losses on sales are recognized upon sale of the loans.

Premium income from insurance policies is recognized on an as earned basis. Premium amounts collected are amortized into net sales over the life of the policy. Policy acquisition costs are also amortized as cost of sales over the life of the policy.

Management regularly makes an assessment to determine whether a decline in value of an individual security is other-than-temporary. The Company considers the following factors when making its assessment: (1) the Company s ability and intent to hold the investment to maturity, or a period of time sufficient to allow for a recovery in market value; (2) whether it is probable that the Company will be able to collect the amounts contractually due; and (3) whether any decision has been made to dispose of the investment prior to the balance sheet date. Investments on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value with the loss recorded in earnings.

Consumer Loans Receivable. Consumer loans receivable consists of manufactured housing loans originated by CountryPlace (securitized, held for investment, or held for sale) and construction advances on non-conforming mortgages. CountryPlace was acquired on April 23, 2011 in conjunction with the Palm Harbor transaction. The fair value of consumer loans receivable was calculated as of the Acquisition Date, as determined by the present value of expected future cash flows, with no allowance for loan loss recorded. The difference between the undiscounted cash flows expected and the investment in the loan is recognized as interest income on a level-yield method over the life of the loan. Increases in expected cash flows subsequent to the acquisition are recognized prospectively through adjustment of the yield on the loans over the remaining life. Decreases in expected cash flows subsequent to the acquisition are recognized as an allowance for loan loss. Interest income on consumer loans receivable is recognized in net sales.

Loans held for investment consist of loan contracts collateralized by the borrowers homes and, in some instances, related land. Construction loans in progress are stated at the aggregate amount of cumulative funded advances. Loans held for sale consist of loan contracts collateralized by single-family residential mortgages. Loans held for sale are stated at the lower of cost or market on an aggregate basis. Loans held for sale are loans that, at the time of origination, are originated with the intent to resell in the mortgage market to investors, such as the Federal National Mortgage Association (FNMA or Fannie Mae), with which the Company has pre-existing purchase agreements, or to sell as part of a Government National Mortgage Association (GNMA or Ginnie Mae)-insured pool of loans.

Prior to being acquired by the Company, on July 12, 2005 and March 22, 2007, CountryPlace completed two securitizations of factory-built housing loan receivables. These two securitizations were accounted for as financings, which use the portfolio method of accounting in accordance with ASC 310, *Receivables Nonrefundable Fees and Other* (ASC 310). The securitizations included provisions for removal of accounts by CountryPlace and other factors that preclude sale accounting of the securitizations under ASC 860, *Transfers and Servicing*. Both securitizations were accounted for as securitized borrowings. The Company acquired the consumer loans receivable and related securitized financings during the first quarter of fiscal 2012 as a part of the Palm Harbor transaction. Since the Acquisition Date, the acquired securitized financings are accounted for in a manner similar to ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30).

Certain direct loan origination costs for loans held for investment originated after the acquisition are deferred and amortized over the estimated life of the portfolio and amortized using the effective interest method. Certain direct loan origination costs for loans held for sale are expensed as incurred.

Allowance for Loan Losses. The allowance for loan losses reflects CountryPlace s judgment of the probable loss exposure on their loans originated since the Date of Acquisition in the held for investment portfolio as of the end of the reporting period. CountryPlace s loan portfolio is comprised of loans related primarily to factory-built Palm Harbor homes. The allowance for loan losses is developed at a portfolio level, as pools of homogeneous loans, and not allocated to specific individual loans or to impaired loans. A range of probable losses is calculated after giving consideration to, among other things, the composition of the loan portfolio, including historical loss experience by static pool, expected probable losses based on industry experience for a given range of borrower credit scores, the composition of the portfolio by credit score and seasoning, loan type characteristics, and recent loss experience. CountryPlace then makes a determination of the best estimate within the range of loan losses.

CountryPlace accounts for the loans that were acquired in the Palm Harbor transaction in a manner similar to ASC 310-30. At the date of acquisition, management evaluated such loans to determine whether there was evidence of deterioration of credit quality since acquisition and if it was probable that CountryPlace would be unable to collect all amounts due according to the loans contractual terms.

Over the life of the loans, the Company continues to estimate cash flows expected to be collected. The Company evaluates at the balance sheet date whether the present value of its loans determined using the effective interest rate, has decreased and if so, recognizes an allowance for loan loss subsequent to the acquisition date. The present value of any subsequent increase in the loan pool s actual cash flows expected to be collected is used first to reverse any existing allowance for loan loss. Any remaining increase in cash flows expected to be collected adjusts the amount of accretable yield recognized on a prospective basis over the loan pool s remaining life. See Note 5.

Loans are placed on nonaccrual status when either principal or interest is past due and remains unpaid for 120 days or more or when there is a clear indication that the borrower has the inability or unwillingness to meet payments as they become due. Payments received on nonaccrual loans are accounted for on a cash basis, first to interest and then to principal. Upon determining that a nonaccrual loan is impaired, interest accrued and the uncollected receivable prior to identification of nonaccrual status is charged to the allowance for loan losses.

The Company has modified payment amounts and/or interest rates for borrowers that, in management s judgment, exhibited the willingness and ability to continue to pay and met certain other conditions. These modified loans were considered to be troubled debt restructurings. The Company no longer considers modified loans to be troubled debt restructurings once the modified loan is seasoned for six months, is not delinquent and is at a market rate of interest.

Investment Securities. Management determines the appropriate classification of its investment securities at the time of purchase. The Company s investments include marketable debt and equity securities that are held as available-for-sale. All investments classified as available-for-sale are recorded at fair value with any unrealized gains and losses reported in accumulated other comprehensive income (loss), net of tax if applicable. Realized gains and losses from the sale of securities are determined using the specific identification method.

Other Income. Other income totals $360,000 and $180,000 in the three months ended June 30, 2011 and 2010, respectively. In fiscal 2012, other income consists of interest related to Debtor-in-Possession note receivable and inventory finance receivable balances, and of interest income earned primarily on cash balances.

Accumulated other comprehensive income (loss). Accumulated other comprehensive income (loss) is comprised of unrealized gains and losses on available-for-sale investments.

Recent Accounting Pronouncements. In July 2010, the FASB issued Accounting Standards Update (ASU) 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which requires entities to provide new disclosures in their financial statements about their financing receivables, including credit risk exposures and the allowance for credit losses on a disaggregated basis. The ASU is effective for public entities for reporting periods ending on or after December 15, 2010 for disclosures of financing receivables as of the end of a reporting period. The disclosures related to activity that occurs during a reporting period are required to be adopted for periods beginning on or after December 15, 2010. In April 2011, the FASB issued ASU 2011-02, *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU 2011-02 clarifies when creditors should classify loan modifications as troubled debt restructurings. In addition, ASU 2011-02 deferred the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 to periods beginning after June 15, 2011. The Company adopted the provisions of ASU 2010-20 relating to period-end disclosures as of December 31, 2010, and the remaining provisions during the quarter ended March 31, 2011, except for the disclosures related to troubled debt restructurings, which will be effective for the Company s quarter ending September 30, 2011. The Company is currently evaluating the effect ASU 2011-02 will have on the Company s disclosures in the Notes to the Consolidated Financial Statements.

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations*. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The amendments affected the Company s disclosures of pro forma information surrounding the Palm Harbor acquisition, see Note 19.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The amendments to this update are effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011. In this update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The Company is currently evaluating the effect ASU 2011-05 will have on the Company s disclosures in the Notes to Consolidated Financial Statements.

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.

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2. Restricted Cash

Restricted cash consists of the following (in thousands):

	June 30, 2011	March 31, 2011
Cash pledged as collateral for outstanding insurance programs and surety bonds	$ 3,263	$
Cash related to CountryPlace customers principal and interest payments on the loans that are securitized	2,276	
Cash related to customer deposits held in trust	1,455	436
	$ 6,994	$ 436

3. Investments

Available-for-sale securities were acquired during the first quarter of fiscal 2012 as a part of the Palm Harbor acquisition. In accordance with ASC 805, *Business Combinations* (ASC 805) the individual securities were valued at fair value as of the Acquisition Date and therefore, no individual security has been in a continuous unrealized loss position at June 30, 2011. The following table summarizes the Company s available-for-sale investment securities, gross unrealized gains and losses and fair value, aggregated by investment category as of June 30, 2011 (in thousands):

	June 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Government Agencies	$ 1,148	$	$ (1)	$ 1,147
Mortgage-backed securities	5,063	24	(45)	5,042
States and political subdivisions	1,205	1		1,206
Corporate debt securities	4,411		(26)	4,385
Marketable equity securities	3,802	33	(82)	3,753
Total	$ 15,629	$ 58	$ (154)	$ 15,533

Consistent with improvements seen in the overall stock market in recent quarters, and based on the Company s ability and intent to hold the investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider the investments to be other-than-temporarily impaired at June 30, 2011.

The Company s investments in marketable equity securities consist of investments in common stock of bank trust, insurance, and public utility companies ($1.5 million of the total fair value and $11,000 of the total unrealized losses) and industrial companies ($2.3 million of the total fair value and $71,000 of the total unrealized losses).

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The amortized cost and fair value of the Company s investment securities at June 30, 2011, by contractual maturity, are shown in the table below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2011
Due in less than one year	$ 974
Due after one year through five years	6,716
Due after five years through ten years	262
Due after ten years	3,828
Marketable equity securities	3,753
Total investment securities available-for-sale	$ 15,533

Realized gains and losses from the sale of securities are determined using the specific identification method. Gross gains realized on the sales of investment securities for the first quarter of fiscal 2012 were approximately $17,000. Gross losses were approximately $4,000 for the first quarter of fiscal 2012.

4. Inventories

Inventories consist of the following (in thousands):

	June 30, 2011	March 31, 2011
Raw materials	$ 17,088	$ 10,208
Work in process	8,354	2,499
Finished goods and other	33,588	3,329
	$ 59,030	$ 16,036

5. Consumer Loans Receivable

The Company acquired consumer loans receivable during the first quarter of fiscal 2012 as a part of the Palm Harbor transaction. Acquired consumer loans receivable held for investment were acquired at fair value and subsequently are accounted for in a manner similar to ASC 310-30. Consumer loans receivable held for sale is carried at the lower of cost or market value. The following table summarizes consumer loans receivable (in thousands):

	June 30, 2011
Consumer loans receivable held for investment	$ 118,377
Consumer loans receivable held for sale	4,931
Construction advances on non-conforming mortgages	3,206
Consumer loans receivable	126,514
Deferred financing cost, net	(363)

Consumer loans receivable, net	$	126,151

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At the Acquisition Date, management evaluated consumer loans receivable held for investment to determine whether there was evidence of deterioration of credit quality prior to acquisition and if it was probable that the Company would be unable to collect all amounts due according to the loan s contractual terms. The Company also considered expected prepayments and estimated the amount and timing of undiscounted expected principal, interest and other cash flows. The Company determined the excess of the pool s scheduled contractual principal and contractual interest payments over all cash flows expected as of the acquisition date as an amount that should not be accreted (the non-accretable difference). The remaining difference is accreted into interest income over the remaining life of the loans (referred to as accretable yield). Interest income on consumer loans receivable is recognized as net sales.

	June 30, 2011	April 23, 2011
Consumer loans receivable held for investment contractual amount	$ 330,781	$ 339,166
Purchase Discount		
Accretable	(115,471)	(118,335)
Non-accretable	(96,472)	(100,151)
Allowance for loan losses		
Less consumer loans receivable reclassified as other assets	(461)	
Total consumer loans receivable held for investment, net	$ 118,377	$ 120,680

Over the life of the loans, the Company continues to estimate cash flows expected to be collected. The Company evaluates at the balance sheet date whether the present value of its loans determined using the effective interest rate, has decreased and if so, recognizes an allowance for loan loss subsequent to the acquisition date. The present value of any subsequent increase in the loan pool s actual cash flows expected to be collected is used first to reverse any existing allowance for loan loss. Any remaining increase in cash flows expected to be collected adjusts the amount of accretable yield recognized on a prospective basis over the loan pool s remaining life.
The changes in accretable yield on acquired consumer loans receivable held for investment were as follows:

	June 30, 2011
Balance at the beginning of the period	$
Additions	118,335
Accretion	(2,864)
Reclassifications from (to) nonaccretable discount	
Disposals	
Balance at the end of the period	$ 115,471

The Company s consumer loans receivable consists of fixed-rate, fixed-term, fully-amortizing single-family home loans. These loans are either secured by a manufactured home, excluding the land upon which the home is located (chattel property loans and retail installment sale contracts), or by a combination of the home and the land upon which the home is located (real property mortgage loans). The real property mortgage loans are primarily for manufactured homes. Combined land and home loans are further disaggregated by the type of loan documentation: those conforming to the requirements of Government-Sponsored Enterprises (GSEs), and those that are non-conforming. In most instances, the Company s loans are secured by a first-lien position and are provided for the purchase of a home. In rare instances the Company may provide other types of loans in second-lien or unsecured positions. Accordingly, the

Company classifies its loans receivable assets as follows: chattel loans, conforming mortgages, non-conforming mortgages, and other loans.

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The following tables disaggregate consumer loans receivable for each class by portfolio segment as of June 30, 2011 (in thousands):

Asset Class	Consumer Loans Held for Investment: Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Chattel loans	$ 49,808	$ 33,763	$ 3,055	$	$	$ 86,626
Conforming mortgages			1,571	3,205	4,931	9,707
Non-conforming mortgages	4,864	15,187	10,081			30,132
Other loans			49			49
	$ 54,672	$ 48,950	$ 14,756	$ 3,205	$ 4,931	$ 126,514

In measuring credit quality within each segment and class, the Company uses commercially available credit scores (FICO). At the time of each loan s origination, the Company obtained credit scores from each of the three primary credit bureaus, if available. To evaluate credit quality of individual loans, the Company uses the mid-point of the available credit scores, or if only two scores are available, the Company uses the lower of the two. Except in the case of troubled debt restructurings or other loan modifications, the Company does not update credit bureau scores after the time of origination.
The following table disaggregates the Company s consumer loans receivable by class and credit quality indicator as of June 30, 2011 (in thousands):

Asset Class Credit Quality Indicator	Consumer Loans Held for Investment: Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Chattel loans						
0-619	$ 1,553	$ 995	$ 954	$	$	$ 3,502
620-719	22,241	15,160	1,307			38,708
720+	26,014	17,608	793			44,415
Conforming mortgages						
0-619			420	54	537	1,011
620-719			1,040	2,286	2,754	6,080
720+			111	865	1,640	2,616
Non-conforming mortgages						
0-619	97	933	2,951			3,981
620-719	2,405	9,070	5,580			17,055
720+	2,362	5,184	1,551			9,097
Other loans						
Total other			49			49

$ 54,672	$ 48,950	$ 14,756	$ 3,205	$ 4,931	$ 126,514

6. Inventory Finance Receivables and Allowance for Loan Loss

The Company s inventory finance receivables balance consists of two classes: (i) amounts loaned by the Company under participation inventory financing programs; and (ii) direct inventory financing arrangements for the home product inventory needs of our independent distribution base.

Under the terms of the participation programs, the Company provides loans to independent financial institutions representing a significant portion of the funds that such financiers then lend to retailers to finance their inventory purchases of our products. The participation inventory finance receivables are unsecured general obligations of the independent floorplan lenders.

Under the terms of the direct inventory finance arrangements, the Company provides all of the inventory finance funds. These notes are secured by the inventory collateral and other security depending on borrower circumstances. The other terms of direct inventory finance arrangements vary depending on the needs of the borrower and the opportunity for the Company, but generally follow the same tenets as the participation programs.
Inventory finance receivables, net, consist of the following by class of financing receivable (in thousands):

	June 30, 2011	March 31, 2011
Direct inventory finance receivables	$ 12,060	$ 12,157
Participation inventory finance receivables	6,357	5,771
Allowance for loan loss	(173)	(169)
	$ 18,244	$ 17,759

The Company evaluates the potential for loss from its participation inventory finance programs based on the independent lender s overall financial stability and has determined that an applicable allowance for loan loss was not needed at June 30, 2011s and March 31, 2011, respectively.
With respect to the direct inventory finance notes receivable, the risk of loss is spread over numerous borrowers. Borrower inventory levels and activity are monitored in conjunction with third-party service providers, where applicable, to estimate the potential for loss on the related notes receivable, considering potential exposures including repossession costs, remarketing expenses, impairment of value and the risk of collateral loss. The Company has historically been able to resell repossessed unused homes, thereby mitigating loss experience. If a default occurs and collateral is lost, the Company is exposed to loss of the full value of the home loan. If the Company determines that it is probable that a borrower will default, a specific reserve is determined and recorded within the estimated allowance for loan loss. The Company recorded an allowance for loan loss of $173,000 and $169,000 at June 30, 2011 and March 31, 2011, respectively. The following table represents changes in the estimated allowance for loan losses, including related additions and deductions to the allowance for loan loss applicable to the direct inventory finance receivables (in thousands):

	Three Months Ended June 30,	
	2011	2010
Balance at beginning of period	$ 169	$ 40
Provision for credit losses	4	105
Loans charged off, net of recoveries		4
Balance at end of period	$ 173	$ 149

The following table disaggregates inventory finance notes receivable and the estimated allowance for loan loss for each class of financing receivable by evaluation methodology (in thousands):

	Direct Inventory Finance		Participation Inventory Finance	
	June 30, 2011	March 31, 2011	June 30, 2011	March 31, 2011
Inventory finance notes receivable:				
Collectively evaluated for impairment	$ 11,484	$ 11,116	$	$
Individually evaluated for impairment	576	1,041	6,357	5,771
Total	$ 12,060	$ 12,157	$ 6,357	$ 5,771
Allowance for loan loss:				
Collectively evaluated for impairment	$ (173)	$ (169)	$	$
Individually evaluated for impairment				
Total	$ (173)	$ (169)	$	$

Loans are subject to regular review and are given management s attention whenever a problem situation appears to be developing. Loans with indicators of potential performance problems are placed on watch list status and are subject to additional monitoring and scrutiny. Nonperforming status includes loans accounted for on a non-accrual basis and accruing loans with principal payments past due 90 days or more. The Company s policy is to place loans on nonaccrual status when interest is past due and remains unpaid 90 days or more or when there is a clear indication that the borrower has the inability or unwillingness to meet payments as they become due. Payments received on nonaccrual loans are recorded on a cash basis, first to interest and then to principal. Charge-offs occur when it becomes probable that outstanding amounts will not be recovered. At June 30, 2011, the Company did not have any loans on nonaccrual status and was not aware of any potential problem loans that would have a material effect on the inventory finance receivables balance. The following table disaggregates the Company s inventory finance receivables by class and credit quality indicator (in thousands):

	Direct Inventory Finance		Participation Inventory Finance	
	June, 30 2011	March 31, 2011	June, 30 2011	March 31, 2011
Risk profile based on payment activity:				
Performing	$ 11,966	$ 11,995	$ 6,357	$ 5,771
Watch list	94	162		
Nonperforming				
Total	$ 12,060	$ 12,157	$ 6,357	$ 5,771

The Company has concentrations of inventory finance notes receivable related to factory-built homes located in the following states, measured as a percentage of inventory finance receivables principal balance outstanding as of June 30, 2011 and March 31, 2011:

	June 30, 2011	March 31, 2011
Arizona	19.6%	21.9%
Texas	14.6%	18.0%
California	12.0%	9.0%

The States of California, Arizona, and to a lesser degree Texas, have experienced economic weakness. The risks created by these concentrations have been considered in the determination of the adequacy of the allowance for loan losses. The Company did not have concentrations in excess of 10% of the principal balance of the inventory finance receivables in any other states as of June 30, 2011 or March 31, 2011, respectively.

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7. Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of each asset. Estimated useful lives for significant classes of assets are as follows: buildings and improvements 10 to 39 years, and machinery and equipment 3 to 25 years. Repairs and maintenance charges are expensed as incurred. Property, plant and equipment consist of the following (in thousands):

	June 30, 2011	March 31, 2011
Property, plant and equipment, at cost:		
Land	$ 20,036	$ 16,046
Buildings and improvements	27,408	19,672
Machinery and equipment	14,545	11,453
	61,989	47,171
Accumulated depreciation	(11,645)	(11,178)
Property, plant and equipment, net	$ 50,344	$ 35,993

8. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2011	March 31, 2011
Customer deposits	$ 14,067	$ 1,857
Estimated warranties	11,483	9,371
Salaries, wages and benefits	8,657	4,342
Unearned premiums	5,706	
Deferred margin	4,382	4,305
Accrued insurance	2,762	1,731
Accrued volume rebates	1,136	885
Accrued taxes	1,001	707
Reserve for repurchase commitments	690	597
Other (various)	10,945	2,450
	$ 60,829	$ 26,245

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9. Warranties

Homes are generally 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,	
	2011	2010
Balance at beginning of period	$ 9,371	$ 13,891
Liability assumed with Palm Harbor	1,932	
Charged to costs and expenses	3,006	1,213
Payments and deductions	(2,826)	(2,113)
Balance at end of period	$ 11,483	$ 12,991

10. Debt Obligations

The Company acquired securitized financings during the first quarter of fiscal 2012 as a part of the Palm Harbor acquisition. Acquired securitized financings were acquired at fair value, which resulted in a discount, and subsequently are accounted for a manner similar to ASC 310-30 to accrete the discount.

The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for consumer loans receivable held for investment to determine the expected cash flows on securitized financings and the contractual payments. The amount of contractual principal and contractual interest payments due on the securitized financings in excess of all cash flows expected as of the acquisition date should not be accreted (the non-accretable difference). The remaining amount is accreted into interest expense over the remaining life of the obligation (referred to as accretable yield).

	June 30, 2011	April 23, 2011
Securitized financings contractual amount	$ 130,851	$ 134,205
Purchase Discount		
Accretable	(31,346)	(32,072)
Non-accretable (1)		
Total securitized financings, net	$ 99,505	$ 102,133

(1) Because the contractual payments on securitized financing are determined by actual cash flows, the Company expects that there will not be a non-accretable difference.

Over the life of the loans, the Company continues to estimate cash flows expected to be paid on securitized financings. The Company evaluates at the balance sheet date whether the present value of its securitized financings determined using the effective interest rate, has increased. The present value of any subsequent decrease in cash flows expected to be paid adjusts the amount of accretable yield recognized on a prospective basis over the securitized financing s remaining life.

The changes in accretable yield on securitized financings were as follows:

	June 30, 2011
Balance at the beginning of the period	$
Additions	32,072
Accretion	(726)
Reclassifications from (to) nonaccretable discount	
Disposals	
Balance at the end of the period	$ 31,346

On July 12, 2005, prior to the acquisition of Palm Harbor and CountryPlace, CountryPlace completed its initial securitization (2005-1) for approximately $141.0 million of loans, which was funded by issuing bonds totaling approximately $118.4 million. The bonds were issued in four different classes: Class A-1 totaling $36.3 million with a coupon rate of 4.23%; Class A-2 totaling $27.4 million with a coupon rate of 4.42%; Class A-3 totaling $27.3 million with a coupon rate of 4.80%; and Class A-4 totaling $27.4 million with a coupon rate of 5.20%. Maturity of the bonds is at varying dates beginning in 2006 through 2015 and were issued with an expected weighted average maturity of 4.66 years. For accounting purposes, this transaction was structured as a securitized borrowing.

On March 22, 2007, CountryPlace, completed its second securitization (2007-1) for approximately $116.5 million of loans, which was funded by issuing bonds totaling approximately $101.9 million. The bonds were issued in four classes: Class A-1 totaling $28.9 million with a coupon rate of 5.484%; Class A-2 totaling $23.4 million with a coupon rate of 5.232%; Class A-3 totaling $24.5 million with a coupon rate of 5.593%; and Class A-4 totaling $25.1 million with a coupon rate of 5.846%. The bonds mature at varying dates beginning in 2008 through 2017 and were issued with an expected weighted average maturity of 4.86 years. For accounting purposes, this transaction was also structured as a securitized borrowing.

11. Income Taxes

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 2011, the Internal Revenue Service (IRS) completed its examination of the Company s federal income tax return for the fiscal year ended March 31, 2009. The examination resulted in an insignificant tax balance due. The Company is no longer subject to examination by the IRS 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. The provision for income taxes generally represents income taxes paid or payable for the current year plus the change in deferred taxes during the year.

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12. Commitments and 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 the risk of loss is further reduced by the resale value of the homes. The maximum amount for which the Company was contingently liable under such agreements approximated $11.6 million at June 30, 2011, 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 $690,000 and $597,000 at June 30, 2011 and March 31, 2011, respectively, related to these commitments.

Letter of Credit The Company maintains a $250,000 outstanding letter of credit with J.P. Morgan Chase Bank N.A. issued to satisfy the remaining requirements of the 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 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.

13. Stockholders Equity

The following tables represent changes in equity, including stockholders equity attributable to Cavco s stockholders and non-controlling interest for the three months ended June 30, 2011 (dollars in thousands):

		Equity Attributable to Cavco Stockholders					
	Redeemable Noncontrolling Interest	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Loss	Total
Balance, March 31, 2011	$ 35,819	6,817,606	$ 68	$ 129,211	$ 21,390	$	$ 150,669
Stock option exercises and associated tax benefits		71,907	1	1,435			1,436
Share-based compensation				185			185
Note payable conversion	36,173						
Net income	8,851				8,608		8,608
Other comprehensive loss						(63)	(63)
Balance, June 30, 2011	$ 80,843	6,889,513	$ 69	$ 130,831	$ 29,998	$ (63)	$ 160,835

14. Other Comprehensive Income

The difference between net income and total comprehensive income for the three months ended June 30, 2011 and June 30, 2010 is as follows (in thousands):

	Three Months Ended June 30,	
	2011	2010
Net income	$ 17,459	$ 850
Unrealized gain on available-for-sale investments, net of tax	(63)	
Comprehensive income	$ 17,396	$ 850

15. 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 278,026 shares were still available for grant at June 30, 2011. 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 period determined by the plan administrator, typically 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). Stock-based compensation cost charged against income for the three months ended June 30, 2011, was approximately $185,000. The Company recorded stock-based compensation expense of $138,000 for the three months ended June 30, 2010.

As of June 30, 2011, total unrecognized compensation cost related to stock options was approximately $2,579,000 and the related weighted-average period over which it is expected to be recognized is approximately 2.7 years.

The following table summarizes the option activity within the Company s stock-based compensation plans for the three months ended June 30, 2011:

	Number of Shares
Outstanding at March 31, 2011	401,500
Granted	71,100
Exercised	(71,750)
Outstanding at June 30, 2011	400,850
Exercisable at June 30, 2011	152,625

A summary of restricted stock activity within the Company s share-based compensation plans and changes for the three months ended June 30, 2011 is as follows:

	Number of Shares

Nonvested at March 31, 2011	498
Vested	(157)
Nonvested at June 30, 2011	341

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16. Earnings Per Share

Basic earnings per common share is computed based on the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed based on the combination of dilutive common share equivalents, comprised of shares issuable under the Company s share-based compensation plans and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money options to purchase shares, which is calculated based on the average share price for each 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:

	Three Months Ended June 30,