CAVCO INDUSTRIES INC
Form 10-Q
February 09, 2010

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UNITED STATES
SECURITIES & EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2009

OR

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

For the transition period from __________ to __________

Commission File Number 000-08822

Cavco Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware	56-2405642
(State or other jurisdiction of incorporation)	(IRS Employer Identification Number)

1001 North Central Avenue, Suite 800, Phoenix, Arizona 85004

(Address of principal executive offices) (Zip Code)

(602) 256-6263

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last year)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Yes o No þ

As of February 5, 2010, there were 6,541,684 shares of the registrant s common stock, $.01 par value, issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31, 2009 (Unaudited)	March 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$ 77,241	$ 70,557
Short-term investments	496	4,464
Restricted cash	287	244
Accounts receivable	5,585	6,234
Inventories	15,245	9,333
Prepaid expenses and other current assets	7,754	3,676
Deferred income taxes	7,109	3,434
Total current assets	113,717	97,942
Property, plant and equipment, at cost:		
Land	16,194	6,580
Buildings and improvements	20,608	7,355
Machinery and equipment	10,803	8,203
	47,605	22,138
Accumulated depreciation	(9,614)	(9,279)
	37,991	12,859
Inventory finance notes receivable, net	8,730	484
Goodwill and intangible assets, net	68,926	67,346
Total assets	$ 229,364	$ 178,631
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 1,870	$ 739
Accrued liabilities	26,378	13,753
Total current liabilities	28,248	14,492
Deferred income taxes	20,278	16,099
Commitments and contingencies		

Cavco Industries, Inc. stockholders equity				
Preferred Stock, $.01 par value; 1,000,000 shares authorized; No shares issued or outstanding				
Common Stock, $.01 par value; 20,000,000 shares authorized; Outstanding 6,541,684 and 6,506,843 shares, respectively		65		65
Additional paid-in capital		126,682		126,045
Retained earnings		19,288		21,930
Total Cavco Industries, Inc. stockholders equity		146,035		148,040
Noncontrolling interest		34,803		
Total equity		180,838		148,040
Total liabilities and stockholders equity	$	229,364	$	178,631

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Nine Months Ended December 31, 2009	Nine Months Ended December 31, 2008
Net sales	$ 36,369	$ 25,093	$ 79,341	$ 90,632
Cost of sales	33,106	22,440	71,836	80,090
Gross profit	3,263	2,653	7,505	10,542
Selling, general and administrative expenses	4,954	2,859	11,964	9,105
(Loss) income from operations	(1,691)	(206)	(4,459)	1,437
Interest income	52	151	108	730
(Loss) income before income taxes	(1,639)	(55)	(4,351)	2,167
Income tax benefit (expense)	471	165	1,512	(686)
Net (loss) income	(1,168)	110	(2,839)	1,481
Less: net loss attributable to noncontrolling interest	(138)		(197)	
Net (loss) income attributable to Cavco Industries, Inc. common stockholders	$ (1,030)	$ 110	$ (2,642)	$ 1,481
Net (loss) income per share attributable to Cavco Industries, Inc. common stockholders:				
Basic	$ (0.16)	$ 0.02	$ (0.41)	$ 0.23
Diluted	$ (0.16)	$ 0.02	$ (0.41)	$ 0.22
Weighted average shares outstanding:				
Basic	6,511,184	6,499,362	6,508,552	6,481,572
Diluted	6,511,184	6,693,418	6,508,552	6,695,654

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 31, 2009	Nine Months Ended December 31, 2008
OPERATING ACTIVITIES		
Net (loss) income	$ (2,839)	$ 1,481
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	863	623
Deferred income taxes	1,157	1,531
Share-based compensation expense	270	156
Tax benefits from option exercises	317	329
Incremental tax benefits from option exercises	(277)	(277)
Gain on sale of property, plant and equipment	(10)	(5)
Changes in operating assets and liabilities:		
Restricted cash	(43)	239
Accounts receivable	2,746	2,397
Inventories	1,894	634
Prepaid expenses and other current assets	(4,070)	(1,624)
Inventory finance notes receivable	(8,246)	
Accounts payable and accrued liabilities	1,591	(5,110)
Net cash (used in) provided by operating activities	(6,647)	374
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(178)	(910)
Proceeds from sale of property, plant and equipment	13	21
Purchase of Fleetwood Homes assets and certain liabilities	(25,799)	
Purchases of short-term investments	(1,488)	
Proceeds from sale of short-term investments	5,456	
Net cash used in investing activities	(21,996)	(889)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	50	769
Proceeds from issuance of Fleetwood Homes, Inc. stock	35,000	
Incremental tax benefits from option exercises	277	277
Net cash provided by financing activities	35,327	1,046
Net increase in cash and cash equivalents	6,684	531
Cash and cash equivalents at beginning of period	70,557	73,610

Cash and cash equivalents at end of period	$	77,241	$	74,141
Supplemental disclosures of cash flow information:				
Cash paid during the period for income taxes	$		$	45

See accompanying Notes to Consolidated Financial Statements

CAVCO INDUSTRIES, INC.
Notes to Consolidated Financial Statements
December 31, 2009
(Dollars in thousands, except per share data)
(Unaudited)

1. Basis of Presentation

The accompanying Consolidated Financial Statements of Cavco Industries, Inc., and its subsidiaries (collectively, the Company or Cavco), have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, these statements include all the normal recurring adjustments necessary to fairly state the Company s Consolidated Financial Statements. The Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year. Certain prior period amounts have been reclassified to conform to current period classification. The Company suggests that these Consolidated Financial Statements be read in conjunction with the audited Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K filed with the SEC on May 21, 2009 (the Form 10-K).

In June 2009, the Financial Accounting Standards Board (FASB) approved the *FASB Accounting Standards Codification* (the Codification or ASC) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases issued by the SEC are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification has become non-authoritative. The Codification does not change GAAP, but instead introduces a new structure that combines existing authoritative standards into a comprehensive, topically organized online database. The Codification became effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of the Codification did not impact our financial statements or disclosures other than references to authoritative accounting literature are now made in accordance with the Codification.

As discussed further in Note 8, on July 15, 2009, the Company and an investment partner, Third Avenue Value Fund (Third Avenue), formed FH Holding, Inc. (FH), with an equity contribution of $35.0 million each for equal fifty-percent ownership interests. On July 21, 2009, FH entered into an Asset Purchase Agreement (the Purchase Agreement) with Fleetwood Enterprises, Inc. (Fleetwood) and certain of its subsidiaries to purchase certain assets and liabilities of its manufactured housing business. On August 17, 2009 (the Acquisition Date), FH acquired seven operating manufactured housing plants and two idle factories. FH also purchased all related equipment, accounts receivable, inventory, certain trademarks and trade names, intellectual property, and specified contracts and leases; and assumed express warranty liabilities pertaining to certain of the previous operations. The purchase price of the transaction was $25.8 million and was paid in cash.

Effective August 20, 2009, the name of the Company s new subsidiary was changed from FH Holding, Inc. to Fleetwood Homes, Inc. (Fleetwood Homes). The results of the new Fleetwood Homes operations have been included in the Consolidated Financial Statements and the related Notes since the Acquisition Date in accordance with the provisions of FASB ASC Topic 810 *Consolidation*. Management has determined that, although Fleetwood Homes is only fifty-percent owned by the Company, Cavco has a controlling interest and is required to fully consolidate the results of Fleetwood Homes. The primary factors that contributed to this determination were Cavco s board control and management control of Fleetwood Homes. To that end, members of Cavco s management hold two out of three total seats on the board of directors of Fleetwood Homes. In addition, as part of a management services agreement among Cavco, Fleetwood Homes and Third Avenue, Cavco provides all executive-level management services to Fleetwood Homes including, among other things, general management oversight, marketing and customer relations, accounting and cash management. Third Avenue s financial interest in Fleetwood Homes is considered a noncontrolling interest, as determined by generally accepted accounting principles, and is designated as such in the Consolidated Financial Statements.

The Company s inventory finance notes receivable balance consists of amounts loaned by the Company under special inventory financing programs for the benefit of our independent retailers home product inventory needs. Under the terms of these programs, the Company provides a significant portion of the funds that third-party financiers then lend to finance retail inventories of our products. In certain of these programs, the Company also assumes the risk of loss and therefore recorded an applicable loss reserve. While some manufacturers are unable or have elected not to participate in such inventory finance programs, the Company s financial capabilities have enabled such sources of manufactured home inventory finance to be available to retailers for Cavco and Fleetwood Homes products.

The Company s deferred tax assets primarily result from financial statement accruals not currently deductible for tax purposes, and its deferred tax liabilities primarily result from tax amortization of goodwill. The Company increased its deferred tax balances during the second fiscal quarter ended September 30, 2009 as a result of the Fleetwood Homes acquisition.

The Company complies with the provisions of FASB ASC 740, *Income Taxes,* which clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FASB ASC 740 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has recorded an insignificant amount of unrecognized tax benefits and there would be an insignificant effect on the effective tax rate if all unrecognized tax benefits were recognized. The Company classifies interest and penalties related to unrecognized tax benefits in tax expense.

The income tax benefit recognized during the nine months ended December 31, 2009, is the result of current period taxable losses and the Company s belief that it will be able to fully realize the benefits associated with its deferred tax assets. Income tax returns are filed in the U.S. federal jurisdiction and in several state jurisdictions. The Company is no longer subject to examination by the Internal Revenue Service (IRS) for years before fiscal year 2007. In June 2009, the Arizona Department of Revenue completed its audit for the fiscal years ended March 31, 2004 through March 31, 2006, which resulted in an insignificant overpayment refunded to the Company during the second quarter of fiscal year 2010. The Company is no longer subject to examinations by tax authorities in Arizona and California for years before fiscal year 2006. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to the Company s financial position. The total amount of unrecognized tax benefit related to any particular tax position is not anticipated to change significantly within the next 12 months.

During the first quarter of fiscal year 2010, the Company moved its park model and vacation cabin manufacturing operations from its Specialty plant to a second production line at its Cavco West facility (formerly known as the *Litchfield* facility). Both of these plants are located in the metropolitan area of Phoenix, Arizona. This move provided greater capabilities for the production of park models, cabins, and other specialty buildings, created improved overall operational efficiencies at the Cavco West factory, and is serving to gradually reduce overhead expenses. The costs associated with this transition were not material. The Company is evaluating its options with respect to the idle Specialty plant, including the potential sale or lease of the facility.

Revenue from homes sold to independent retailers is generally recognized when the home is shipped, at which time title passes to the independent retailer, and collectability is reasonably assured. Homes sold to independent retailers are generally either paid for prior to shipment or financed by the independent retailer through standard industry arrangements, which include repurchase agreements. Manufacturing sales are reduced by a provision for estimated repurchase obligations (see Note 4). Revenue from homes sold under special inventory finance programs involving funds provided by the Company is deferred until such time that payment for the related loan receivable is received by the Company. Retail sales by Company-owned retail locations are recognized when funding is reasonably assured, the customer has entered into a legally binding sales contract, title has transferred and the home is accepted by the customer, delivered and permanently located at the customer s site.

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In September 2006, the FASB issued a pronouncement, now included in FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* which defines the term fair value , establishes a framework for measuring fair value and enhances related disclosures. This guidance was effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued another pronouncement that delayed the effective date of the guidance to fiscal years beginning after November 15, 2008 for the majority of non-financial assets and non-financial liabilities. Therefore, effective April 1, 2008, the Company adopted the guidance for financial assets and liabilities and, effective April 1, 2009, the Company adopted the guidance for non-financial assets and non-financial liabilities, which had no effect on our consolidated financial position, results of operations or cash flows. As of December 31, 2009, the Company had no assets or liabilities required to be measured at fair value pursuant to FASB ASC 820.

In December 2007, the FASB issued its pronouncements regarding business combinations and noncontrolling interest in consolidated financial statements, currently contained in FASB ASC Topic 805, *Business Combinations,* and FASB ASC Topic 810, *Consolidation*, respectively, which significantly changed the financial accounting and reporting of business combination transactions and noncontrolling interests in consolidated financial statements. The pronouncements were effective for fiscal years beginning after December 15, 2008. Therefore, effective April 1, 2009, the Company adopted the new business combination and consolidation guidance, which affected the accounting for the Fleetwood Homes transaction that closed on August 17, 2009. As a result of the new business combinations pronouncement, $750 in acquisition-related transaction costs were required to be expensed as incurred in fiscal year 2010 rather than capitalized as part of the purchase price. Also, the differing treatment of these transaction-related costs for tax purposes affected the deferred income taxes recorded as of the Acquisition Date. In addition, the new noncontrolling interest guidance resulted in classifying Third Avenue s financial interest in Fleetwood Homes as a noncontrolling interest in the equity section of the Balance Sheet rather than being presented as a mezzanine item between liabilities and equity.

In May 2009, the FASB issued its pronouncement regarding subsequent events intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The pronouncement, now included in FASB ASC Topic 855, *Subsequent Events*, requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, and is effective for interim and annual periods ending after June 15, 2009. The Company has evaluated subsequent events after the balance sheet date of December 31, 2009 through the date of issuance, February 9, 2010, and there were no disclosable subsequent events as of February 9, 2010.

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. Composition of Certain Financial Statement Captions

Inventories consist of the following (in thousands):

	December 31, 2009	March 31, 2009
Raw materials	$ 9,552	$ 4,380
Work in process	2,898	1,570
Finished goods	2,795	3,383
	$ 15,245	$ 9,333

Accrued liabilities consist of the following (in thousands):

	December 31, 2009	March 31, 2009
Estimated warranties	$ 15,001	$ 5,902
Salaries, wages and benefits	2,422	1,152
Deferred margin	1,725	390
Accrued insurance	1,510	1,467
Accrued volume rebates	1,277	863
Reserve for repurchase commitments	990	741
Customer deposits	851	899
Other (various)	2,602	2,339
	$ 26,378	$ 13,753

3. Warranties

Homes are warranted against manufacturing defects for a period of one year commencing at the time of sale to the retail customer. Estimated costs relating to home warranties are provided at the date of sale. The Company has recorded a liability for estimated future warranty costs relating to homes sold based upon management s assessment of historical experience factors, an estimate of the amount of homes in the distribution channel and current industry trends. Activity in the liability for estimated warranties was as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Balance at beginning of period	$ 16,101	$ 6,524	$ 5,902	$ 6,619
Liability assumed with Fleetwood Homes			11,184	
Charged to costs and expenses	1,463	1,164	2,741	4,511
Payments and deductions	(2,563)	(1,444)	(4,826)	(4,886)
Balance at end of period	$ 15,001	$ 6,244	$ 15,001	$ 6,244

4. Contingencies

Repurchase Contingencies The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for retailers of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to retailers in the event of default by the retailer. The risk of loss under these agreements is spread over numerous retailers. The price the Company is obligated to pay generally declines over the period of the agreement (generally 18 to 36 months) and is further reduced by the resale value of the homes. The maximum amount for which the Company was contingently liable under such agreements approximated $14,922 at December 31, 2009, without reduction for the resale value of the homes. The Company applies the Guarantees Topic of the FASB Accounting Standards Codification (FASB ASC 460) and FASB ASC 450-20, *Loss Contingencies,* to account for its liability for repurchase commitments. Under the provisions of FASB ASC 460, the Company records the greater of the estimated value of the non-contingent obligation or a contingent liability for each repurchase arrangement under the provisions of FASB ASC 450-20. The Company recorded an estimated liability of $990 at December 31, 2009 related to these commitments.

Letter of Credit The Company maintains a $550 outstanding letter of credit with J.P. Morgan Chase Bank N.A. for any remaining claims under a self-funded workers compensation program, which concluded on September 30, 2006.

There have been no draws against the letter of credit.

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Legal Matters The Company is party to certain legal proceedings that arise in the ordinary course and are incidental to its business. Certain of the claims pending against the Company in these proceedings allege, among other things, breach of contract and warranty, product liability and personal injury. Although litigation is inherently uncertain, based on past experience and the information currently available, management does not believe that the currently pending and threatened litigation or claims will have a material adverse effect on the Company s consolidated financial position, liquidity or results of operations. However, future events or circumstances currently unknown to management will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on the Company s consolidated financial position, liquidity or results of operations in any future reporting periods.

5. Stock-Based Compensation

The Company maintains stock incentive plans whereby stock option grants or awards of restricted stock may be made to certain officers, directors and key employees. The plans, which are shareholder approved, permit the award of up to 1,350,000 shares of the Company s common stock, of which 414,626 shares were still available for grant at December 31, 2009. When options are exercised, new shares of the Company s common stock are issued. Stock options may not be granted below 100% of the fair market value of the Company s common stock at the date of grant and generally expire seven years from the date of grant. Stock options and awards of restricted stock vest over a three to five-year period. The stock incentive plans provide for accelerated vesting of stock options and removal of restrictions on restricted stock awards upon a change in control (as defined in the plans).

The following table summarizes the option activity within the Company s stock-based compensation plans for the nine months ended December 31, 2009:

	Number of Shares
Outstanding at March 31, 2009	576,079
Granted	140,000
Exercised	(34,499)
Outstanding at December 31, 2009	681,580
Exercisable at December 31, 2009	519,330

A summary of restricted stock activity within the Company s share-based compensation plans and changes for the six months ended December 31, 2009 is as follows:

	Number of Shares
Nonvested at March 31, 2009	1,182
Vested	(342)
Nonvested at December 31, 2009	840

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6. Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period increased by the weighted-average number of dilutive common stock equivalents outstanding during the period, using the treasury stock method. However, when a net loss exists, no potential common stock equivalents are included in the computation of the diluted per-share amount because the computation would result in an anti-dilutive per-share amount. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Net (loss) income attributable to Cavco Industries, Inc. common stockholders	$ (1,030)	$ 110	$ (2,642)	$ 1,481
Weighted average shares outstanding:				
Basic	6,511,184	6,499,362	6,508,552	6,481,572
Common stock equivalents treasury stock method		194,056		214,082
Diluted	6,511,184	6,693,418	6,508,552	6,695,654
Net (loss) income per share attributable to Cavco Industries, Inc. common stockholders:				
Basic	$ (0.16)	$ 0.02	$ (0.41)	$ 0.23
Diluted	$ (0.16)	$ 0.02	$ (0.41)	$ 0.22