

NOBILITY HOMES INC
Form 10-Q
June 18, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d)
of the Securities Exchange Act of 1934
For the quarterly period ended May 5, 2018
Commission File number 000-06506

NOBILITY HOMES, INC.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

59-1166102
(I.R.S. Employer
Identification No.)

3741 S.W. 7th Street

Ocala, Florida
(Address of principal executive offices)

34474
(Zip Code)

(352) 732-5157

(Registrant's telephone number, including area code)

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 ; No .

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ; No .

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. .

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ; No .

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

	Shares Outstanding on
Title of Class	June 18, 2018
Common Stock	3,874,069

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NOBILITY HOMES, INC.

Consolidated Balance Sheets

	May 5, 2018 (Unaudited)	November 4, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,737,699	\$ 27,910,504
Short-term investments	564,400	627,087
Accounts receivable - trade	1,782,248	2,934,300
Note receivable		500,000
Mortgage notes receivable	14,399	13,495
Inventories	7,889,404	7,505,681
Pre-owned homes, net	859,843	1,141,863
Prepaid expenses and other current assets	1,408,142	820,224
Deferred income taxes		609,629
Total current assets	42,256,135	42,062,783
Property, plant and equipment, net	4,714,517	4,304,771
Pre-owned homes, net	691,295	815,358
Interest receivable		101,301
Note receivable, less current portion	109,935	1,134,086
Mortgage notes receivable, less current portion	238,393	240,297
Other investments	1,521,344	1,471,029
Property held for sale	213,437	599,455
Cash surrender value of life insurance	3,352,849	3,262,848
Other assets	156,287	156,287
Total assets	\$ 53,254,192	\$ 54,148,215
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 963,763	\$ 849,782
Accrued compensation	636,539	624,989
Accrued expenses and other current liabilities	1,163,357	1,127,397
Income taxes payable	448,379	260,416
Customer deposits	3,744,823	2,796,827
Total current liabilities	6,956,861	5,659,411
Deferred income taxes	59,434	1,074,507
Total liabilities	7,016,295	6,733,918
Commitments and contingent liabilities		

Stockholders' equity:

Preferred stock, \$.10 par value, 500,000 shares authorized; none issued and outstanding		
Common stock, \$.10 par value, 10,000,000 shares authorized; 5,364,907 shares issued; 3,874,069 and 3,997,569 outstanding, respectively	536,491	536,491
Additional paid in capital	10,670,113	10,669,231
Retained earnings	47,540,755	46,167,528
Accumulated other comprehensive income	366,724	412,233
Less treasury stock at cost, 1,490,838 shares in 2018 and 1,367,338 shares in 2017	(12,876,186)	(10,371,186)
Total stockholders' equity	46,237,897	47,414,297
Total liabilities and stockholders' equity	\$ 53,254,192	\$ 54,148,215

The accompanying notes are an integral part of these financial statements

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NOBILITY HOMES, INC.

Consolidated Statements of Income and Comprehensive Income

Unaudited

	Three Months Ended		Six Months Ended	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
Net sales	\$ 8,922,264	\$ 10,046,071	\$ 18,568,082	\$ 18,619,471
Cost of goods sold	(6,610,958)	(7,647,187)	(14,039,837)	(14,196,523)
Gross profit	2,311,306	2,398,884	4,528,245	4,422,948
Selling, general and administrative expenses	(1,119,359)	(1,122,286)	(2,246,141)	(2,089,873)
Operating income	1,191,947	1,276,598	2,282,104	2,333,075
Other income:				
Interest income	81,446	31,357	117,383	71,804
Undistributed earnings in joint venture - Majestic 21	27,266	28,123	50,315	56,721
Proceeds received under escrow arrangement	55,640	225,956	55,640	225,956
Gain on property held for resale	203,512		203,512	
Miscellaneous	6,850	9,891	12,584	14,662
Total other income	374,714	295,327	439,434	369,143
Income before provision for income taxes	1,566,661	1,571,925	2,721,538	2,702,218
Income tax expense	(431,056)	(464,416)	(569,697)	(891,386)
Net income	1,135,605	1,107,509	2,151,841	1,810,832
Other comprehensive income (loss)				
Unrealized investment gain (loss), net of tax effect	(67,857)	13,457	(45,510)	128,624
Comprehensive income	\$ 1,067,748	\$ 1,120,966	\$ 2,106,331	\$ 1,939,456
Weighted average number of shares outstanding:				
Basic	3,903,904	4,004,840	3,950,638	4,004,539
Diluted	3,906,077	4,006,047	3,952,650	4,005,793
Net income per share:				
Basic	\$ 0.29	\$ 0.28	\$ 0.54	\$ 0.45
Diluted	\$ 0.29	\$ 0.28	\$ 0.54	\$ 0.45

The accompanying notes are an integral part of these financial statements

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NOBILITY HOMES, INC.

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	May 5, 2018	May 6, 2017
Cash flows from operating activities:		
Net income	\$ 2,151,841	\$ 1,810,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	59,261	48,774
Deferred income taxes	(388,266)	(246,032)
Undistributed earnings in joint venture - Majestic 21	(50,315)	(56,721)
Gain on property held for resale	(203,512)	
Inventory impairment	105,000	173,000
Stock-based compensation	882	6,336
Decrease (increase) in:		
Accounts receivable	1,152,052	(91,264)
Inventories	(383,723)	(885,432)
Pre-owned homes	301,083	314,839
Income tax receivable		
Prepaid expenses and other current assets	(587,918)	118,529
Interest receivable		(30,037)
(Decrease) increase in:		
Accounts payable	113,980	(25,604)
Accrued compensation	11,550	(76,146)
Accrued expenses and other current liabilities	35,960	(84,398)
Income taxes payable	187,963	62,418
Customer deposits	947,996	(25,576)
Net cash provided by operating activities	3,453,834	1,013,518
Cash flows from investing activities:		
Purchase of property, plant and equipment	(469,007)	(155,609)
Proceeds from property held for resale	589,530	
Collections on note receivable	1,530,000	1,000,000
Collections on interest receivable	101,301	
Collections on mortgage notes receivable	1,000	354
Collections on equipment notes receivable	19,602	
Issuance of mortgage note receivable		(70,850)
Issuance of equipment note receivable	(25,451)	
Increase in cash surrender value of life insurance	(90,000)	(120,001)
Net cash provided by investing activities	1,656,975	653,894

Cash flows from financing activities:		
Payment of cash dividend	(778,614)	(600,726)
Proceeds from exercise of employee stock options		7,300
Purchase of treasury stock	(2,505,000)	
Net cash used in financing activities	(3,283,614)	(593,426)
Increase in cash and cash equivalents	1,827,195	1,073,986
Cash and cash equivalents at beginning of year	27,910,504	24,562,638
Cash and cash equivalents at end of quarter	\$ 29,737,699	\$ 25,636,624
Supplemental disclosure of cash flows information:		
Income taxes paid	\$ 770,000	\$ 1,075,000

The accompanying notes are an integral part of these financial statements

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Nobility Homes, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Basis of Presentation and Accounting Policies

The accompanying unaudited consolidated financial statements for the three and six months ended May 5, 2018 have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission for Quarterly Reports on Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The unaudited financial information included in this report includes all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods. The results of operations for the three and six months ended May 5, 2018 are not necessarily indicative of the results of the full fiscal year.

The condensed consolidated financial statements included in this report should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended November 4, 2017.

Recently Issued or Adopted Accounting Pronouncements In November 2015, the FASB issued ASU No. 2015-17 **Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes** (ASU 2015-17). ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods there in and may be applied either prospectively or retrospectively to all periods presented. The Company prospectively adopted ASU 2015-17 beginning with its February 3, 2018 consolidated financial statements. As such, deferred tax assets and liabilities as of May 5, 2018 have been presented as a noncurrent liability.

Recently Issued Accounting Pronouncements In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, **Leases** (ASU 2016-02). The core principle of ASU 2016-02 is that lessees should recognize on its balance sheet assets and liabilities arising from a lease. In accordance with that principle, ASU 2016-02 requires that a lessee recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying leased asset for the lease term. Lessees shall classify all leases as finance or operating leases. This new accounting guidance is effective for public companies for fiscal years beginning after December 15, 2018 (i.e., calendar years beginning on January 1, 2019), including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, **Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities**. The amendments require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). The amendments also require an entity to present

separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected

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to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendments in this update are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect this amendment to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments require an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. The amendments in this update are effective for public companies for fiscal years beginning after December 15, 2016. The Company adopted this ASU in the quarter ended February 3, 2018 and it did not have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), which requires an entity to recognize revenue from the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Together with subsequent updates, the guidance addresses, in particular, contracts with more than one performance obligation, as well as the accounting for some costs to obtain or fulfill a contract with a customer; and provides for additional disclosures with respect to revenues and cash flows arising from contracts with customers. With respect to public entities, this update, together with subsequent amendments, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and early adoption is not permitted. The Company believes the implementation of this guidance will have no material impact on its consolidated financial statements.

The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Using this principle, a comprehensive framework was established for determining how much revenue to recognize and when it should be recognized. To be consistent with this core principle, an entity is required to apply the following five-step approach:

Identify the contract(s) with a customer;

Identify each performance obligation in the contract;

Determine the transaction price;

Allocate the transaction price to each performance obligation; and

Recognize revenue when or as each performance obligation is satisfied.

The Company's revenue comes substantially from the sale of manufactured housing, modular housing and park models, along with freight billed to customers, parts sold and aftermarket services.

The Company has evaluated how the adoption of ASU 2014-09 will impact its financial position and result of operations by applying the five-step approach to each revenue stream. No material changes resulting from this pending adoption were identified. The Company intends to adopt ASU 2014-09 using the modified retrospective method being utilized.

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The Company, upon adoption of ASU 2014-09, will increase the amount of required disclosures, including but not limited to:

Disaggregation of revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors;

The opening and closing balances of receivables, contract assets, and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;

Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period;

Information about performance obligations in contracts with customers; and

Judgments that significantly affect the determination of the amount and timing of revenue from contracts with customers, including the timing of satisfaction of performance obligation, and the transaction price and the amounts allocation to performance obligations.

Note 2 Inventories

New home inventory is carried at the lower of cost or net realizable value. The cost of finished home inventories determined on the specific identification method is removed from inventories and recorded as a component of cost of sales at the time revenue is recognized. Under the specific identification method, if finished home inventory can be sold for a profit there is no basis to write down the inventory below the lower of cost or fair market value.

The Company acquired certain repossessed pre-owned inventory (Buy Back Inventory) in 2011 as part of an Amendment of the Finance Revenue Sharing Agreement (FRSA) agreement with 21st Mortgage Corporation. This inventory is valued at the Company's cost to acquire determined on the specific identification method, plus refurbishment costs (any item on the home that needs to be repaired or replaced) incurred to date to bring the inventory to a more saleable state. The Buy Back inventory amount is reduced where necessary on a unit specific basis by a valuation reserve which management believes results in inventory being valued at market.

Other pre-owned homes are acquired (Repossessions Inventory) as a convenience to the Company's joint venture partner, 21st Mortgage Corporation. This inventory has been repossessed by 21st Mortgage Corporation directly or through mortgage foreclosure. The Company acquired this inventory at the amount of the uncollected balance of the financing at the time of the foreclosure/repossessions by 21st Mortgage Corporation. The Company records this inventory at cost determined on the specific identification method. All of the refurbishment costs are paid by 21st Mortgage Corporation. This arrangement assists 21st Mortgage Corporation with liquidation of their repossessed inventory. The timing of these repurchases by the Company is unpredictable as it is based on the repossessions 21st Mortgage Corporation incurs in the portfolio. When the home is sold, the Company retains the cost of the home, an interest factor on the cost of the home and a sales commission for the sale of the home, from the sales proceeds. Any additional proceeds are paid to 21st Mortgage Corporation. Any shortfall from the proceeds to cover these amounts is paid by 21st Mortgage Corporation to the Company. As the Company has no risk of loss on the sale, there is no

valuation allowance necessary for this inventory.

Pre-owned homes are also taken as trade-ins on new home sales (Trade-in Inventory). This inventory is recorded at estimated actual wholesale value which is generally lower than market value, determined on the specific identification method, plus refurbishment costs incurred to date to bring the inventory to a more saleable state. The Trade-in inventory amount is reduced where necessary on a unit specific basis by a valuation reserve which management believes results in inventory being valued at market.

Other inventory costs are determined on a first-in, first-out basis.

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A breakdown of the elements of inventory is as follows:

	May 5, 2018	November 4, 2017
Raw materials	\$ 720,196	\$ 896,954
Work-in-process	93,247	110,847
Finished homes	6,946,646	6,369,495
Model home furniture and others	129,315	128,385
Inventories	\$ 7,889,404	\$ 7,505,681
Pre-owned homes	\$ 2,219,826	\$ 2,736,946
Inventory impairment reserve	(668,688)	(779,725)
	1,551,138	1,957,221
Less homes expected to sell in 12 months	(859,843)	(1,141,863)
Pre-owned homes, long-term	\$ 691,295	\$ 815,358

Note 3 Short-term Investments

The following is a summary of short-term investments (available for sale):

	Cost	May 5, 2018		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Equity securities in a public company	\$ 167,930	\$ 396,470	\$	\$ 564,400
	Cost	November 4, 2017		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
Equity securities in a public company	\$ 167,930	\$ 459,157	\$	\$ 627,087

The fair values were estimated based on quoted market prices in active markets at each respective period end.

Note 4 Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts and notes receivable, accounts payable and accrued expenses approximates fair value because of the short maturity of those instruments.

The Company accounts for the fair value of financial investments in accordance with FASB Accounting Standards Codification (ASC) No. 820 Fair Value Measurements (ASC 820).

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ASC 820 defines fair value as the price that would be received upon the sale of an asset or paid to transfer a liability (i.e. exit price) in an orderly transaction between market participants at the measurement date. ASC 820 requires disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the assumptions (i.e. inputs) used in the valuation. Financial assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The ASC 820 fair value hierarchy is defined as follows:

Level 1 - Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active for which significant inputs are observable, either directly or indirectly.

Level 3 - Valuations are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management's best estimate of what market participants would use in valuing the asset or liability at the measurement date.

The following tables represent the Company's financial assets and liabilities which are carried at fair value.

	May 5, 2018		
	Level 1	Level 2	Level 3
Equity securities in a public company	\$ 564,400	\$	\$

	November 4, 2017		
	Level 1	Level 2	Level 3
Equity securities in a public company	\$ 627,087	\$	\$

Note 5 Sale of Property Held for Sale

On April 13, 2018 the Company sold its former manufacturing facility located in Belleview, Florida for total net proceeds of \$589,530. The Company recognized a gain on the sale of this property held for sale of \$203,512. As of May 5, 2018, property held for sale includes our former sales center located in Pace, Florida with a net book value of \$213,437.

Note 6 Investment in Retirement Community Limited Partnership

The Company has a 31.3% limited partnership interest in Walden Woods South LLC (Walden Woods), which owns and operates a retirement community. The Company's investment in Walden Woods is fully impaired at May 5, 2018 and November 4, 2017.

On March 31, 2016, the Company sold its 48.5% limited partnership interest in CRF III, Ltd. (Cypress Creek) for \$3,990,000. The Company received \$960,000 cash and a note receivable for \$3,030,000, plus interest at 3.0% payable in \$500,000 semi-annual installments through July 1, 2019. During the three months ended May 5, 2018, this note

receivable and all accrued interest was paid in full.

Note 7 Stockholders' Equity and Related Party Transaction

During the six months ended May 5, 2018, the Company repurchased 123,500 of its common stock shares for per share prices ranging from \$20.22 - \$21.00 for an aggregate total of \$2,505,000. Of these repurchased common stock shares, 100,000 were from a related party for which the Company paid \$20.22 per share. Treasury stock is recorded at cost and is presented as a reduction of stockholders' equity in the accompanying consolidated financial statements. There were no common stock share repurchases during the six months ended May 6, 2017.

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On March 2, 2018 the Board of Directors declared a cash dividend of \$.20 per common share to the stockholders of record as of March 26, 2018. The cash dividend was paid from our cash reserves on April 16, 2018 in the amount of \$778,614.

On March 10, 2017 the Board of Directors declared a cash dividend of \$.15 per common share to the stockholders of record as of March 27, 2017. The cash dividend was paid from our cash reserves on April 17, 2017 in the amount of \$600,726.

Note 8 Net Income per Share

These financial statements include basic and diluted net income per share information for all periods presented. The basic net income per share is calculated by dividing net income by the weighted-average number of shares outstanding. The diluted net income per share is calculated by dividing net income by the weighted-average number of shares outstanding, adjusted for dilutive common shares.

Note 9 Revenues by Products and Service

Revenues by net sales from manufactured housing, pre-owned homes and insurance agent commissions are as follows:

	Three Months Ended		Six Months Ended	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
Manufactured housing	\$ 8,551,759	\$ 9,763,293	\$ 17,831,141	\$ 17,783,910
Pre-owned homes	301,096	209,095	609,457	694,359
Insurance agent commissions	69,409	73,683	127,484	141,202
Total net sales	\$ 8,922,264	\$ 10,046,071	\$ 18,568,082	\$ 18,619,471

Note 10 Commitments and Contingent Liabilities

Majestic 21 On May 20, 2009, the Company became a 50% guarantor on a \$5 million note payable entered into by Majestic 21, a joint venture in which the Company owns a 50% interest. This guarantee was a requirement of the bank that provided the \$5 million loan to Majestic 21. The \$5 million guarantee of Majestic 21's debt is for the life of the note. The amount of the guarantee declines with the amortization and repayment of the loan. As collateral for the loan, 21st Mortgage Corporation (our joint venture partner) has granted the lender a security interest in a pool of loans encumbering homes sold by Prestige Homes Centers, Inc. If the pool of loans securing this note should decrease in value so that the notes outstanding principal balance is in excess of 80% of the principal balance of the pool of loans, then Majestic 21 would have to pay down the note's principal balance to an amount that is no more than 80% of the principal balance of the pool of loans. The Company and 21st Mortgage Corporation are obligated jointly to contribute the amount necessary to bring the loan balance back down to 80% of the collateral provided. We do not anticipate any required contributions as the pool of loans securing the note have historically been in excess of 100% of the collateral value. As of May 5, 2018, the outstanding principal balance of the note was \$347,211 and the amount of collateral held by our joint venture partner for the Majestic 21 note payable was \$1,348,597. Based upon management's analysis, the fair value of the guarantee is not material and as a result, no liability for the guarantee has been recorded in the accompanying balance sheets of the Company.

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Results of Operations

Total revenues in the second quarter of 2018 were \$8,922,264 compared to \$10,046,071 in the second quarter of 2017. Total net sales for the first six months of 2018 were \$18,568,082 compared to \$18,619,471 for the first six months of 2017. The decline in second quarter sales in 2018 is due to the large number of homes sold at our retail sales centers that were in the field, but not completed and funded by May 5, 2018 and therefore not recognized as revenue. Net income for the first six months of 2018 was \$2,151,841 compared to a net income of \$1,810,832 for the first six months of 2017.

The following table summarizes certain key sales statistics and percent of gross profit.

	Three Months Ended		Six Months Ended	
	May 5, 2018	May 6, 2017	May 5, 2018	May 6, 2017
New homes sold through Company owned sales centers	80	98	160	167
Pre-owned homes sold through Company owned sales centers:				
Buy Back	4	2	6	6
Repossessions	1	1	4	4
Trade-Ins	0	2	2	3
Homes sold to independent dealers	55	54	121	125
Total new factory built homes produced	164	165	302	320
Average new manufactured home price - retail	\$ 73,752	\$ 73,261	\$ 75,498	\$ 73,917
Average new manufactured home price - wholesale	\$ 40,782	\$ 38,542	\$ 40,389	\$ 37,360
As a percent of net sales:				
Gross profit from the Company owned retail sales centers	19%	16%	18%	16%
Gross profit from the manufacturing facilities - including intercompany sales	15%	17%	16%	17%

Sales to one publicly traded REIT (Real Estate Investment Trust) which owns multiple retirement communities in our market area accounted for \$1,346,220 or 7% of our total sales for the first six months of 2018 compared to \$783,765 or 4% of our total sales for the first six months of 2017. Other companies which own multiple retirement communities in our market area accounted for \$737,490 or 4% of our total sales for the first six months of 2018 compared to \$1,208,330 or 6% for the same period last year. Accounts receivable due from these customers were \$323,419 at May 5, 2018.

The demand for affordable manufactured housing in Florida and the U.S. continues to improve. According to the Florida Manufactured Housing Association, shipments in Florida for the period from November 2017 through April 2018 were up approximately 11.7% from the same period last year. Our sales for fiscal 2018 continue to look positive. Constrained consumer credit and the lack of lenders in our industry, partly as a result of an increase in government regulations, still affects our results by limiting many affordable manufactured housing buyers from purchasing homes.

We understand that maintaining our strong financial position is vital for future growth and success. Because of the recent years of very challenging business conditions in our market area, management will continue to evaluate all expenses and react in a manner consistent with maintaining our strong financial position, while exploring opportunities to expand our distribution and manufacturing operations.

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Our many years of experience in the Florida market, combined with home buyers' increased need for more affordable housing, should serve the Company well in the coming years. Management remains convinced that our specific geographic market is one of the best long-term growth areas in the country.

On June 5, 2018 the Company celebrated its 51st anniversary in business specializing in the design and production of quality, affordable manufactured homes. With multiple retail sales centers, an insurance agency subsidiary, and an investment in a retirement manufactured home community, we are the only vertically integrated manufactured home company headquartered in Florida.

Insurance agent commission revenues in the second quarter of 2018 were \$69,409 compared to \$73,683 in the second quarter of 2017. Total insurance agent commission revenues for the first six months of 2018 were \$127,484 compared to \$141,202 for the first six months of 2017. The decrease in insurance agent commissions in first six months of 2018 were due to a decline in new policies and renewals generated which effects agent commission earned. The Company establishes appropriate reserves for policy cancellations based on numerous factors, including past transaction history with customers, historical experience and other information, which is periodically evaluated and adjusted as deemed necessary. In the opinion of management, no reserve was deemed necessary for policy cancellations at May 5, 2018 and November 4, 2017.

Gross profit as a percentage of net sales was 26% in second quarter of 2018 compared to 24% for the second quarter of 2017. Gross profit as a percentage of net sales was 24% for the first six months of 2018 and 2017. The gross profit in second quarter of 2018 was \$2,311,306 compared to \$2,398,884 in the second quarter of 2017 and was \$4,528,245 for the first six months of 2018 compared to \$4,422,948 for the first six months of 2017. The gross profit is dependent on the sales mix of wholesale and retail homes and number of pre-owned homes sold.

Selling, general and administrative expenses as a percent of net sales was 13% in second quarter of 2018 compared to 11% in the second quarter of 2017 and was 12% for the first six months of 2018 compared to 11% for the first six months of 2017. Selling, general and administrative expenses in second quarter of 2018 was \$1,119,359 compared to \$1,122,286 in the second quarter of 2017 and was \$2,246,141 for the first six months of 2018 compared to \$2,089,873 for the first six months of 2017. The dollar increase in expenses in 2018 resulted from the increase in variable and accrued compensation expenses.

We earned interest of \$81,446 for the second quarter of 2018 compared to \$31,357 for the second quarter of 2017. For the first six months of 2018, interest earned was \$117,383 compared to \$71,804 in the first six months of 2017. The increase is primarily due to the increase in the balances and the interest rate in the money market accounts and accrued interest from the note receivable acquired in the sale of the investment in retirement community.

Our earnings from Majestic 21 in the second quarter of 2018 were \$27,266 compared to \$28,123, for the second quarter of 2017. Our earnings from Majestic 21 for the first six months of 2018 were \$50,315 compared to \$56,721 for the first six months of 2017. The earnings from Majestic 21 represent the allocation of profit and losses which are owned 50% by 21st Mortgage Corporation and 50% by the Company.

The Company recorded an income tax expense in the amount of \$431,056 in the second quarter of 2018 as compared to \$464,416 in second quarter 2017. Income tax expense for the six months of 2018 was \$569,697 compared to \$891,386 for the six months of 2017. The decrease in income tax expense is attributable to the reduction in the corporate income tax rate from 34% to 21% that occurred on December 22, 2017 by the Tax Cuts and Jobs Act.

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We reported net income of \$1,135,605 for the second quarter of 2018 or \$0.29 per share, compared to \$1,107,509 or \$0.28 per share, for the second quarter of 2017. For the first six months of 2018 net income was \$2,151,841 or \$0.54 per share, compared to \$1,810,832 or \$0.45 per share, in the first six months of 2017.

Liquidity and Capital Resources

Cash and cash equivalents were \$29,737,699 at May 5, 2018 compared to \$27,910,504 at November 4, 2017. Short-term investments were \$564,400 at May 5, 2018 compared to \$627,087 at November 4, 2017. Working capital was \$35,299,274 at May 5, 2018 as compared to \$36,403,372 at November 4, 2017. In November 2017, the Company purchased the land for one existing retail sales center for \$330,000. In January 2018, the Company repurchased 4,500 shares of its common stock at \$21.00 per share. In February 2018, the Company repurchased, from a related party, 100,000 shares of its common stock at \$20.22 per share. In April 2018, the Company sold its Belleview facility (property held for resale) for net proceeds of \$589,530. A cash dividend was paid from our cash reserves in April 2018 in the amount of \$778,614. In the second quarter of 2018, the Company repurchased an additional 19,000 shares of its common stock for an average price of \$20.65. We own the entire inventory for our Prestige retail sales centers which includes new, pre-owned and repossessed or foreclosed homes and do not incur any third party floor plan financing expenses. The Company has no material commitments for capital expenditures.

We view our liquidity as our total cash and short term investments. We currently have no line of credit facility and we do not believe that such a facility is currently necessary for our operations. We have no debt. We also have approximately \$3.3 million of cash surrender value of life insurance which we could access as an additional source of liquidity, though we have not currently viewed this to be necessary. As of May 5, 2018, the Company continued to report a strong balance sheet which included total assets of approximately \$54 million and stockholders' equity of approximately \$46 million.

Critical Accounting Policies and Estimates

In Item 7 of our Form 10-K, under the heading "Critical Accounting Policies and Estimates," we have provided a discussion of the critical accounting policies and estimates that management believes affect its more significant judgments and estimates used in the preparation of our Consolidated Financial Statements. No significant changes have occurred since that time.

Forward-Looking Statements

Certain statements in this report are forward-looking statements within the meaning of the federal securities laws. Although Nobility believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, there are risks and uncertainties that may cause actual results to differ materially from expectations. These risks and uncertainties include, but are not limited to, competitive pricing pressures at both the wholesale and retail levels, increasing material costs, uncertain economic conditions, changes in market demand, changes in interest rates, availability of financing for retail and wholesale purchasers, consumer confidence, adverse weather conditions that reduce sales at retail centers, the risk of manufacturing plant shutdowns due to storms or other factors, the impact of marketing and cost-management programs, reliance on the Florida economy, possible labor shortages, possible materials shortages, increasing labor cost, cyclical nature of the manufactured housing industry, impact of fuel costs, catastrophic events impacting insurance costs, availability of insurance coverage for various risks to Nobility, market demographics, management's ability to attract and retain executive officers and key personnel, increased global tensions, market disruptions resulting from terrorist or other attack and any armed conflict involving the United States and the impact of inflation.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report (the "Evaluation Date"). Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of May 5, 2018.

Changes in Internal Control over Financial Reporting. There were no changes in our internal controls over financial reporting that occurred during the second quarter of fiscal 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Table of Contents**Part II. OTHER INFORMATION AND SIGNATURES**

There were no reportable events for Item 1 and Items 3 through 5.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table represents information with respect to purchases by the Company of its common stock during the three months ended May 5, 2018.

Period		Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs*	Maximum number or approximate dollar value of shares that may yet be purchased under the plans or programs*
Feb 4	Mar 3, 2018	100,000	\$ 20.22	104,500	N/A
Mar 4	Mar 31, 2018	4,000	\$ 21.00	108,500	N/A
Apr 1	May 5, 2018	15,000	\$ 20.30	123,500	N/A

* The Company's Board of Directors has authorized management to repurchase up to 200,000 shares of the Company's common stock or less per year in the open market. For total 2018, management has repurchased an aggregate of 123,500 share of common stock and is authorized to purchase up to an additional 76,500 shares.

Item 6. Exhibits

- 31. (a) Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934
- (b) Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934
- 32. (a) Written Statement of Chief Executive Officer Pursuant to 18 U.S.C. §1350
- (b) Written Statement of Chief Financial Officer Pursuant to 18 U.S.C. §1350
- 101. Interactive data filing formatted in XBRL

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NOBILITY HOMES, INC.

DATE: June 18, 2018

By: /s/ Terry E. Trexler
Terry E. Trexler, Chairman,
President and Chief Executive Officer

DATE: June 18, 2018

By: /s/ Thomas W. Trexler
Thomas W. Trexler, Executive Vice President,
and Chief Financial Officer

DATE: June 18, 2018

By: /s/ Lynn J. Cramer, Jr.
Lynn J. Cramer, Jr., Treasurer
and Principal Accounting Officer