

CAVCO INDUSTRIES INC  
Form 10-Q  
February 07, 2018

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 30, 2017

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 (I.R.S. Employer  
incorporation or organization) 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 ☐  
Emerging Growth Company ☐

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

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

As of February 2, 2018, 9,036,705 shares of Registrant's Common Stock, \$.01 par value, were outstanding.

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December 30, 2017  
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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 30, 2017	April 1, 2017 (Unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 138,974	\$132,542
Restricted cash, current	9,993	11,573
Accounts receivable, net	41,501	31,221
Short-term investments	14,502	11,289
Current portion of consumer loans receivable, net	32,186	31,115
Current portion of commercial loans receivable, net	6,823	7,932
Inventories	105,872	93,855
Prepaid expenses and other current assets	34,112	28,033
Deferred income taxes, current	—	9,204
Total current assets	383,963	356,764
Restricted cash	728	724
Investments	34,631	30,256
Consumer loans receivable, net	62,806	64,686
Commercial loans receivable, net	20,031	17,901
Property, plant and equipment, net	58,969	56,964
Goodwill and other intangibles, net	83,025	80,021
Total assets	\$ 644,153	\$607,316
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 19,835	\$24,010
Accrued liabilities	123,661	109,789
Current portion of securitized financings and other	5,761	6,417
Total current liabilities	149,257	140,216
Securitized financings and other	51,530	51,574
Deferred income taxes	7,794	21,118
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 9,035,294 and 8,994,968 shares, respectively	90	90
Additional paid-in capital	245,605	244,791
Retained earnings	187,572	148,141
Accumulated other comprehensive income	2,305	1,386
Total stockholders' equity	435,572	394,408
Total liabilities and stockholders' equity	\$ 644,153	\$607,316
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 31,		December 31,	
	2017	2016	2017	2016
Net revenue	\$221,383	\$ 202,310	\$628,706	\$ 575,799
Cost of sales	171,527	158,766	502,330	459,896
Gross profit	49,856	43,544	126,376	115,903
Selling, general and administrative expenses	26,045	26,003	78,503	76,119
Income from operations	23,811	17,541	47,873	39,784
Interest expense	(1,236 )	(1,091 )	(3,305 )	(3,384 )
Other income, net	1,094	829	3,251	2,407
Income before income taxes	23,669	17,279	47,819	38,807
Income tax expense	(2,242 )	(4,996 )	(8,457 )	(11,740 )
Net income	\$21,427	\$ 12,283	\$39,362	\$ 27,067
Comprehensive income:				
Net income	\$21,427	\$ 12,283	\$39,362	\$ 27,067
Unrealized gain on available-for-sale securities, net of tax	315	253	919	1,077
Comprehensive income	\$21,742	\$ 12,536	\$40,281	\$ 28,144
Net income per share:				
Basic	\$2.37	\$ 1.37	\$4.36	\$ 3.02
Diluted	\$2.33	\$ 1.35	\$4.28	\$ 2.98
Weighted average shares outstanding:				
Basic	9,030,100	8,992,456	9,019,311	8,970,008
Diluted	9,214,898	9,102,562	9,186,042	9,096,442

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 30, 2017		December 31, 2016	
OPERATING ACTIVITIES				
Net income	\$ 39,362		\$ 27,067	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,975		2,762	
Provision for credit losses	484		441	
Deferred income taxes	(4,617)	)	(1,001)	)
Stock-based compensation expense	1,918		1,743	
Non-cash interest income, net	(693)	)	(926)	)
Incremental tax benefits from option exercises	—		(2,349)	)
Gain on sale of property, plant and equipment, net	(55)	)	(256)	)
Gain on sale of loans and investments, net	(7,335)	)	(5,832)	)
Changes in operating assets and liabilities:				
Restricted cash	1,143		905	
Accounts receivable	(8,914)	)	(6,627)	)
Consumer loans receivable originated	(96,766)	)	(86,838)	)
Proceeds from sales of consumer loans	91,157		77,260	
Principal payments on consumer loans receivable	10,615		8,786	
Inventories	(10,090)	)	8,169	
Prepaid expenses and other current assets	(3,191)	)	29	
Commercial loans receivable	(964)	)	2,134	
Accounts payable and accrued liabilities	355		3,332	

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Net cash provided by operating activities	15,384		28,799	
<b>INVESTING ACTIVITIES</b>				
Purchases of property, plant and equipment	(3,025)	)	(4,343)	)
Payments for Lexington Homes, net	(1,638)	)	—	
Proceeds from sale of property, plant and equipment	436		296	
Purchases of investments	(9,736)	)	(7,625)	)
Proceeds from sale of investments	7,401		8,011	
Net cash used in investing activities	(6,562)	)	(3,661)	)
<b>FINANCING ACTIVITIES</b>				
Payments from exercise of stock options	(1,104)	)	(1,483)	)
Incremental tax benefits from exercise of stock options	—		2,349	
Proceeds from secured financings and other	5,103		2,269	
Payments on securitized financings	(6,389)	)	(6,294)	)
Net cash used in financing activities	(2,390)	)	(3,159)	)
Net increase in cash and cash equivalents	6,432		21,979	
Cash and cash equivalents at beginning of the period	132,542		97,766	
Cash and cash equivalents at end of the period	\$ 138,974		\$ 119,745	
<b>Supplemental disclosures of cash flow information:</b>				
Cash paid during the year for income taxes	\$ 12,195		\$ 11,595	
Cash paid during the year for interest	\$ 2,221		\$ 2,605	

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 the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended April 1, 2017, filed with the SEC on June 13, 2017.

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 March 31, 2018.

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 manufactured homes, modular homes and park model RVs in 20 factories located throughout the United States, which are sold to a network of independent retailers, through the Company's 41 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 home-only loans to purchasers of factory-built homes. Standard Casualty provides property and casualty insurance to owners of manufactured homes.

On April 3, 2017, the Company acquired Lexington Homes, Inc. ("Lexington"), which produces manufactured homes distributed in the Southeastern United States. This operation, with one manufactured housing production facility in Lexington, Mississippi, provides for further operating capacity, increased home production capabilities and further distribution into certain markets. The acquisition was accounted for as a business combination and the results of operations have been included since the date of acquisition. Our purchase price allocation is 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 the acquisition have not been presented because the effects of the business combination were not material to our consolidated results of operations.

**Recent Accounting Pronouncements.** 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 became effective in the current fiscal year. Therefore, we now present all deferred tax liabilities and assets as noncurrent on the balance sheet instead of separating these items into current and noncurrent amounts. The prior period was not retrospectively adjusted. In addition, in March 2016, the FASB issued ASU 2016-09, Compensation- Stock Compensation (Topic 718) ("ASU 2016-09"), which also became effective in the current fiscal year. As a result of this required implementation, excess tax benefits are recorded on exercises of stock options as a reduction of income tax expense in the consolidated statement of comprehensive income, whereas they were previously recognized in equity.

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. Our implementation approach has included performing a detailed study of the various types of agreements that we have with our customers and assessing conformity of our current accounting practices with the new standard. We are making progress in determining the impact of this guidance; however, we are still evaluating the full effects ASU 2014-09 will have on the Company's Consolidated Financial Statements and disclosures. We expect to adopt this guidance using the modified retrospective transition method.

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. Upon adoption, we will be required to reclassify the gain (loss) related to our equity investment securities classified as available-for-sale from accumulated other comprehensive income ("AOCI") to retained earnings as a cumulative-effect adjustment and begin recording future changes in fair value through earnings. As of December 30, 2017, we had a gain of \$2.3 million recorded in AOCI for our available-for-sale equity investments. The impact on the Company's Consolidated Financial Statements at adoption will depend on the net unrealized gains (losses) recorded in AOCI for these equity investments as of the date of adoption.

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 leased assets and the related liabilities on the balance sheet for most leases, and recognition of expenses in the income statement in a manner similar to current accounting treatment. In addition, disclosures of key information about leasing arrangements will be 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 this ASU 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 to base measurement on expected losses through a forward-looking model rather than a model based on 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.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force ("ASU 2016-18"), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective beginning with the first quarter of the Company's fiscal year 2019. The adoption of ASU 2016-18 will only change the presentation of the Consolidated Statement of Cash Flows and is not expected to have a material impact on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities ("ASU 2017-08"), which requires the premium on callable debt securities to be amortized to the earliest call date as opposed to the contractual life of the security. ASU 2017-08 will be effective beginning with the first quarter of the Company's fiscal year 2020. The Company is currently evaluating the effect ASU 2017-08 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 30, 2017	April 1, 2017
Cash related to CountryPlace customer payments to be remitted to third parties	\$ 8,399	\$9,998
Cash related to CountryPlace customer payments on securitized loans to be remitted to bondholders	958	1,391
Cash related to workers' compensation insurance held in trust	355	354
Other restricted cash	1,009	554
	\$ 10,721	\$12,297

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):

	December 30, 2017	April 1, 2017
Available-for-sale investment securities	\$ 30,487	\$24,162
Non-marketable equity investments	18,646	17,383
	\$ 49,133	\$41,545

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 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$300	\$ —	\$ (4)	) \$296
Residential mortgage-backed securities	7,510	1	(104)	) 7,407
State and political subdivision debt securities	6,924	142	(142)	) 6,924
Corporate debt securities	1,658	2	(23)	) 1,637
Marketable equity securities	7,627	3,947	(113)	) 11,461
Certificates of deposit	2,762	—	—	) 2,762
	\$26,781	\$ 4,092	\$ (386)	) \$30,487

	April 1, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$650	\$ —	\$ (1)	) \$649
Residential mortgage-backed securities	5,646	3	(90)	) 5,559
State and political subdivision debt securities	7,195	145	(117)	) 7,223
Corporate debt securities	1,698	4	(23)	) 1,679
Marketable equity securities	5,752	2,430	(130)	) 8,052
Certificates of deposit	1,000	—	—	) 1,000
	\$21,941	\$ 2,582	\$ (361)	) \$24,162

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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 30, 2017						
	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	\$296	\$ (4 )	\$ —	\$ —	\$296	\$ (4 )
Residential mortgage-backed securities	3,308	(32 )	3,860	(72 )	7,168	(104 )
State and political subdivision debt securities	2,649	(22 )	2,309	(120 )	4,958	(142 )
Corporate debt securities	1,012	(8 )	372	(15 )	1,384	(23 )
Marketable equity securities	1,032	(91 )	104	(22 )	1,136	(113 )
	\$8,297	\$ (157 )	\$ 6,645	\$ (229 )	\$14,942	\$ (386 )

April 1, 2017						
	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	\$349	\$ (1 )	\$ —	\$ —	\$349	\$ (1 )
Residential mortgage-backed securities	3,449	(38 )	1,962	(52 )	5,411	(90 )
State and political subdivision debt securities	1,948	(36 )	2,084	(81 )	4,032	(117 )
Corporate debt securities	1,424	(23 )	—	—	1,424	(23 )
Marketable equity securities	1,393	(90 )	157	(40 )	1,550	(130 )
	\$8,563	\$ (188 )	\$ 4,203	\$ (173 )	\$12,766	\$ (361 )

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 30, 2017.

As of December 30, 2017 and April 1, 2017, the Company's investments in marketable equity securities consist of investments in common stock of industrial and other companies.

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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 30, 2017	
	Amortized Cost	Fair Value
Due in less than one year	\$280	\$279
Due after one year through five years	4,223	4,157
Due after five years through ten years	2,602	2,536
Due after ten years	9,287	9,292
	\$16,392	\$16,264

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 30, 2017 were approximately \$147,000 and \$882,000, respectively. Gross losses realized were approximately \$41,000 and \$163,000 for the three and nine months ended December 30, 2017, respectively. Gross gains realized on the sales of investment securities for the three and nine months ended December 31, 2016 were approximately \$386,000 and \$1.0 million, respectively. Gross losses realized were approximately \$46,000 and \$303,000 for the three and nine months ended December 31, 2016, respectively.

## 4. Inventories

Inventories consist of the following (in thousands):

	December 30, April 1, 2017 2017	
Raw materials	\$ 37,934	\$31,506
Work in process	11,671	11,768
Finished goods and other	56,267	50,581
	\$ 105,872	\$93,855

## 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):

	December 30, April 1, 2017 2017	
Loans held for investment (acquired on Palm Harbor Acquisition Date)	\$ 54,013	\$60,513
Loans held for investment (originated after Palm Harbor Acquisition Date)	17,956	11,108
Loans held for sale	12,361	18,570
Construction advances	12,407	6,957
Consumer loans receivable	96,737	97,148
Deferred financing fees and other, net	(1,370)	(1,095)
Allowance for loan losses	(375)	(252)
Consumer loans receivable, net	\$ 94,992	\$95,801

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The allowance for loan losses is developed at the loan level and allocated to specific individual loans or to impaired loans. A range of probable losses is calculated after giving consideration to, among other things, the loan characteristics, and historical loss experience. The Company then makes a determination of the best estimate within the range of loan losses. The allowance for loan losses reflects the Company's judgment of the probable loss exposure on its loans held for investment portfolio.

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.

	December 30, 2017	April 1, 2017
	(in thousands)	
Consumer loans receivable held for investment – contractual amount	\$125,307	\$142,391
Purchase discount		
Accretable	(48,268 )	(56,686 )
Non-accretable	(22,922 )	(25,032 )
Less consumer loans receivable reclassified as other assets	(104 )	(160 )
Total acquired consumer loans receivable held for investment, net	\$54,013	\$60,513

The Company continues to estimate cash flows expected to be collected over the life of the acquired loans. As of the balance sheet date, the Company evaluates whether the present value of expected cash flows, determined using the effective interest rate, has decreased from the value at acquisition and, if so, recognizes an allowance for loan loss. The present value of any subsequent increase in the loan pool's actual cash flows expected to be collected is used first to reverse any existing allowance for loan loss. Any remaining increase in cash flows expected to be collected adjusts the amount of accretable yield recognized on a prospective basis over the loan pool's remaining life. The weighted averages of assumptions used in the calculation of expected cash flows to be collected are as follows:

	December 30, 2017	April 1, 2017
Prepayment rate	14.0 %	13.8 %
Default rate	1.2 %	1.1 %

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 December 30, 2017, would decrease by approximately \$1.4 million and \$4.0 million for the expected prepayment rate and expected default rate, respectively.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Balance at the beginning of the period	\$51,180	\$ 62,209	\$56,686	\$ 69,053
Accretion	(2,068 )	(2,399 )	(6,441 )	(7,363 )
Reclassifications to non-accretable discount	(844 )	(872 )	(1,977 )	(2,752 )
Balance at the end of the period	\$48,268	\$ 58,938	\$48,268	\$ 58,938

The consumer loans held for investment have the following characteristics:

	December 30,		April 1,	
	2017		2017	
Weighted average contractual interest rate	8.67	%	8.87	%
Weighted average effective interest rate	9.51	%	9.35	%
Weighted average months to maturity	166		165	

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 personal property loans), 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. Unsecuritized consumer loans held for investment include chattel personal property loans originated under the Company's chattel lending programs. 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):

December 30, 2017						
Consumer Loans Held for Investment						
Asset Class	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Credit Quality Indicator (FICO® score)						
Chattel loans						
0-619	\$502	\$ 366	\$ 352	\$ —	\$ —	\$1,220
620-719	10,548	7,312	7,652	—	383	25,895
720+	11,104	6,792	9,286	—	1,743	28,925
Other	50	—	368	—	—	418
Subtotal	22,204	14,470	17,658	—	2,126	56,458
Conforming mortgages						
0-619	—	—	158	41	—	199
620-719	—	—	1,891	6,396	7,192	15,479
720+	—	—	327	5,970	2,927	9,224
Other	—	—	—	—	116	116
Subtotal	—	—	2,376	12,407	10,235	25,018
Non-conforming mortgages						
0-619	83	413	1,066	—	—	1,562
620-719	1,180	4,608	3,178	—	—	8,966
720+	1,475	2,562	399	—	—	4,436
Other	—	—	286	—	—	286
Subtotal						