

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	\$