CAVCO INDUSTRIES INC
Form 10-Q
November 09, 2016

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

FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 1, 2016
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	56-2405642
(State or other jurisdiction of incorporation or organization)	(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 ý 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 ý 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 ý
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 ý

As of November 4, 2016, 8,992,468 shares of Registrant's Common Stock, $.01 par value, were outstanding.

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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)

	October 1, 2016 (Unaudited)	April 2, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 115,011	$97,766
Restricted cash, current	12,615	10,218
Accounts receivable, net	32,622	29,113
Short-term investments	10,798	10,140
Current portion of consumer loans receivable, net	29,977	21,918
Current portion of commercial loans receivable, net	4,693	3,557
Inventories	92,584	94,813
Prepaid expenses and other current assets	23,737	22,196
Deferred income taxes, current	8,799	8,998
Total current assets	330,836	298,719
Restricted cash	723	1,082
Investments	29,250	28,948
Consumer loans receivable, net	62,699	67,640
Commercial loans receivable, net	16,322	21,985
Property, plant and equipment, net	56,478	55,072
Goodwill and other intangibles, net	80,205	80,389
Total assets	$ 576,513	$553,835
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 22,732	$18,513
Accrued liabilities	104,321	100,314
Current portion of securitized financings and other	6,365	6,262
Total current liabilities	133,418	125,089
Securitized financings and other	51,641	54,909
Deferred income taxes	20,482	20,611
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 shares authorized; Outstanding 8,990,813 and 8,927,989 shares, respectively	90	89
Additional paid-in capital	243,799	241,662
Retained earnings	124,970	110,186
Accumulated other comprehensive income	2,113	1,289
Total stockholders' equity	370,972	353,226
Total liabilities and stockholders' equity	$ 576,513	$553,835

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		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Net revenue	$188,348	$ 191,964	$373,489	$ 353,632
Cost of sales	149,241	152,409	301,130	282,243
Gross profit	39,107	39,555	72,359	71,389
Selling, general and administrative expenses	25,429	26,571	50,116	49,230
Income from operations	13,678	12,984	22,243	22,159
Interest expense	(1,132)	(965)	(2,293)	(1,980)
Other income, net	552	471	1,578	943
Income before income taxes	13,098	12,490	21,528	21,122
Income tax expense	(3,757)	(4,420)	(6,744)	(7,667)
Net income	$9,341	$ 8,070	$14,784	$ 13,455
Comprehensive income:				
Net income	$9,341	$ 8,070	$14,784	$ 13,455
Unrealized gain (loss) on available-for-sale securities, net of tax	879	(296)	824	(705)
Comprehensive income	$10,220	$ 7,774	$15,608	$ 12,750
Net income per share:				
Basic	$1.04	$ 0.91	$1.65	$ 1.52
Diluted	$1.03	$ 0.89	$1.63	$ 1.49
Weighted average shares outstanding:				
Basic	8,980,303	8,878,075	8,958,784	8,870,862
Diluted	9,100,833	9,032,652	9,092,653	9,026,224

See accompanying Notes to Consolidated Financial Statements

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

	Six Months Ended	
	October 1, 2016	September 26, 2015
OPERATING ACTIVITIES		
Net income	$14,784	$ 13,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,852	1,878
Provision for credit losses	259	348
Deferred income taxes	(415)	(577)
Stock-based compensation expense	1,357	1,117
Non-cash interest income, net	(589)	(1,068)
Incremental tax benefits from option exercises	(2,287)	(352)
(Loss) Gain on sale of property, plant and equipment including assets held for sale, net	(34)	50
Gain on sale of loans and investments, net	(3,685)	(3,175)
Changes in operating assets and liabilities:		
Restricted cash	(2,050)	482
Accounts receivable	(3,510)	1,850
Consumer loans receivable originated	(53,960)	(53,912)
Principal payments on consumer loans receivable	6,480	5,275
Proceeds from sales of consumer loans	47,405	56,269
Inventories	2,229	1,568
Prepaid expenses and other current assets	(702)	(344)
Commercial loans receivable	4,529	(5,731)
Accounts payable and accrued liabilities	10,716	12,685
Net cash provided by operating activities	22,379	29,818
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(3,105)	(1,112)
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	65	34
Purchases of investments	(4,753)	(7,410)
Proceeds from sale of investments	5,472	5,212
Net cash used in investing activities	(2,321)	(31,397)
FINANCING ACTIVITIES		
(Payments) Proceeds from exercise of stock options	(1,506)	741
Incremental tax benefits from exercise of stock options	2,287	352
Proceeds from secured financings and other	541	865
Payments on securitized financings	(4,135)	(4,113)
Net cash used in financing activities	(2,813)	(2,155)
Net increase (decrease) in cash and cash equivalents	17,245	(3,734)
Cash and cash equivalents at beginning of the period	97,766	96,597
Cash and cash equivalents at end of the period	$115,011	$ 92,863
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	$7,750	$ 5,459
Cash paid during the year for interest	$1,783	$ 1,926

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 April 2, 2016, filed with the SEC on June 21, 2016.
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 1, 2017.
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 designs and builds a wide variety of affordable modular homes, manufactured homes and park model RVs in 19 factories located throughout the United States, which are sold to a network of independent retailers, through the Company's 45 Company-owned retail stores and to community owners and developers. Our financial services group is comprised of a mortgage subsidiary, CountryPlace Acceptance Corp. ("CountryPlace"), and an insurance subsidiary, Standard Casualty Co. ("Standard Casualty"). CountryPlace is an approved Federal National Mortgage Association ("FNMA" or "Fannie Mae") and Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") seller/servicer, and a Government National Mortgage Association ("GNMA" or "Ginnie Mae") mortgage backed securities issuer which offers conforming mortgages, non-conforming mortgages and chattel loans to purchasers of factory-built and site-built homes. Standard Casualty provides property and casualty insurance to owners of manufactured homes.

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 March 2016, the FASB issued ASU 2016-09, Compensation- Stock Compensation (Topic 718) ("ASU 2016-09"). ASU 2016-09 will be effective beginning with the first quarter of the Company's fiscal year 2018, with early adoption permitted. The amendment simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company is currently evaluating the effect ASU 2016-09 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.
In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 will be effective beginning with the first quarter of the Company's fiscal year 2020, with early adoption permitted. The amendments require the recognition of lease assets and lease liabilities on the balance sheet for most leases, but recognize expenses in the income statement in a manner similar to current accounting treatment. In addition, disclosures of key information about leasing arrangements are required. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the effect ASU 2016-02 will have on the Company's Consolidated Financial Statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, which requires a new forward-looking impairment model based on expected losses rather than incurred losses. The guidance also requires increased disclosures. ASU 2016-01 will be effective beginning with the first quarter of the Company's fiscal year 2021. The Company is currently evaluating the effect ASU 2016-13 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):

	October 1, 2016	April 2, 2016
Cash related to CountryPlace customer payments to be remitted to third parties	$ 10,604	$ 8,419
Cash related to CountryPlace customer payments on securitized loans to be remitted to bondholders	1,736	1,747
Cash related to workers' compensation insurance held in trust	353	728
Other restricted cash	645	406
	$ 13,338	$ 11,300

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

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3. Investments

Investments consist of the following (in thousands):

	October 1, 2016	April 2, 2016
Available-for-sale investment securities	$ 25,201	$24,247
Non-marketable equity investments	14,847	14,841
	$ 40,048	$39,088

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):

	October 1, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	$650	$ —	$ —	$650
Residential mortgage-backed securities	6,431	15	(47)	6,399
State and political subdivision debt securities	7,382	257	(75)	7,564
Corporate debt securities	1,157	6	(3)	1,160
Marketable equity securities	5,168	3,451	(191)	8,428
Certificates of deposit	1,000	—	—	1,000
	$21,788	$ 3,729	$ (316)	$25,201

	April 2, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	$1,002	$ —	$ (3)	$999
Residential mortgage-backed securities	5,866	13	(60)	5,819
State and political subdivision debt securities	7,231	239	(49)	7,421
Corporate debt securities	1,166	4	(6)	1,164
Marketable equity securities	5,882	2,374	(412)	7,844
Certificates of deposit	1,000	—	—	1,000
	$22,147	$ 2,630	$ (530)	$24,247

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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):

	October 1, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed securities	$2,999	$ (15)	$ 661	$ (32)	$3,660	$ (47)
State and political subdivision debt securities	1,340	(21)	1,966	(54)	3,306	(75)
Corporate debt securities	246	(3)	—	—	246	(3)
Marketable equity securities	1,030	(113)	209	(78)	1,239	(191)
	$5,615	$ (152)	$ 2,836	$ (164)	$8,451	$ (316)

	April 2, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and government debt securities	$—	$ —	$ 699	$ (3)	$699	$ (3)
Residential mortgage-backed securities	3,436	(27)	898	(33)	4,334	(60)
State and political subdivision debt securities	1,865	(29)	1,257	(20)	3,122	(49)
Corporate debt securities	763	(6)	—	—	763	(6)
Marketable equity securities	1,780	(324)	152	(88)	1,932	(412)
	$7,844	$ (386)	$ 3,006	$ (144)	$10,850	$ (530)

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 October 1, 2016.

As of October 1, 2016, the Company's investments in marketable equity securities consist of investments in common stock of industrial and other companies ($8.4 million of the total fair value and $191,000 of the total unrealized losses).

As of April 2, 2016, the Company's investments in marketable equity securities consisted of investments in common stock of industrial and other companies ($7.7 million of the total fair value and $409,000 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.

	October 1, 2016	
	Amortized Cost	Fair Value
Due in less than one year	$1,364	$1,370
Due after one year through five years	3,907	3,906
Due after five years through ten years	3,895	3,836
Due after ten years	6,454	6,661
	$15,620	$15,773

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 six months ended October 1, 2016 were approximately $208,000 and $661,000, respectively. Gross losses realized were approximately $108,000 and $257,000 for the three and six months ended October 1, 2016, respectively. Gross gains realized on the sales of investment securities for the three and six months ended September 26, 2015 were approximately $51,000 and $231,000, respectively. Gross losses realized were approximately $66,000 and $112,000 for the three and six months ended September 26, 2015.

4. Inventories

Inventories consist of the following (in thousands):

	October 1, 2016	April 2, 2016
Raw materials	$ 30,919	$28,764
Work in process	12,113	10,755
Finished goods and other	49,552	55,294
	$ 92,584	$94,813

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 accordance with 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):

	October 1, 2016	April 2, 2016
Loans held for investment (acquired on Palm Harbor Acquisition Date)	$64,115	$68,951
Loans held for investment (originated after Palm Harbor Acquisition Date)	7,087	6,120
Loans held for sale	15,468	8,765
Construction advances	7,055	6,566
Consumer loans receivable	93,725	90,402
Deferred financing fees and other, net	(1,049)	(844)
Consumer loans receivable, net	$92,676	$89,558

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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 includes interest 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 includes interest that 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.

	October 1, 2016	April 2, 2016
	(in thousands)	
Consumer loans receivable held for investment – contractual amount	$154,434	$166,793
Purchase discount		
Accretable	(62,209)	(69,053)
Non-accretable	(27,773)	(28,536)
Less consumer loans receivable reclassified as other assets	(337)	(253)
Total acquired consumer loans receivable held for investment, net	$64,115	$68,951

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:

	October 1, 2016	April 2, 2016
Prepayment rate	13.7 %	13.0 %
Default rate	1.0 %	1.0 %

Assuming there was a 1% unfavorable variation from the expected level, for each key assumption, the expected cash flows for the life of the portfolio, as of October 1, 2016, would decrease by approximately $2.1 million and $5.3 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		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Balance at the beginning of the period	$66,284	$ 70,261	$69,053	$ 73,202
Accretion	(2,449)	(2,685)	(4,964)	(5,436)
Reclassifications from non-accretable discount	(1,626)	2,874	(1,880)	2,684
Balance at the end of the period	$62,209	$ 70,450	$62,209	$ 70,450

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The consumer loans held for investment have the following characteristics:

	October 1, 2016		April 2, 2016	
Weighted average contractual interest rate	8.97	%	9.05	%
Weighted average effective interest rate	9.43	%	9.39	%
Weighted average months to maturity	167		170	

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 for each class by portfolio segment and credit quality indicator as of the time of origination (in thousands):

October 1, 2016

	Consumer Loans Held for Investment					
	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Asset Class						
Credit Quality Indicator (FICO® score)						
Chattel loans						
0-619	$736	$ 473	$ 315	$ —	$ 39	$1,563
620-719	12,468	8,453	3,860	—	156	24,937
720+	13,403	8,514	2,348	—	1,657	25,922
Other	52	—	438	—	—	490
Subtotal	26,659	17,440	6,961	—	1,852	52,912
Conforming mortgages						
0-619	—	—	162	29	368	559
620-719	—	—	2,208	4,149	9,983	16,340
720+	—	—	233	2,877	2,975	6,085
Other	—	—	—	—	290	290
Subtotal	—	—	2,603	7,055	13,616	23,274
Non-conforming mortgages						
0-619	86	568	1,350	—	—	2,004
620-719	1,326	5,074	3,594	—	—	9,994
720+	1,613	3,081	530	—	—	5,224
Other	—	—	304	—	—	304
Subtotal	3,025	8,723	5,778	—	—	17,526
Other loans						
Subtotal	—	—	13	—	—	13
	$29,684	$ 26,163	$ 15,355	$ 7,055	$ 15,468	$93,725

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	April 2, 2016					
	Consumer Loans Held for Investment					
	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Asset Class						
Credit Quality Indicator (FICO® score)						
Chattel loans						
0-619	$776	$ 543	$ 336	$ —	$ —	$1,655
620-719	13,139	9,100	3,683	—	96	26,018
720+	14,751	9,409	2,324	—	215	26,699
Other	55	—	447	—	—	502
Subtotal	28,721	19,052	6,790	—	311	54,874
Conforming mortgages						
0-619	—	—	164	95	171	430
620-719	—	—	1,428	3,355	5,847	10,630
720+	—	—	320	3,116	2,436	5,872
Subtotal	—	—	1,912	6,566	8,454	16,932
Non-conforming mortgages						
0-619	88	585	1,392	—	—	2,065
620-719	1,365	5,290	3,664	—	—	10,319
720+	1,684	3,382	826	—	—	5,892
Other	—	—	307	—	—	307
Subtotal	3,137	9,257	6,189	—	—	18,583
Other loans						
Subtotal	—	—	13	—	—	13
	$31,858	$ 28,309	$ 14,904	$ 6,566	$ 8,765	$90,402

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. Forty-two percent of the outstanding principal balance of consumer loans receivable portfolio is concentrated in Texas and 10% is concentrated in Florida. Other than Texas and Florida, no other state had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of October 1, 2016. Collateral for repossessed loans is acquired through foreclosure or similar proceedings and is recorded at 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 the amount recorded at repossession or the estimated sales price less estimated costs to sell, based on current information. Repossessed homes totaled approximately $543,000 and $707,000 as of October 1, 2016 and April 2, 2016, respectively, and are included in prepaid and other assets in the consolidated balance sheet. Foreclosure or similar proceedings in progress totaled approximately $1.2 million and $340,000 as of October 1, 2016 and April 2, 2016, 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 developers' 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):

	October 1, 2016	April 2, 2016
Direct loans receivable	$ 20,002	$ 24,392
Participation loans receivable	1,139	1,278
Allowance for loan loss	(126)	(128)
	$ 21,015	$ 25,542

The commercial loans receivable balance has the following characteristics:

	October 1, 2016	April 2, 2016
Weighted average contractual interest rate	6.7 %	6.9 %
Weighted average months to maturity	7	9

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 October 1, 2016 or April 2, 2016.

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 $126,000 and $110,000 at October 1, 2016 and September 26, 2015, 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		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Balance at beginning of period	$135	$ 82	$128	$ 73
Provision for inventory finance credit losses	(9)	28	(2)	37
Loans charged off, net of recoveries	—	—	—	—
Balance at end of period	$126	$ 110	$126	$ 110

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	
	October 1, 2016	April 2, 2016	October 1, 2016	April 2, 2016
Inventory finance notes receivable:				
Collectively evaluated for impairment	$12,566	$12,761	$ —	$ —
Individually evaluated for impairment	7,436	11,631	1,139	1,278
	$20,002	$24,392	$ 1,139	$ 1,278
Allowance for loan loss:				
Collectively evaluated for impairment	$(126)	$(128)	$ —	$ —
Individually evaluated for impairment	—	—	—	—
	$(126)	$(128)	$ —	$ —

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 October 1, 2016, 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 October 1, 2016, 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	
	October 1, 2016	April 2, 2016	October 1, 2016	April 2, 2016
Risk profile based on payment activity:				
Performing	$20,002	$24,392	$ 1,139	$ 1,278
Watch list	—	—	—	—
Nonperforming	—	—	—	—
	$20,002	$24,392	$ 1,139	$ 1,278

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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:

	October 1, 2016	April 2, 2016
Indiana	18.1 %	7.1 %
Arizona	15.4 %	13.3 %
Texas	12.8 %	33.2 %
Oregon	12.1 %	5.4 %

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 October 1, 2016 or April 2, 2016, respectively.

As of October 1, 2016, the Company did not have concentrations in excess of 10.0% of the principal balance of commercial loans receivable with any one borrower. As of April 2, 2016, the company had concentrations with one independent third-party that equaled 32.0% of the principal balance outstanding, all of which was secured.

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):

	October 1, 2016	April 2, 2016
Property, plant and equipment, at cost:		
Land	$ 22,716	$ 22,719
Buildings and improvements	33,676	32,230
Machinery and equipment	20,645	19,533
	77,037	74,482
Accumulated depreciation	(20,559)	(19,410)
Property, plant and equipment, net	$ 56,478	$ 55,072

As of April 2, 2016, the Company had land and buildings and improvements under capital lease of $240,000 and $3.0 million, respectively, which are included in the amounts above. On September 20, 2016, the Company purchased the assets under the capital lease, terminating the lease arrangement.

8. 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 and other. 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 six months ended October 1, 2016 and September 26, 2015, 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 7 to 15 years.

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

	October 1, 2016			April 2, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite lived:						
Goodwill	$69,753	$ —	$69,753	$69,753	$ —	$69,753
Trademarks and trade names	7,000	—	7,000	7,000	—	7,000
State insurance licenses	1,100	—	1,100	1,100	—	1,100
Total indefinite-lived intangible assets	77,853	—	77,853	77,853	—	77,853
Finite lived:						
Customer relationships	7,100	(5,436)	1,664	7,100	(5,329)	1,771
Other	1,384	(696)	688	1,384	(619)	765
Total goodwill and other intangible assets	$86,337	$ (6,132)	$80,205	$86,337	$ (5,948)	$80,389

Amortization expense recognized on intangible assets was $92,000 and $184,000 during the three and six months ended October 1, 2016, respectively. Amortization expense of $116,000 and $305,000 was recognized during the three and six months ended September 26, 2015, respectively.

9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	October 1, 2016	April 2, 2016
Salaries, wages and benefits	$ 18,326	$20,675
Customer deposits	17,400	14,039
Unearned insurance premiums	16,947	15,528
Estimated warranties	14,046	