

CAVCO INDUSTRIES INC
Form 10-Q
February 04, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended December 26, 2015

OR

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
(State or other jurisdiction of incorporation or organization)

56-2405642
(I.R.S. Employer Identification No.)

1001 North Central Avenue, Suite 800
Phoenix, Arizona 85004
(Address of principal executive offices, including 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 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 (§ 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 No

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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 No

As of January 29, 2016, 8,912,133 shares of Registrant's Common Stock, \$.01 par value, were outstanding.

CAVCO INDUSTRIES, INC.
FORM 10-Q
December 26, 2015
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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

CAVCO INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	December 26, 2015 (Unaudited)	March 28, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$96,164	\$96,597
Restricted cash, current	8,819	9,997
Accounts receivable, net	29,931	26,994
Short-term investments	7,342	7,106
Current portion of consumer loans receivable, net	23,097	24,073
Current portion of commercial loans receivable, net	3,185	2,330
Inventories	91,678	75,334
Prepaid expenses and other current assets	20,606	14,460
Deferred income taxes, current	10,643	8,573
Total current assets	291,465	265,464
Restricted cash	1,081	1,081
Investments	25,492	24,813
Consumer loans receivable, net	69,200	74,085
Commercial loans receivable, net	20,560	15,751
Property, plant and equipment, net	53,935	44,712
Goodwill and other intangibles, net	80,787	76,676
Total assets	\$542,520	\$502,582
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$17,002	\$17,805
Accrued liabilities	98,026	77,076
Current portion of securitized financings and other	6,054	6,590
Total current liabilities	121,082	101,471
Securitized financings and other	56,426	60,370
Deferred income taxes	20,833	20,587
Stockholders' equity:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; No shares issued or outstanding	—	—
Common stock, \$.01 par value; 40,000,000 and 20,000,000 shares authorized, respectively; Outstanding 8,912,133 and 8,859,199 shares, respectively	89	89
Additional paid-in capital	241,130	237,916
Retained earnings	103,198	81,645
Accumulated other comprehensive (loss) income	(238	) 504
Total stockholders' equity	344,179	320,154
Total liabilities and stockholders' equity	\$542,520	\$502,582
See accompanying Notes to Consolidated Financial Statements		

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CAVCO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net revenue	\$181,427	\$146,932	\$535,059	\$425,411
Cost of sales	145,037	115,131	427,280	330,295
Gross profit	36,390	31,801	107,779	95,116
Selling, general and administrative expenses	23,728	21,997	72,958	66,475
Income from operations	12,662	9,804	34,821	28,641
Interest expense	(1,244	) (1,095	) (3,224	) (3,432
Other income, net	587	1,843	1,530	2,985
Income before income taxes	12,005	10,552	33,127	28,194
Income tax expense	(3,907	) (3,914	) (11,574	) (10,330
Net income	\$8,098	\$6,638	\$21,553	\$17,864
Comprehensive income:				
Net income	\$8,098	\$6,638	\$21,553	\$17,864
Unrealized (loss) gain on available-for-sale securities, net of tax	(37	) (100	) (742	) (34
Comprehensive income	\$8,061	\$6,538	\$20,811	\$17,830
Net income per share:				
Basic	\$0.91	\$0.75	\$2.43	\$2.02
Diluted	\$0.89	\$0.74	\$2.38	\$1.98
Weighted average shares outstanding:				
Basic	8,903,742	8,857,449	8,881,822	8,852,822
Diluted	9,064,900	9,016,585	9,040,146	9,015,536

See accompanying Notes to Consolidated Financial Statements

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

	Nine Months Ended	
	December 26, 2015	December 27, 2014
OPERATING ACTIVITIES		
Net income	\$21,553	\$17,864
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,917	2,830
Provision for credit losses	435	(74)
Deferred income taxes	(887)	3,545
Stock-based compensation expense	1,512	1,408
Non-cash interest income, net	(1,404)	(788)
Incremental tax benefits from option exercises	(751)	(3,658)
Gain (loss) on sale of property, plant and equipment including assets held for sale, net	(17)	(1,557)
Gain on sale of loans and investments, net	(4,726)	(4,378)
Changes in operating assets and liabilities:		
Restricted cash	1,322	234
Accounts receivable	2,477	(1,991)
Consumer loans receivable originated	(77,012)	(79,400)
Principal payments on consumer loans receivable	7,698	10,389
Proceeds from sales of consumer loans	79,304	71,562
Inventories	(1,072)	(2,105)
Prepaid expenses and other current assets	(1,698)	3
Commercial loans receivable	(5,707)	522
Accounts payable and accrued liabilities	11,128	3,232
Net cash provided by operating activities	35,072	17,638
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(2,447)	(1,683)
Purchase of certain assets and liabilities of Fairmont Homes and Chariot Eagle	(28,121)	—
Proceeds from sale of property, plant and equipment including assets held for sale	54	6,029
Purchases of investments	(9,956)	(10,156)
Proceeds from sale of investments	7,737	6,751
Net cash (used in) provided by investing activities	(32,733)	941
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	951	441
Incremental tax benefits from exercise of stock options	751	3,658
Proceeds from secured financings and other	1,093	3,267
Payments on securitized financings	(5,567)	(6,653)
Net cash (used in) provided by financing activities	(2,772)	713
Net (decrease) increase in cash and cash equivalents	(433)	19,292
Cash and cash equivalents at beginning of the period	96,597	72,949
Cash and cash equivalents at end of the period	\$96,164	\$92,241
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	\$10,553	\$6,004
Cash paid during the year for interest	\$2,845	\$3,113
See accompanying Notes to Consolidated Financial Statements		

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CAVCO INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of Cavco Industries, Inc., and its subsidiaries (collectively, the "Company" or "Cavco"), have been prepared 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 U.S. generally accepted accounting principles ("GAAP") 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. Certain prior period amounts have been reclassified to conform to current period classification. The Company has evaluated subsequent events after the balance sheet date through the date of the filing of this report with the SEC; there were no disclosable subsequent events. These Consolidated Financial Statements should 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 for the year ended March 28, 2015, filed with the SEC on June 10, 2015, as amended via a Form 10-K/A filed with the SEC on July 24, 2015 ("Form 10-K").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying Notes. Actual results could differ from those estimates. The Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year. The Company operates on a 52-53 week fiscal year ending on the Saturday nearest to March 31 of each year. Each fiscal quarter consists of 13 weeks, with an occasional fourth quarter extending to 14 weeks, if necessary, for the fiscal year to end on the Saturday nearest to March 31. The Company's current fiscal year will end on April 2, 2016.

The Company operates principally in two segments: (1) factory-built housing, which includes wholesale and retail systems-built housing operations, and (2) financial services, which includes manufactured housing consumer finance and insurance. The Company builds a wide variety of affordable modular homes, manufactured homes and park model RVs in 19 factories located throughout the United States, primarily distributed through a network of independent and Company-owned retailers. The Company operates 45 Company-owned retail stores in the United States. The Company's mortgage subsidiary ("CountryPlace") is an approved Fannie Mae and Ginnie Mae seller/servicer and offers conforming mortgages to purchasers of factory-built and site-built homes. The Company's insurance subsidiary ("Standard Casualty") provides property and casualty insurance to owners of manufactured homes.

On March 30, 2015, the Company purchased certain manufactured housing assets and liabilities of Chariot Eagle, LLC, which produces park model RVs and manufactured homes distributed in the southeastern United States. On May 1, 2015, the Company also purchased certain manufactured housing assets and liabilities of Fairmont Homes, a premier builder of manufactured and modular homes and park model RVs serving the Midwest, western Great Plains states, the Northeast and several provinces in Canada. These operations include manufactured housing production facilities in Ocala, Florida; Nappanee, Indiana; and two factories in Montevideo, Minnesota, and provide for further operating capacity, increased home production capabilities and distribution into new markets. Both of these acquisitions were accounted for as business combinations and the results of operations have been included since the date of their respective acquisitions. Our purchase price allocations are preliminary and subject to revision as more detailed analyses are completed and additional information about fair value of assets and liabilities becomes available, including additional information relating to tax matters and finalization of our valuation of identified intangible assets. Pro forma results of operations for these acquisitions have not been presented because the effects of these business combinations, individually and in aggregate, were not material to our consolidated results of operations.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard requires entities to 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. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of the new revenue standard. Accordingly, the updated standard is effective for us beginning with the first quarter of the Company's fiscal year 2019, with early application permitted in fiscal year 2018. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently evaluating the effect ASU 2014-09 will have on the Company's Consolidated Financial Statements and disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU 2015-17 will be effective beginning with the Company's fiscal year 2019 annual report and interim periods thereafter, with early adoption permitted. In this update, entities are required to present all deferred tax liabilities and assets as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The standard can be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. As this standard impacts presentation only, the adoption of ASU 2015-17 is not expected to have an impact on the Company's financial condition, results of operations or cash flows. In January 2016, the FASB issued ASU 2016-01, Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 will be effective beginning with the first quarter of the Company's fiscal year 2019. The amendments require certain equity investments to be measured at fair value with changes in the fair value recognized through net income. The Company is currently evaluating the effect ASU 2016-01 will have on the Company's Consolidated Financial Statements and disclosures. From time to time, new accounting pronouncements are issued by the FASB and other regulatory bodies that are adopted by the Company as of the specified effective dates. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's Consolidated Financial Statements upon adoption.

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

2. Restricted Cash

Restricted cash consists of the following (in thousands):

	December 26, 2015	March 28, 2015
Cash related to CountryPlace customer payments to be remitted to third parties	\$7,189	\$8,471
Cash related to CountryPlace customer payments on securitized loans to be remitted to bondholders	1,569	1,425
Cash related to workers' compensation insurance held in trust	727	727
Other restricted cash	415	455
	\$9,900	\$11,078

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Corresponding amounts are recorded in accounts payable and accrued liabilities for customer payments, deposits and other restricted cash.

3. Investments

Investments consist of the following (in thousands):

	December 26, 2015	March 28, 2015
Available-for-sale investment securities	\$22,436	\$21,283
Non-marketable equity investments	10,398	10,636
	\$32,834	\$31,919

The following tables summarize the Company's available-for-sale investment securities, gross unrealized gains and losses and fair value, aggregated by investment category (in thousands):

	December 26, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$1,002	\$—	\$(10	) \$992
Residential mortgage-backed securities	6,289	3	(78	) 6,214
State and political subdivision debt securities	7,504	199	(56	) 7,647
Corporate debt securities	1,171	—	(9	) 1,162
Marketable equity securities	5,854	423	(856	) 5,421
Certificates of deposit	1,000	—	—	1,000
	\$22,820	\$625	\$(1,009	) \$22,436
	March 28, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$1,952	\$1	\$(5	) \$1,948
Residential mortgage-backed securities	4,342	23	(27	) 4,338
State and political subdivision debt securities	7,190	245	(12	) 7,423
Corporate debt securities	1,060	2	(4	) 1,058
Marketable equity securities	4,962	642	(88) 5,516
Certificates of deposit	1,000	—	—	1,000
	\$20,506	\$913	\$(136) \$21,283

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The following tables show the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	December 26, 2015					
	Less than 12 Months		12 Months or Longer		Total	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	
U.S. Treasury and government debt securities	\$298	\$(1)	\$694	\$(9)	\$992	\$(10)
Residential mortgage-backed securities	5,292	(44)	612	(34)	5,904	(78)
State and political subdivision debt securities	3,577	(37)	716	(19)	4,293	(56)
Corporate debt securities	911	(9)	—	—	911	(9)
Marketable equity securities	3,068	(750)	294	(106)	3,362	(856)
	\$13,146	\$(841)	\$2,316	\$(168)	\$15,462	\$(1,009)

	March 28, 2015					
	Less than 12 Months		12 Months or Longer		Total	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	
U.S. Treasury and government debt securities	\$499	\$—	\$698	\$(5)	\$1,197	\$(5)
Residential mortgage-backed securities	438	(2)	330	(25)	768	(27)
State and political subdivision debt securities	1,099	(6)	256	(6)	1,355	(12)
Corporate debt securities	247	(4)	—	—	247	(4)
Marketable equity securities	1,067	(85)	100	(3)	1,167	(88)
	\$3,350	\$(97)	\$1,384	\$(39)	\$4,734	\$(136)

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 any investments to be other-than-temporarily impaired at December 26, 2015.

As of December 26, 2015, the Company's investments in marketable equity securities consist of investments in common stock of industrial and other companies (\$5.3 million of the total fair value and \$853,000 of the total unrealized losses) and bank trust, insurance and public utility companies (\$100,000 of the total fair value and \$3,000 of the total unrealized losses).

As of March 28, 2015, the Company's investments in marketable equity securities consisted of investments in common stock of industrial and other companies (\$5.4 million of the total fair value and \$85,000 of the total unrealized losses) and bank trust, insurance and public utility companies (\$100,000 of the total fair value and \$3,000 of the total unrealized losses).

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The amortized cost and fair value of the Company's investments in debt securities, by contractual maturity, are shown in the table below (in thousands). Expected maturities differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 26, 2015		March 28, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	\$924	\$921	\$1,804	\$1,821
Due after one year through five years	3,712	3,699	2,834	2,844
Due after five years through ten years	4,494	4,418	2,467	2,452
Due after ten years	6,836	6,977	7,439	7,650
	\$15,966	\$16,015	\$14,544	\$14,767

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 three and nine months ended December 26, 2015 were approximately \$74,000 and \$305,000, respectively. Gross losses realized were approximately \$51,000 and \$163,000 for the three and nine months ended December 26, 2015, respectively. Gross gains realized on the sales of investment securities for the three and nine months ended December 27, 2014 were approximately \$309,000 and \$735,000, respectively. Gross losses realized were approximately \$41,000 and \$120,000 for the three and nine months ended December 27, 2014, respectively.

4. Inventories

Inventories consist of the following (in thousands):

	December 26, 2015	March 28, 2015
Raw materials	\$27,578	\$24,373
Work in process	10,357	7,271
Finished goods and other	53,743	43,690
	\$91,678	\$75,334

5. Consumer Loans Receivable

The Company acquired consumer loans receivable during the first quarter of fiscal 2012 as 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 Accounting Standards Codification ("ASC") 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"). Consumer loans receivable held for sale are carried at the lower of cost or market and construction advances are carried at the amount advanced less a valuation allowance. The following table summarizes consumer loans receivable (in thousands):

	December 26, 2015	March 28, 2015
Loans held for investment (acquired on Palm Harbor Acquisition Date)	\$71,559	\$77,670
Loans held for investment (originated after Palm Harbor Acquisition Date)	6,909	5,005
Loans held for sale	8,365	11,903
Construction advances	6,413	4,076
Consumer loans receivable	93,246	98,654
Deferred financing fees and other, net	(949) (496
Consumer loans receivable, net	\$92,297	\$98,158

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As of the date of the Palm Harbor acquisition, management evaluated consumer loans receivable held for investment by CountryPlace to determine whether there was evidence of deterioration of credit quality and if it was probable that CountryPlace would be unable to collect all amounts due according to the loans' 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 loan pool's scheduled contractual principal and contractual interest payments over all cash flows expected as of the date of the Palm Harbor transaction as an amount that cannot be accreted into interest income (the non-accretable difference). The cash flow expected to be collected in excess of the carrying value of the acquired loans 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 revenue.

	December 26, 2015	March 28, 2015	
	(in thousands)		
Consumer loans receivable held for investment – contractual amount	\$ 173,942	\$ 192,523	
Purchase discount			
Accretable	(67,624	) (73,202)
Non-accretable	(34,418	) (41,305)
Less consumer loans receivable reclassified as other assets	(341	) (346)
Total acquired consumer loans receivable held for investment, net	\$ 71,559	\$ 77,670	

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected by CountryPlace. As of the balance sheet date, the Company evaluates whether the present value of expected cash flows, determined using the effective interest rate, has decreased from the value at acquisition and, if so, recognizes an allowance for loan loss. 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 weighted averages of assumptions used in the calculation of expected cash flows to be collected are as follows:

	December 26, 2015	March 28, 2015	
Prepayment rate	13.3	% 12.6	%
Default rate	1.3	% 1.7	%

Assuming there were a 1% unfavorable variation from the expected level, for each key assumption, the expected cash flows, as of December 26, 2015, would decrease by approximately \$2.2 million and \$5.8 million for the expected prepayment rate and expected default rate, respectively.

The changes in accretable yield on acquired consumer loans receivable held for investment were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Balance at the beginning of the period	\$ 70,450	\$ 75,301	\$ 73,202	\$ 77,737
Accretion	(2,692	) (2,806	) (8,128	) (8,550
Reclassifications from non-accretable discount	(134) 422	2,550	3,730
Balance at the end of the period	\$ 67,624	\$ 72,917	\$ 67,624	\$ 72,917

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The consumer loans held for investment have the following characteristics:

	December 26, 2015		March 28, 2015	
Weighted average contractual interest rate	9.02	%	9.10	%
Weighted average effective interest rate	9.33	%	9.27	%
Weighted average months to maturity	173		178	

The Company's consumer loans receivable balance consists of fixed-rate, fixed-term and 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, CountryPlace's loans are secured by a first-lien position and are provided for the consumer purchase of a home. In rare instances, CountryPlace may provide other types of loans in second-lien or unsecured positions. Accordingly, CountryPlace classifies its loans receivable as follows: chattel loans, conforming mortgages, non-conforming mortgages and other loans.

In measuring credit quality within each segment and class, CountryPlace uses commercially available credit scores (such as FICO®). At the time of each loan's origination, CountryPlace obtains credit scores from each of the three primary credit bureaus, if available. To evaluate credit quality of individual loans, CountryPlace uses the mid-point of the available credit scores or, if only two scores are available, the Company uses the lower of the two. CountryPlace does not update credit bureau scores after the time of origination.

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The following table disaggregates CountryPlace's gross consumer loans receivable as of December 26, 2015, for each class by portfolio segment and credit quality indicator as of the time of origination (in thousands):

Consumer Loans Held for Investment						
Asset Class	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Credit Quality Indicator						
Chattel loans						
0-619	\$797	\$557	\$348	\$—	\$—	\$1,702
620-719	13,688	9,444	3,453	—	88	26,673
720+	15,320	9,979	2,515	—	—	27,814
Other	59	—	453	—	—	512
Subtotal	29,864	19,980	6,769	—	88	56,701
Conforming mortgages						
0-619	—	—	165	93	286	544
620-719	—	—	2,332	3,368	5,999	11,699
720+	—	—	322	2,952	1,992	5,266
Other	—	—	—	—	—	—
Subtotal	—	—	2,819	6,413	8,277	17,509
Non-conforming mortgages						
0-619	89	593	1,413	—	—	2,095
620-719	1,398	5,426	3,825	—	—	10,649
720+	1,702	3,430	832	—	—	5,964
Other	—	—	314	—	—	314
Subtotal	3,189	9,449	6,384	—	—	19,022
Other loans						
Subtotal	—	—	14	—	—	14
	\$33,053	\$29,429	\$15,986	\$6,413	\$8,365	\$93,246

Loan contracts secured by collateral that is geographically concentrated could experience higher rates of delinquencies, default and foreclosure losses than loan contracts secured by collateral that is more geographically dispersed. Thirty-nine percent of the outstanding principal balance of consumer loans receivable portfolio is concentrated in Texas. Other than Texas, no other state had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of December 26, 2015.

Collateral for repossessed loans is acquired through foreclosure or similar proceedings and is recorded at the lesser of the related loan balance or the estimated fair value of the home, less the costs to sell. At repossession, the fair value of the collateral is computed based on the historical recovery rates of previously charged-off loans; the loan is charged off and the loss is charged to the allowance for loan losses. On a monthly basis, the fair value of the collateral is adjusted to the lower of cost or estimated sales price less estimated costs to sell, based on current information.

Repossessed homes totaled approximately \$379,000 and \$582,000 as of December 26, 2015 and March 28, 2015, respectively, and are included in prepaid and other assets in the consolidated balance sheet. Foreclosure or similar proceedings in progress totaled approximately \$705,000 and \$650,000 as of December 26, 2015 and March 28, 2015, respectively.

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6. Commercial Loans Receivable and Allowance for Loan Loss

The Company's commercial loans receivable balance consists of two classes: (i) direct financing arrangements for the home product needs of our independent retailers, communities and developers; and (ii) amounts loaned by the Company under participation financing programs.

Under the terms of the direct programs, the Company provides funds for the independent retailers, communities and developer's financed home purchases. The notes are secured by the home as collateral and, in some instances, other security depending on the circumstances. The other terms of direct arrangements vary depending on the needs of the borrower and the opportunity for the Company.

Under the terms of the participation programs, the Company provides loans to independent floor plan lenders, representing a significant portion of the funds that such financiers then lend to retailers to finance their inventory purchases. The participation commercial loan receivables are unsecured general obligations of the independent floor plan lenders.

Commercial loans receivables, net, consist of the following by class of financing notes receivable (in thousands):

	December 26, 2015	March 28, 2015	
Direct loans receivable	\$22,492	\$ 15,802	
Participation loans receivable	1,369	2,352	
Allowance for loan loss	(116	) (73)
	\$23,745	\$ 18,081	

The commercial loans receivable balance has the following characteristics:

	December 26, 2015		March 28, 2015	
Weighted average contractual interest rate	6.9	%	6.5	%
Weighted average months to maturity	9		6	

The Company evaluates the potential for loss from its participation loan programs based on the independent lender's overall financial stability, as well as historical experience, and has determined that an applicable allowance for loan loss was not needed at either December 26, 2015 or March 28, 2015.

With respect to direct programs with communities and developers, borrower activity is monitored on a regular basis and contractual arrangements are in place to provide adequate loss mitigation in the event of a default. For direct programs with independent retailers, the risk of loss is spread over numerous borrowers. Borrower activity is 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 \$116,000 and \$117,000 at December 26, 2015 and December 27, 2014, respectively.

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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 programs (in thousands):

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Balance at beginning of period	\$110	\$134	\$73	\$139
Provision for inventory finance credit losses	6	(17	) 43	(22
Loans charged off, net of recoveries	—	—	—	—
Balance at end of period	\$116	\$117	\$116	\$117

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

	Direct Commercial Loans		Participation Commercial Loans	
	December 26, 2015	March 28, 2015	December 26, 2015	March 28, 2015
Inventory finance notes receivable:				
Collectively evaluated for impairment	\$11,567	\$7,229	\$—	\$—
Individually evaluated for impairment	10,925	8,573	1,369	2,352
	\$22,492	\$15,802	\$1,369	\$2,352
Allowance for loan loss:				
Collectively evaluated for impairment	\$(116	) \$(73) \$—	\$—
Individually evaluated for impairment	—	—	—	—
	\$(116	) \$(73) \$—	\$—

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. The Company will resume accrual of interest once these factors have been remedied. At December 26, 2015, there are no commercial loans that are 90 days or more past due that are still accruing interest. Payments received on nonaccrual loans are recorded on a cash basis, first to interest and then to principal. At December 26, 2015, the Company was not aware of any potential problem loans that would have a material effect on the commercial receivables balance. Charge-offs occur when it becomes probable that outstanding amounts will not be recovered.

The following table disaggregates the Company's inventory finance receivables by class and credit quality indicator (in thousands):

	Direct Commercial Loans		Participation Commercial Loans	
	December 26, 2015	March 28, 2015	December 26, 2015	March 28, 2015
Risk profile based on payment activity:				
Performing	\$22,492	\$15,728	\$1,369	\$2,352
Watch list	—	—	—	—
Nonperforming	—	74	—	—
	\$22,492	\$15,802	\$1,369	\$2,352

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The Company has concentrations of commercial loans receivable related to factory-built homes located in the following states, measured as a percentage of commercial loans receivables principal balance outstanding:

	December 26, 2015		March 28, 2015	
Texas	34.5	%	42.4	%
Arizona	10.9	%	10.4	%

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 commercial loans receivables in any other states as of December 26, 2015 or March 28, 2015, respectively. As of December 26, 2015 the Company had concentrations of commercial loans receivable with one independent third-party that equaled 35.4% of the principal balance outstanding, all of which was secured. As of March 28, 2015, the Company did not have concentrations in excess of 10% of the principal balance of commercial loans receivable with any one borrower.

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: (i) buildings and improvements, 10 to 39 years, and (ii) 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):

	December 26, 2015		March 28, 2015	
Property, plant and equipment, at cost:				
Land	\$22,571		\$21,197	
Buildings and improvements	30,936		24,288	
Machinery and equipment	20,322		16,772	
	73,829		62,257	
Accumulated depreciation	(19,894	)	(17,545)
Property, plant and equipment, net	\$53,935		\$44,712	

Included in the amounts above are certain assets under a capital lease. See Note 8 for additional information.

8. Capital Leases

On May 1, 2015, in connection with the purchase of Fairmont Homes, the Company entered into a five-year lease covering the manufacturing facilities and land in Montevideo, Minnesota, which is accounted for as a capital lease. At the end of the lease term, the landlord has the option to require the Company to purchase the leased premises at a specified price. If the landlord does not exercise this option, the Company may purchase the facilities at the termination of the lease for that price. The following amounts were recorded for the leased assets as of December 26, 2015 (in thousands):

	December 26, 2015	
Land	\$92	
Buildings and improvements	2,033	
	2,125	
Accumulated amortization	(45)
Leased assets, net	\$2,080	

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The minimum payments in future fiscal years under the lease as of December 26, 2015 are as follows (in thousands):

2016	\$75
2017	289
2018	277
2019	265
2020	253
Thereafter	1,721
Total remaining lease payments	2,880
Less: Amount representing interest	(815)
Present value of future minimum lease payments	\$2,065

9. Goodwill and Other Intangibles

Intangible assets principally consist of goodwill, trademarks and trade names, state insurance licenses, customer relationships, and other, which includes technology, insurance policies and renewal rights. Goodwill, trademarks and trade names and state insurance licenses are indefinite-lived intangible assets and are evaluated for impairment annually and whenever events or circumstances indicate that more likely than not impairment has occurred. During the nine months ended December 26, 2015 and December 27, 2014, no impairment expense was recorded. Finite-lived intangibles are amortized over their estimated useful lives on a straight-line basis and are reviewed for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. The value of customer relationships is amortized over 4 to 15 years and other intangibles over 3 to 15 years.

Goodwill and other intangibles consist of the following (in thousands):

	December 26, 2015			March 28, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite lived:						
Goodwill	\$69,014	\$—	\$69,014	\$67,346	\$—	\$67,346
Trademarks and trade names	7,100	—	7,100	6,250	—	6,250
State insurance licenses	1,100	—	1,100	1,100	—	1,100
Total indefinite-lived intangible assets	77,214	—	77,214	74,696	—	74,696
Finite lived:						
Customer relationships	8,100	(5,331)	2,769	6,200	(5,027)	1,173
Other	1,384	(580)	804	1,274	(467)	807
Total goodwill and other intangible assets	\$86,698	\$(5,911)	\$80,787	\$82,170	\$(5,494)	\$76,676

Amortization expense recognized on intangible assets was \$112,000 and \$417,000 during the three and nine months ended December 26, 2015, respectively. Amortization expense of \$345,000 and \$1,034,000 was recognized during the three and nine months ended December 27, 2014, respectively.

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During the nine months ended December 26, 2015, the Company acquired certain manufactured housing assets and liabilities of two companies, both of which were accounted for as business combinations. The purchase price for the assets and liabilities assumed was allocated based on their estimated fair values and is preliminary. The measurement periods for the valuation of assets acquired and liabilities assumed end as soon as information on the facts and circumstances that existed as of the acquisition dates becomes available, but do not exceed 12 months. Adjustments in purchase price allocations may require adjustments of the amounts allocated to goodwill.

10. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 26, 2015	March 28, 2015
Salaries, wages and benefits	\$18,374	\$16,186
Unearned insurance premiums	13,906	13,556
Customer deposits	13,644	13,435
Estimated warranties	13,403	9,953
Accrued volume rebates	8,423	3,266
Insurance loss reserves	5,853	1,774
Company repurchase option on certain loans sold	4,252	2,063
Accrued insurance	3,934	3,068
Deferred margin	2,340	2,398
Capital lease obligation	2,065	—
Reserve for repurchase commitments	1,667	2,240
Accrued taxes	917	1,089
Other	9,248	8,048
	\$98,026	\$77,076

11. 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 recorded 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		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Balance at beginning of period	\$12,805	\$9,393	\$9,953	\$9,262
Purchase accounting additions	—	—	1,111	—
Charged to costs and expenses	4,830	3,014	15,065	9,264
Payments and deductions	(4,232) (2,991) (12,726) (9,110
Balance at end of period	\$13,403	\$9,416	\$13,403	\$9,416

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12. Debt Obligations

Debt obligations consist of amounts related to loans sold that did not qualify for loan sale accounting treatment. The following table summarizes debt obligations (in thousands):

	December 26, 2015	March 28, 2015
Acquired securitized financings (acquired as part of the Palm Harbor transaction)		
Securitized financing 2005-1	\$27,893	\$29,469
Securitized financing 2007-1	29,867	33,461
Other secured financings	4,720	4,030
Total securitized financings and other, net	\$62,480	\$66,960

The Company acquired CountryPlace's securitized financings during the first quarter of fiscal year 2012 as a part of the Palm Harbor acquisition. Acquired securitized financings were recorded at fair value at the time of acquisition, which resulted in a discount, and subsequently are accounted for in 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 securitized 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 date of the Palm Harbor acquisition cannot be accreted into interest expense (the non-accretable difference). The remaining amount is accreted into interest expense over the remaining life of the obligation (referred to as accretable yield). The following table summarizes acquired securitized financings (in thousands):

	December 26, 2015	March 28, 2015
Securitized financings – contractual amount	\$70,727	\$75,058
Purchase discount		
Accretable	(12,967	) (12,128
Non-accretable (1)	—	—
Total acquired securitized financings, net	\$57,760	\$62,930

(1) There is no non-accretable difference, as the contractual payments on acquired securitized financing are determined by the cash collections from the underlying loans.

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 or decreased. The present value of any subsequent change 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 (in thousands):

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Balance at the beginning of the period	\$13,993	\$15,142	\$12,128	\$15,199
Accretion	(1,022	) (944	) (2,575	) (3,039
Adjustment to cash flows	(4	) (51	) 3,414	1,987
Balance at the end of the period				