
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 28, 2013
OR

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

For the transition period from _____ to _____
Commission File Number 000-08822

Cavco Industries, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1001 North Central Avenue, Suite 800
Phoenix, Arizona
(Address of principal executive offices)

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

85004
(Zip Code)

602-256-6263
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

As of February 4, 2014, 8,839,824 shares of Registrant's Common Stock, \$.01 par value, were outstanding.

CAVCO INDUSTRIES, INC.
FORM 10-Q
December 28, 2013

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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 28, 2013 (Unaudited)	March 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 59,520	\$ 47,823
Restricted cash, current	5,951	6,773
Accounts receivable, net	27,041	18,710
Short-term investments	7,366	6,929
Current portion of consumer loans receivable, net	19,605	20,188
Current portion of inventory finance notes receivable, net	3,046	3,983
Inventories	67,525	68,805
Assets held for sale	3,889	4,180
Prepaid expenses and other current assets	11,525	10,267
Deferred income taxes, current	10,233	6,724
Total current assets	215,701	194,382
Restricted cash	1,180	1,179
Investments	14,214	10,769
Consumer loans receivable, net	82,384	90,802
Inventory finance notes receivable, net	19,200	18,967
Property, plant and equipment, net	45,681	46,223
Goodwill and other intangibles, net	78,400	79,435
Deferred income taxes	—	2,742
Total assets	\$ 456,760	\$ 444,499
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,580	\$ 14,118
Accrued liabilities	68,957	62,718
Current portion of securitized financings	9,553	10,169
Total current liabilities	90,090	87,005
Securitized financings	63,282	72,118
Deferred income taxes	17,873	16,492
Redeemable noncontrolling interest	—	91,994
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 8,839,824 and 6,967,954 shares, respectively	88	70
Additional paid-in capital	231,645	135,053
Retained earnings	53,618	41,590
Accumulated other comprehensive income	164	177
Total stockholders' equity	285,515	176,890
Total liabilities, redeemable noncontrolling interest and stockholders' equity	\$ 456,760	\$ 444,499

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Net revenue	\$ 138,317	\$ 114,603	\$ 402,130	\$ 343,468
Cost of sales	106,748	88,028	311,279	267,131
Gross profit	31,569	26,575	90,851	76,337
Selling, general and administrative expenses	22,019	20,307	66,581	60,400
Income from operations	9,550	6,268	24,270	15,937
Interest expense	(1,219)	(1,403)	(3,671)	(4,656)
Other income, net	173	416	673	1,199
Income before income taxes	8,504	5,281	21,272	12,480
Income tax expense	(2,612)	(2,260)	(6,776)	(5,160)
Net income	5,892	3,021	14,496	7,320
Less: net income attributable to redeemable noncontrolling interest	—	1,564	2,468	3,749
Net income attributable to Cavco common stockholders	<u>\$ 5,892</u>	<u>\$ 1,457</u>	<u>\$ 12,028</u>	<u>\$ 3,571</u>
Comprehensive income:				
Net income	\$ 5,892	\$ 3,021	\$ 14,496	\$ 7,320
Unrealized loss on available-for-sale securities, net of tax	(4)	(74)	(190)	(12)
Comprehensive income	5,888	2,947	14,306	7,308
Comprehensive income attributable to redeemable noncontrolling interest	—	1,527	2,392	3,743
Comprehensive income attributable to Cavco common stockholders	<u>\$ 5,888</u>	<u>\$ 1,420</u>	<u>\$ 11,914</u>	<u>\$ 3,565</u>
Net income per share attributable to Cavco common stockholders:				
Basic	<u>\$ 0.67</u>	<u>\$ 0.21</u>	<u>\$ 1.49</u>	<u>\$ 0.51</u>
Diluted	<u>\$ 0.66</u>	<u>\$ 0.21</u>	<u>\$ 1.47</u>	<u>\$ 0.51</u>
Weighted average shares outstanding:				
Basic	<u>8,838,832</u>	<u>6,967,954</u>	<u>8,070,619</u>	<u>6,953,037</u>
Diluted	<u>8,991,672</u>	<u>7,037,333</u>	<u>8,183,126</u>	<u>7,018,280</u>

See accompanying Notes to Consolidated Financial Statements

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

	Nine Months Ended	
	December 28, 2013	December 29, 2012
OPERATING ACTIVITIES		
Net income	\$ 14,496	\$ 7,320
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,964	3,044
Provision for credit losses	44	270
Deferred income taxes	712	951
Stock-based compensation expense	2,163	966
Non-cash interest income, net	(576)	(502)
Impairment of property, plant and equipment including assets held for sale	560	—
Gain on sale of property, plant and equipment including assets held for sale	(44)	(85)
Gain on sale of loans	(3,985)	(6,005)
Gain on investments	(587)	(105)
Changes in operating assets and liabilities:		
Restricted cash	821	(430)
Accounts receivable	(8,424)	(635)
Consumer loans receivable originated	(77,747)	(83,330)
Principal payments on consumer loans receivable	11,386	9,058
Proceeds from sales of consumer loans	80,228	83,826
Inventories	1,280	(390)
Prepaid expenses and other current assets	(1,456)	(716)
Inventory finance notes receivable	825	(1,107)
Accounts payable and accrued liabilities	3,997	(5)
Net cash provided by operating activities	<u>26,657</u>	<u>12,125</u>
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,671)	(563)
Proceeds from sale of property, plant and equipment including assets held for sale	59	1,767
Purchases of investments	(12,078)	(5,416)
Proceeds from sale of investments	8,098	3,042
Net cash used in investing activities	<u>(5,592)</u>	<u>(1,170)</u>
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	162	2,199
Net repayment of construction lending line	—	(4,550)
Payments on securitized financings	(9,530)	(7,247)
Net cash used in financing activities	<u>(9,368)</u>	<u>(9,598)</u>
Net increase in cash and cash equivalents	11,697	1,357
Cash and cash equivalents at beginning of the period	47,823	41,094
Cash and cash equivalents at end of the period	<u>\$ 59,520</u>	<u>\$ 42,451</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	<u>\$ 6,693</u>	<u>\$ 4,958</u>
Cash paid during the year for interest	<u>\$ 3,597</u>	<u>\$ 4,243</u>
Supplemental disclosures of non-cash investing and financing activities:		
Issuance of common stock to acquire noncontrolling interest	<u>\$ 94,386</u>	<u>\$ —</u>

See accompanying Notes to Consolidated Financial Statements

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 presentation. The Company has evaluated subsequent events after the balance sheet date through the date of the filing of this report with the SEC; there were no disclosable subsequent events. These Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended March 30, 2013 filed with the SEC on June 11, 2013 (the “Form 10-K”).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying Notes. Actual results could differ from those estimates. The Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year. The Company operates on a 52-53 week fiscal year ending on the Saturday nearest to March 31 of each year. Each fiscal quarter consists of 13 weeks, with an occasional fourth quarter extending to 14 weeks, if necessary, for the fiscal year to end on the Saturday nearest to March 31. The Company’s current fiscal year will end on March 29, 2014.

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 related consumer finance and insurance. The Company builds a wide variety of affordable modular homes, manufactured homes and park model seasonal homes in 15 factories located throughout the United States, primarily distributed through a network of independent and company-owned retailers. The Company operates 49 company-owned retail stores in the United States. The Company’s mortgage subsidiary (“CountryPlace”) is an approved Fannie Mae and Ginnie Mae seller/servicer and offers conforming mortgages to purchasers of factory-built and site-built homes. The Company’s insurance subsidiary (“Standard”) provides property and casualty insurance to owners of manufactured homes.

Historically, the Company’s subsidiary, Fleetwood Homes, Inc. (“Fleetwood”), was jointly owned by the Company and its investment partners, Third Avenue Value Fund and an affiliate (collectively, “Third Avenue”) further discussed in Note 20. Third Avenue’s financial interest in Fleetwood was reported as a “redeemable noncontrolling interest” in the Consolidated Financial Statements. As discussed in Note 19, during the quarter ended September 28, 2013, Cavco completed the purchase from Third Avenue of all noncontrolling interests in Fleetwood, which owns Fleetwood Homes, Palm Harbor Homes, CountryPlace and Standard. The Company satisfied the purchase price with 1,867,370 shares of Company common stock issued to Third Avenue. The acquisition closed on July 22, 2013, resulting in Cavco owning 100 percent of the Fleetwood businesses and entitling Cavco to all of the associated earnings from that date forward.

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 28, 2013	March 30, 2013
Cash related to CountryPlace customer payments to be remitted to third parties	\$ 4,224	\$ 4,870
Cash related to CountryPlace customers' principal and interest payments on securitized loans to be remitted to bondholders	1,690	1,768
Cash related to workers' compensation insurance held in trust	726	725
Other restricted cash	491	589
	<u>\$ 7,131</u>	<u>\$ 7,952</u>

3. Investments

Investments consist of the following (in thousands):

	December 28, 2013	March 30, 2013
Available-for-sale investment securities	\$ 19,337	\$ 17,698
Equity method investment	2,243	—
	<u>\$ 21,580</u>	<u>\$ 17,698</u>

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 28, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$ 2,324	\$ 3	\$ (95)	\$ 2,232
Residential mortgage-backed securities	3,966	12	(248)	3,730
State and political subdivision debt securities	5,934	36	(37)	5,933
Corporate debt securities	1,811	31	—	1,842
Marketable equity securities	5,050	622	(72)	5,600
	<u>\$ 19,085</u>	<u>\$ 704</u>	<u>\$ (452)</u>	<u>\$ 19,337</u>

	March 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$ 2,682	\$ 11	\$ (6)	\$ 2,687
Residential mortgage-backed securities	5,226	21	(108)	5,139
State and political subdivision debt securities	1,681	32	—	1,713
Corporate debt securities	2,788	48	—	2,836
Marketable equity securities	4,782	609	(68)	5,323
	<u>\$ 17,159</u>	<u>\$ 721</u>	<u>\$ (182)</u>	<u>\$ 17,698</u>

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 28, 2013					
	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	\$ 1,456	\$ (95)	\$ —	\$ —	\$ 1,456	\$ (95)
Residential mortgage-backed securities	2,872	(239)	341	(9)	3,213	(248)
States and political subdivisions	2,931	(37)	—	—	2,931	(37)
Marketable equity securities	965	(63)	212	(9)	1,177	(72)
	<u>\$ 8,224</u>	<u>\$ (434)</u>	<u>\$ 553</u>	<u>\$ (18)</u>	<u>\$ 8,777</u>	<u>\$ (452)</u>

	March 30, 2013					
	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	\$ 1,084	\$ (6)	\$ —	\$ —	\$ 1,084	\$ (6)
Residential mortgage-backed securities	1,460	(108)	—	—	1,460	(108)
Marketable equity securities	413	(13)	304	(55)	717	(68)
	<u>\$ 2,957</u>	<u>\$ (127)</u>	<u>\$ 304</u>	<u>\$ (55)</u>	<u>\$ 3,261</u>	<u>\$ (182)</u>

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 28, 2013.

As of December 28, 2013, the Company's investments in marketable equity securities consist of investments in common stock of industrial and other companies (\$4.2 million of the total fair value and \$54,000 of the total unrealized losses) and bank trust, insurance, and public utility companies (\$1.4 million of the total fair value and \$18,000 of the total unrealized losses).

As of March 30, 2013, the Company's investments in marketable equity securities consisted of investments in common stock of industrial and other companies (\$3.7 million of the total fair value and \$51,000 of the total unrealized losses) and bank trust, insurance, and public utility companies (\$1.6 million of the total fair value and \$17,000 of the total unrealized losses).

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 will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 28, 2013		March 30, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	\$ 1,760	\$ 1,767	\$ 1,600	\$ 1,607
Due after one year through five years	3,432	3,474	4,786	4,880
Due after five years through ten years	1,009	940	924	893
Due after ten years	7,834	7,556	5,067	4,995
	<u>\$ 14,035</u>	<u>\$ 13,737</u>	<u>\$ 12,377</u>	<u>\$ 12,375</u>

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 28, 2013 were approximately \$231,000 and \$695,000, respectively. Gross losses realized were approximately \$56,000 and \$140,000, respectively, for the three and nine months ended December 28, 2013.

4. Inventories

Inventories consist of the following (in thousands):

	December 28, 2013	March 30, 2013
Raw materials	\$ 22,833	\$ 20,993
Work in process	6,428	8,079
Finished goods and other	38,264	39,733
	<u>\$ 67,525</u>	<u>\$ 68,805</u>

5. Consumer Loans Receivable

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

	December 28, 2013	March 30, 2013
Loans held for investment (acquired as part of the Palm Harbor transaction)	\$ 90,350	\$ 99,854
Loans held for investment (originated after the Palm Harbor transaction)	1,687	606
Loans held for sale	7,391	7,410
Construction advances, net	2,759	3,597
Consumer loans receivable	<u>102,187</u>	<u>111,467</u>
Deferred financing fees and other, net	(198)	(477)
Consumer loans receivable, net	<u>\$ 101,989</u>	<u>\$ 110,990</u>

As of the date of the Palm Harbor acquisition, management evaluated consumer loans receivable held for investment by CountryPlace to determine whether there was evidence of deterioration of credit quality and if it was probable that CountryPlace would be unable to collect all amounts due according to the loans' contractual terms. The Company also considered expected prepayments and estimated the amount and timing of undiscounted expected principal, interest and other cash flows. The Company determined the excess of the loan pool's scheduled contractual principal and contractual interest payments over all cash flows expected as of the date of the Palm Harbor transaction as an amount that cannot be accreted into interest income (the non-accretable difference). The cash flows expected to be collected in excess of the carrying value of the acquired loans are accreted into interest income over the remaining life of the loans (referred to as accretable yield). The portion of the cash flows expected Interest income on consumer loans receivable is recognized as net revenue.

	December 28, 2013	March 30, 2013
	(In thousands)	
Consumer loans receivable held for investment – contractual amount	\$ 231,912	\$ 263,038
Purchase discount		
Accretable yield	(80,803)	(91,291)
Non-accretable difference	(60,206)	(71,451)
Less consumer loans receivable reclassified as other assets	(553)	(442)
Total acquired consumer loans receivable held for investment, net	<u>\$ 90,350</u>	<u>\$ 99,854</u>

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected by CountryPlace. At the balance sheet date, the Company evaluates whether the present value of expected cash flows, determined using the effective interest rate, has decreased and, if so, recognizes an allowance for loan loss subsequent to the date of the Palm Harbor transaction. 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 changes in accretable yield on acquired consumer loans receivable held for investment were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Balance at the beginning of the period	\$ 83,817	\$ 102,314	\$ 91,291	\$ 106,949
Accretion	(2,980)	(3,307)	(9,143)	(10,402)
Net transfers between accretable yield and non-accretable difference	(34)	374	(1,345)	2,834
Balance at the end of the period	<u>\$ 80,803</u>	<u>\$ 99,381</u>	<u>\$ 80,803</u>	<u>\$ 99,381</u>

CountryPlace's consumer loans receivable 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 (“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.

The following table disaggregates CountryPlace’s gross consumer loans receivable as of December 28, 2013, for each class by portfolio segment and credit quality indicator as of the time of origination (in thousands):

Asset Class	Consumer Loans Held for Investment			Construction Advances	Consumer Loans Held For Sale	Total
	Securitized 2005	Securitized 2007	Unsecuritized			
Credit Quality Indicator						
Chattel loans						
0-619	\$ 1,142	\$ 668	\$ 821	\$ —	\$ —	\$ 2,631
620-719	17,449	11,617	987	—	—	30,053
720+	19,594	13,321	593	—	—	33,508
Subtotal	38,185	25,606	2,401	—	—	66,192
Conforming mortgages						
0-619	—	—	274	—	128	402
620-719	—	—	2,308	1,552	4,604	8,464
720+	—	—	287	1,207	2,659	4,153
Subtotal	—	—	2,869	2,759	7,391	13,019
Non-conforming mortgages						
0-619	94	817	2,051	—	—	2,962
620-719	1,646	6,399	4,082	—	—	12,127
720+	1,945	4,496	1,429	—	—	7,870
Subtotal	3,685	11,712	7,562	—	—	22,959
Other loans						
Subtotal	—	—	17	—	—	17
	\$ 41,870	\$ 37,318	\$ 12,849	\$ 2,759	\$ 7,391	\$ 102,187

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. Consumer loans receivable are located in the key states shown below with the corresponding percentage of loans aged 61 days or more:

State	December 28, 2013			March 30, 2013		
	Portfolio concentration	Aging 61 days or more		Portfolio concentration	Aging 61 days or more	
		Percent of state’s loan balance	Percent of total loan balance		Percent of state’s loan balance	Percent of total loan balance
Texas	41.4%	1.29%	0.53%	41.9%	1.77%	0.74%
Florida	7.9%	1.62%	0.13%	6.7%	2.26%	0.15%
New Mexico	6.9%	1.05%	0.07%	6.6%	2.44%	0.16%
Arizona	5.6%	6.31%	0.35%	6.2%	3.05%	0.19%
All others	38.2%	3.17%	1.21%	38.6%	3.08%	1.19%
	100.0%		2.29%	100.0%		2.43%

The states of Florida and Arizona have experienced volatility in the housing market from economic circumstances. The risks created by these concentrations have been considered by management in the determination of the accretible yield and the adequacy of any allowance for loan losses. Other than Texas, no other state had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of December 28, 2013 or March 30, 2013.

6. Inventory Finance Notes Receivable and Allowance for Loan Loss

The Company's inventory finance notes receivable balance consists of two classes: (i) amounts loaned by the Company under participation inventory financing programs; and (ii) direct inventory financing arrangements for the home product inventory needs of our independent distribution base.

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 of our products. The participation inventory finance receivables are unsecured general obligations of the independent floor plan lenders.

Under the terms of the direct inventory finance arrangements, the Company provides funds for the independent retailers' financed inventory. The notes are secured by the inventory collateral and other security depending on the borrower's (retailer's) circumstances. The other terms of direct inventory finance arrangements vary depending on the needs of the borrower and the opportunity for the Company, but generally follow the same tenets as the participation programs.

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

	December 28, 2013	March 30, 2013
Direct inventory finance notes receivable	\$ 20,869	\$ 18,955
Participation inventory finance notes receivable	1,570	4,345
Allowance for loan loss	(193)	(350)
	<u>\$ 22,246</u>	<u>\$ 22,950</u>

The Company evaluates the potential for loss from its participation inventory finance programs based on the independent lender's overall financial stability, as well as historical experience, and has determined that an applicable allowance for loan loss was not needed at either December 28, 2013 or March 30, 2013.

With respect to the direct inventory finance notes receivable, the risk of loss is spread over numerous borrowers. Borrower inventory levels and activity are 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 \$193,000 and \$350,000 at December 28, 2013 and March 30, 2013, respectively. 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 inventory finance notes receivable (in thousands):

	Three Months Ended		Nine Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Balance at beginning of period	\$ 206	\$ 139	\$ 350	\$ 215
Provision for inventory finance credit losses	(24)	(13)	(122)	(89)
Loans charged off, net of recoveries	11	—	(35)	—
Balance at end of period	<u>\$ 193</u>	<u>\$ 126</u>	<u>\$ 193</u>	<u>\$ 126</u>

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

	Direct Inventory Finance		Participation Inventory Finance	
	December 28, 2013	March 30, 2013	December 28, 2013	March 30, 2013
Inventory finance notes receivable:				
Collectively evaluated for impairment	\$ 20,180	\$ 12,708	\$ —	\$ —
Individually evaluated for impairment	689	6,247	1,570	4,345
	<u>\$ 20,869</u>	<u>\$ 18,955</u>	<u>\$ 1,570</u>	<u>\$ 4,345</u>
Allowance for loan loss:				
Collectively evaluated for impairment	\$ (133)	\$ (130)	\$ —	\$ —
Individually evaluated for impairment	(60)	(220)	—	—
	<u>\$ (193)</u>	<u>\$ (350)</u>	<u>\$ —</u>	<u>\$ —</u>

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. Payments received on nonaccrual loans are recorded on a cash basis, first to interest and then to principal. At December 28, 2013, the Company was not aware of any potential problem loans that would have a material effect on the inventory finance 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 Inventory Finance		Participation Inventory Finance	
	December 28, 2013	March 30, 2013	December 28, 2013	March 30, 2013
Risk profile based on payment activity:				
Performing	\$ 20,180	\$ 18,446	\$ 1,570	\$ 4,345
Watch list	73	—	—	—
Nonperforming	616	509	—	—
	<u>\$ 20,869</u>	<u>\$ 18,955</u>	<u>\$ 1,570</u>	<u>\$ 4,345</u>

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

	December 28, 2013	March 30, 2013
Florida	25.4%	20.9%
Colorado	21.6%	5.1%
Texas	13.0%	12.6%
Arizona	10.3%	10.5%

The states of Florida and Arizona have experienced volatility in the housing market from economic circumstances. 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 inventory finance receivables in any other states as of December 28, 2013 or March 30, 2013, respectively.

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: buildings and improvements, 10 to 39 years, and machinery and equipment, 3 to 25 years. Repairs and maintenance charges are expensed as incurred. Property, plant and equipment consist of the following (in thousands):

	December 28, 2013	March 30, 2013
Property, plant and equipment, at cost:		
Land	\$ 19,339	\$ 19,129
Buildings and improvements	25,652	25,474
Machinery and equipment	16,038	15,423
	<u>61,029</u>	<u>60,026</u>
Accumulated depreciation	(15,348)	(13,803)
Property, plant and equipment, net	<u>\$ 45,681</u>	<u>\$ 46,223</u>

8. Goodwill and Other Intangibles

Intangible assets principally consist of goodwill, trademarks and trade names, state insurance licenses, customer relationships, technology, and insurance policies and renewal rights. Goodwill, trademarks and trade names, and state insurance licenses are indefinite-lived intangible assets and are evaluated for impairment annually and whenever events or circumstances indicate that more likely than not impairment has occurred. During the nine months ended December 28, 2013, and December 29, 2012, 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 11 years, technology over 7 to 10 years, and insurance policies and renewal rights over 15 years.

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

	December 28, 2013			March 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite lived:						
Goodwill	\$ 67,346	\$ —	\$ 67,346	\$ 67,346	\$ —	\$ 67,346
Trademarks and trade names	6,250	—	6,250	6,250	—	6,250
State insurance licenses	1,100	—	1,100	1,100	—	1,100
Total indefinite-lived intangible assets	<u>74,696</u>	<u>—</u>	<u>74,696</u>	<u>74,696</u>	<u>—</u>	<u>74,696</u>
Finite lived:						
Customer relationships	6,200	(3,452)	2,748	6,200	(2,506)	3,694
Technology	900	(252)	648	900	(181)	719
Insurance policies and renewal rights	374	(66)	308	374	(48)	326
Total goodwill and other intangible assets	<u>\$ 82,170</u>	<u>\$ (3,770)</u>	<u>\$ 78,400</u>	<u>\$ 82,170</u>	<u>\$ (2,735)</u>	<u>\$ 79,435</u>

Amortization expense recognized on intangible assets during the three and nine months ended December 28, 2013 was \$345,000 and \$1,035,000, respectively. Amortization expense of \$345,000 and \$1,100,000 was recognized during the three and nine months ended December 29, 2012, respectively.

9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 28, 2013	March 30, 2013
Salaries, wages and benefits	\$ 15,625	\$ 12,490
Customer deposits	10,951	10,674
Unearned insurance premiums	10,021	8,781
Estimated warranties	8,875	8,202
Deferred margin	4,132	4,838
Accrued insurance	3,377	3,198
Accrued volume rebates	2,957	1,756
Reserve for repurchase commitments	1,820	1,352
Accrued taxes	1,649	2,006
Insurance loss reserves	1,514	1,801
Reserves related to consumer loans sold	1,141	1,172
Other	6,895	6,448
	<u>\$ 68,957</u>	<u>\$ 62,718</u>

10. Warranties

Homes are generally warranted against manufacturing defects for a period of one year commencing at the time of sale to the retail customer. Estimated costs relating to home warranties are 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		Nine Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Balance at beginning of period	\$ 8,670	\$ 8,782	\$ 8,202	\$ 9,456
Charged to costs and expenses	3,005	2,588	8,523	8,033
Payments and deductions	(2,800)	(2,838)	(7,850)	(8,957)
Balance at end of period	<u>\$ 8,875</u>	<u>\$ 8,532</u>	<u>\$ 8,875</u>	<u>\$ 8,532</u>

11. Debt Obligations

Debt obligations consist of the following (in thousands):

	December 28, 2013	March 30, 2013
Securitized financing 2005-1	\$ 34,636	\$ 39,850
Securitized financing 2007-1	38,199	42,437
	<u>\$ 72,835</u>	<u>\$ 82,287</u>

The Company acquired CountryPlace's securitized financings and construction lending lines during the first quarter of fiscal 2012 as a part of the Palm Harbor acquisition. Acquired securitized financings were recorded at fair value at the time of acquisition, which resulted in a discount, and subsequently are accounted for in a manner similar to ASC 310-30 to accrete the discount.

The Company considers expected prepayments and estimates the amount and timing of undiscounted expected principal, interest and other cash flows for securitized consumer loans receivable held for investment to determine the expected cash flows on securitized financings and the contractual payments. The amount of contractual principal and contractual interest payments due on the securitized financings in excess of all cash flows expected as of the date of the Palm Harbor acquisition cannot be accreted into interest expense (the non-accretable difference). The remaining amount is accreted into interest expense over the remaining life of the obligation (referred to as accretable yield). The following table summarizes securitized financings (in thousands):

	December 28, 2013	March 30, 2013
Securitized financings – contractual amount	\$ 90,145	\$ 102,203
Purchase discount		
Accretable yield	(17,310)	(19,916)
Non-accretable difference (1)	—	—
Total securitized financings, net	<u>\$ 72,835</u>	<u>\$ 82,287</u>

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

Over the life of the loans, the Company continues to estimate cash flows expected to be paid on securitized financings. The Company evaluates at the balance sheet date whether the present value of its securitized financings, determined using the effective interest rate, has increased or decreased. The present value of any subsequent change in cash flows expected to be paid adjusts the amount of accretable yield recognized on a prospective basis over the securitized financing's remaining life.

The changes in accretable yield on securitized financings were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Balance at the beginning of the period	\$ 18,443	\$ 23,679	\$ 19,916	\$ 26,032
Accretion	(1,115)	(1,245)	(3,353)	(3,988)
Adjustment to cash flows	(18)	(190)	747	200
Balance at the end of the period	<u>\$ 17,310</u>	<u>\$ 22,244</u>	<u>\$ 17,310</u>	<u>\$ 22,244</u>

On July 12, 2005, prior to Fleetwood's acquisition of Palm Harbor and CountryPlace, CountryPlace completed its initial securitization (2005-1) for approximately \$141.0 million of loans, which was funded by issuing bonds totaling approximately \$118.4 million. The bonds were issued in four different classes: Class A-1 totaling \$36.3 million with a coupon rate of 4.23%; Class A-2 totaling \$27.4 million with a coupon rate of 4.42%; Class A-3 totaling \$27.3 million with a coupon rate of 4.80%; and Class A-4 totaling \$27.4 million with a coupon rate of 5.20%. The bonds mature at varying dates beginning in 2006 through 2015 and were issued with an expected weighted average maturity of 4.66 years. For accounting purposes, this transaction was structured as a securitized borrowing. As of December 28, 2013, the Class A-1 and Class A-2 bonds had been retired.

On March 22, 2007, prior to Fleetwood's acquisition of Palm Harbor and CountryPlace, CountryPlace completed its second securitization (2007-1) for approximately \$116.5 million of loans, which was funded by issuing bonds totaling approximately \$101.9 million. The bonds were issued in four classes: Class A-1 totaling \$28.9 million with a coupon rate of 5.484%; Class A-2 totaling \$23.4 million with a coupon rate of 5.232%; Class A-3 totaling \$24.5 million with a coupon rate of 5.593%; and Class A-4 totaling \$25.1 million with a coupon rate of 5.846%. The bonds mature at varying dates beginning in 2008 through 2017 and were issued with an expected weighted average maturity of 4.86 years. For accounting purposes, this transaction was also structured as a securitized borrowing. As of December 28, 2013, the Class A-1 and Class A-2 bonds had been retired.

CountryPlace's securitized debt is subject to provisions which may require acceleration of debt repayment. If cumulative loss ratios exceed levels specified in the respective pooling and servicing agreements for the 2005-1 and 2007-1 securitizations, repayment of the principal of the related Class A bonds is accelerated until cumulative loss ratios return to specified levels. During periods when cumulative loss ratios exceed the specified levels, cash collections from the securitized loans in excess of servicing fees payable to CountryPlace and amounts owed to the Class A bondholders, trustee, and surety are applied to reduce the debt. However, principal repayment of the securitized debt, including accelerated amounts, is payable only from cash collections from the securitized loans and no additional sources of repayment are required or permitted. As of December 28, 2013, the cumulative loss ratio was within the specified level for the 2005-1 securitized portfolio; however, the cumulative loss ratio for the 2007-1 securitized portfolio exceeded the specified levels. The resulting acceleration of securitized debt repayment did not have a materially adverse impact on our cash flows. This specified level increased in October 2013, but did not ameliorate the situation. The next scheduled increase in the specified level is October 2014.

12. Reinsurance

Standard is primarily a specialty writer of manufactured home physical damage insurance. Certain of Standard's premiums and benefits are assumed from and ceded to other insurance companies under various reinsurance agreements. The ceded reinsurance agreements provide Standard with increased capacity to write larger risks and maintain its exposure to loss within its capital resources. Standard remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations. Substantially all of Standard's assumed reinsurance is with one entity.

The effects of reinsurance on premiums written and earned are as follows (in thousands):

	Three Months Ended			
	December 28, 2013		December 29, 2012	
	Written	Earned	Written	Earned
Direct premiums	\$ 3,319	\$ 3,317	\$ 1,815	\$ 1,231
Assumed premiums—nonaffiliate	3,754	3,925	3,034	3,131
Ceded premiums—nonaffiliate	(2,536)	(2,536)	(1,061)	(1,061)
Net premiums	<u>\$ 4,537</u>	<u>\$ 4,706</u>	<u>\$ 3,788</u>	<u>\$ 3,301</u>

	Nine Months Ended			
	December 28, 2013		December 29, 2012	
	Written	Earned	Written	Earned
Direct premiums	\$ 9,060	\$ 7,847	\$ 4,591	\$ 3,049
Assumed premiums—nonaffiliate	12,067	11,141	9,687	8,860
Ceded premiums—nonaffiliate	(5,995)	(5,995)	(2,753)	(2,753)
Net premiums	<u>\$ 15,132</u>	<u>\$ 12,993</u>	<u>\$ 11,525</u>	<u>\$ 9,156</u>

Typical insurance policies written or assumed by Standard have a maximum coverage of \$300,000 per claim, of which Standard cedes \$225,000 of the risk of loss per reinsurance. Therefore, Standard maintains risk of loss limited to \$75,000 per claim on typical policies. Amounts are recoverable by Standard through reinsurance for catastrophic losses in excess of \$1.0 million per occurrence up to a maximum of \$20.0 million in the aggregate.

13. Income Taxes

The Company's deferred tax assets primarily result from financial statement accruals not currently deductible for tax purposes and differences in the acquired basis of certain assets, and its deferred tax liabilities primarily result from tax amortization of goodwill and other intangible assets. The Company complies with the provisions of ASC 740, *Income Taxes* ("ASC 740"), 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. ASC 740 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The amount of unrecognized tax benefits recorded by the Company is insignificant and the impact on the effective tax rate if all unrecognized tax benefits were recognized would be insignificant. The Company classifies interest and penalties related to unrecognized tax benefits in tax expense.

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 IRS for years before fiscal year 2011. 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. The provision for income taxes generally represents income taxes paid or payable for the current year plus the change in deferred taxes during the year.

14. Commitments and Contingencies

Repurchase Contingencies. The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for independent 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, calculated from the date of sale to the retailer) and the risk of loss is further reduced by the resale value of the repurchased homes. The maximum amount for which the Company was contingently liable under such agreements approximated \$23.4 million at December 28, 2013, without reduction for the resale value of the homes. The Company applies ASC 460, *Guarantees* ("ASC 460"), and ASC 450-20, *Loss Contingencies* ("ASC 450-20"), to account for its liability for repurchase commitments. Under the provisions of 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 ASC 450-20. The Company recorded an estimated liability of \$1.8 million and \$1.4 million at December 28, 2013 and March 30, 2013, respectively, related to the commitments pertaining to these agreements.

Letters of Credit. To secure certain reinsurance contracts, Standard maintains an irrevocable letter of credit of \$5.0 million to provide assurance that Standard will fulfill its reinsurance obligations. This letter of credit is secured by certain of Standard's investments. CountryPlace maintains an irrevocable letter of credit of \$100,000 related to state licensing requirements. There have been no draws on any of the aforementioned letters of credit.

Construction-Period Mortgages. CountryPlace funds construction-period mortgages through periodic advances during the period of home construction. At the time of initial funding, CountryPlace commits to fully fund the loan contract in accordance with a predetermined schedule. Subsequent advances are contingent upon the performance of contractual obligations by the seller of the home and the borrower. Cumulative advances on construction-period mortgages are carried in the consolidated balance sheet at the lower of cost or market, which are included in consumer loans receivable. The total loan contract amount, less cumulative advances, represents an off-balance sheet contingent commitment of CountryPlace to fund future advances.

Loan contracts with off-balance sheet commitments are summarized below (in thousands):

	December 28, 2013	March 30, 2013
Construction loan contract amount	\$ 6,833	\$ 8,609
Cumulative advances	(2,969)	(3,597)
Remaining construction contingent commitment	<u>\$ 3,864</u>	<u>\$ 5,012</u>

Representations and Warranties of Mortgages Sold. CountryPlace sells loans to GSEs and whole-loan purchasers. In connection with these activities, CountryPlace provides to the GSEs and whole-loan purchasers, representations and warranties related to the loans sold. These representations and warranties generally relate to the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the sale transactions, including compliance with underwriting standards or loan criteria established by the buyer, and CountryPlace's ability to deliver documentation in compliance with applicable laws. Generally, representations and warranties may be enforced at any time over the life of the loan. Upon a breach of a representation, CountryPlace may be required to repurchase the loan or to indemnify a party for incurred losses. Repurchase demands and claims for indemnification payments are reviewed on a loan-by-loan basis to validate if there has been a breach requiring repurchase. CountryPlace manages the risk of repurchase through underwriting and quality assurance practices and by servicing the mortgage loans to investor standards. CountryPlace maintains a reserve for these contingent repurchase and indemnification obligations. This reserve of \$1.1 million and \$1.2 million as of December 28, 2013 and March 30, 2013, respectively, included in accrued liabilities, reflects management's estimate of probable loss. CountryPlace considers a variety of assumptions, including borrower performance (both actual and estimated future defaults), historical repurchase demands and loan defect rates to estimate the liability for loan repurchases and indemnifications. During the nine months ended December 28, 2013, no claim requests were received and no indemnification agreements were executed.

Interest Rate Lock Commitments. In originating loans for sale, CountryPlace issues interest rate lock commitments ("IRLCs") to prospective borrowers and third-party originators. These IRLCs represent an agreement to extend credit to a loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to loan closing or sale. These IRLCs bind CountryPlace to fund the approved loan at the specified rate regardless of whether interest rates or market prices for similar loans have changed between the commitment date and the closing date. As such, outstanding IRLCs are subject to interest rate risk and related loan sale price risk during the period from the date of the IRLC through the earlier of the loan sale date or IRLC expiration date. The loan commitments generally range between 30 and 180 days; however, borrowers are not obligated to close the related loans. As a result, CountryPlace is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs.

As of December 28, 2013 CountryPlace had outstanding IRLCs with a notional amount of \$3.6 million, which are recorded at fair value in accordance with ASC 815, *Derivatives and Hedging* ("ASC 815"). ASC 815 clarifies that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The estimated fair values of IRLCs are based on quoted market values and are recorded in other assets in the consolidated balance sheets. The fair value of IRLCs is based on the value of the underlying mortgage loan adjusted for: (i) estimated cost to complete and originate the loan and (ii) the estimated percentage of IRLCs that will result in closed mortgage loans. The initial and subsequent changes in the value of IRLCs are a component of gain (loss) on mortgage loans held for sale. During the three and nine months ended December 28, 2013, CountryPlace recognized losses of \$63,000 and \$26,000, respectively, on the outstanding IRLCs.

Forward Sales Commitments. CountryPlace manages the risk profiles of a portion of its outstanding IRLCs and mortgage loans held for sale by entering into forward sales of mortgage backed securities (MBS) and whole loan sale commitments. Commitments to forward sales of whole loans are typically in an amount proportionate with the amount of IRLC expected to close in particular time frames, assuming no change in mortgage interest rates, for the respective loan products intended for whole loan sale.

The estimated fair values of forward sales of MBS and forward sale commitments are based on quoted market values and are recorded within other current assets in the consolidated balance sheets. During the three and nine months ended December 28, 2013, CountryPlace recognized gains of \$182,000 and \$35,000, respectively, on forward sales and whole loan sale commitments.

Commitment to Equity-Method Investment. Cavco has an investment in an unconsolidated entity that was organized to purchase and install manufactured homes in certain manufactured home communities, sell those homes to consumers, and to purchase qualifying loans made by an approved lender to the buyers of those homes. Cavco and its partner have committed to make equal capital contributions to the unconsolidated entity up to \$5.0 million each, of which \$2.5 million has been contributed by Cavco as of December 28, 2013. Cavco accounts for its interest in this entity using the equity method of accounting.

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.

15. Stockholders' Equity

The following table represents changes in stockholders' equity attributable to Cavco's stockholders and redeemable non-controlling interest for the nine months ended December 28, 2013 (dollars in thousands):

	Equity Attributable to Cavco Stockholders						Redeemable noncontrolling interest
	Common Stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total	
	Shares	Amount					
Balance, March 30, 2013	6,967,954	\$ 70	\$ 135,053	\$ 41,590	\$ 177	\$ 176,890	\$ 91,994
Stock option exercises	4,500	—	162	—	—	162	—
Share-based compensation	—	—	2,163	—	—	2,163	—
Net income	—	—	—	12,028	—	12,028	2,468
Other comprehensive loss (1)	—	—	—	—	(114)	(114)	(76)
Acquisition of noncontrolling interest	1,867,370	18	94,267	—	101	94,386	(94,386)
Balance, December 28, 2013	8,839,824	\$ 88	\$ 231,645	\$ 53,618	\$ 164	\$ 285,515	\$ —

- (1) Other comprehensive income is comprised of unrealized gains and losses on available-for-sale investments. Unrealized losses before tax on available-for-sale investments was \$292,000 for the nine months ended December 28, 2013.

16. 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 214,126 shares were still available for grant at December 28, 2013. 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 typically vest over a period of up to five years in accordance with plan provisions, or as determined by the plan administrator (the Board's Compensation Committee, which consists of independent directors). 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).

Stock-based compensation cost charged against income for the three and nine months ended December 28, 2013 was \$226,000 and \$2.2 million, respectively. The Company recorded stock-based compensation expense of \$330,000 and \$966,000 for the three and nine months ended December 29, 2012, respectively.

As of December 28, 2013, total unrecognized compensation cost related to stock options was approximately \$1.2 million and the related weighted-average period over which it is expected to be recognized is approximately 2.2 years .

The following table summarizes the option activity within the Company’s stock-based compensation plans for the nine months ended December 28, 2013:

	Number of Shares
Outstanding at March 30, 2013	399,700
Granted	64,450
Exercised	(4,500)
Canceled or expired	(7,500)
Outstanding at December 28, 2013	<u>452,150</u>
Exercisable at December 28, 2013	<u><u>262,625</u></u>

17. Earnings Per Share

Basic earnings per common share is computed based on the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per common share is computed based on the combination of dilutive common share equivalents, comprised of shares issuable under the Company’s stock-based compensation plans and the weighted-average number of common shares outstanding during the reporting period. Dilutive common share equivalents include the dilutive effect of in-the-money options to purchase shares, which is calculated based on the average share price for each period using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share (dollars in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Net income attributable to Cavco common stockholders	\$ 5,892	\$ 1,457	\$ 12,028	\$ 3,571
Weighted average shares outstanding:				
Basic	8,838,832	6,967,954	8,070,619	6,953,037
Common stock equivalents—treasury stock method	152,840	69,379	112,507	65,243
Diluted	<u>8,991,672</u>	<u>7,037,333</u>	<u>8,183,126</u>	<u>7,018,280</u>
Net income per share attributable to Cavco common stockholders:				
Basic	\$ 0.67	\$ 0.21	\$ 1.49	\$ 0.51
Diluted	<u>\$ 0.66</u>	<u>\$ 0.21</u>	<u>\$ 1.47</u>	<u>\$ 0.51</u>

Anti-dilutive common stock equivalents excluded from the computation of diluted earnings per share for the three months ended December 28, 2013, and December 29, 2012 were 4,932 and 14,389, respectively. There were 5,021 and 7,103 anti-dilutive common stock equivalents excluded from the computation of diluted earnings per share for the nine months ended December 28, 2013 and December 29, 2012, respectively.

18. Fair Value Measurements

The book value and estimated fair value of the Company’s financial instruments are as follows (in thousands):

	December 28, 2013		March 30, 2013	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Cash and cash equivalents (1)	\$ 59,520	\$ 59,520	\$ 47,823	\$ 47,823
Restricted cash (1)	7,131	7,131	7,952	7,952
Available for sale securities (2)	19,337	19,337	17,698	17,698
Consumer loans receivable (3)	101,989	103,114	110,990	115,044
Interest rate lock commitment derivatives (4)	1	1	28	28
Forward loan sale commitment derivatives (4)	32	32	(3)	(3)
Inventory finance receivable (5)	22,246	22,246	22,950	22,950
Securitized financings (6)	72,835	80,969	82,287	90,895
Mortgage servicing rights (7)	390	390	335	335

- (1) The fair value approximates book value due to the instruments’ short-term maturity.
- (2) The fair value is based on quoted market prices.
- (3) Includes consumer loans receivable held for investment, held for sale and construction advances. The fair value of the loans held for investment is based on the discounted value of the remaining principal and interest cash flows. The fair value of the loans held for sale are estimated based on recent GSE mortgage backed bond prices. The fair value of the construction advances approximates book value and the sales price of these loans is estimated based on construction completed.
- (4) The fair values are based on changes in GSE mortgage backed bond prices and, additionally for IRLCs, pull through rates.
- (5) The fair value approximates book value based on current market rates and the revolving nature of the instruments.
- (6) The fair value is estimated using recent public transactions of similar asset-backed securities.
- (7) The fair value of the mortgage servicing rights is based on the present value of expected net cash flows related to servicing these loans.

In accordance with ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”), fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

When the Company uses observable market prices for identical securities that are traded in less active markets, it classifies such securities as Level 2. When observable market prices for identical securities are not available, the Company prices its marketable debt instruments using non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. Non-binding market consensus prices are based on the proprietary valuation models of pricing providers or brokers. These valuation models incorporate a number of inputs, including non-binding and binding broker quotes; observable market prices for identical or similar securities; and the internal assumptions of pricing providers or brokers that use observable market inputs and, to a lesser degree, unobservable market inputs.

Assets measured at fair value on a recurring basis are summarized below (in thousands):

	December 28, 2013			
	Total	Level 1	Level 2	Level 3
Securities issued by the U.S Treasury and Government (1)	\$ 2,232	\$ —	\$ 2,232	\$ —
Mortgage-backed securities (1)	3,730	—	3,730	—
Securities issued by states and political subdivisions (1)	5,933	—	5,933	—
Corporate debt securities (1)	1,842	—	1,842	—
Marketable equity securities (1)	5,600	5,600	—	—
Interest rate lock commitment derivatives (2)	1	—	—	1
Forward loan sale commitment derivatives (2)	32	—	—	32
Mortgage servicing rights (3)	390	—	—	390

- (1) Unrealized gains or losses on investments are recorded in accumulated other comprehensive income (loss) at each measurement date.
- (2) Gains or losses on derivatives are recognized in current period earnings through cost of sales.
- (3) Changes in the fair value of mortgage servicing rights are recognized in the current period earnings through net revenue.

No transfers between Level 1, Level 2 or Level 3 occurred during the nine months ended December 28, 2013. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

Assets and liabilities for which fair value is disclosed but not required to be recognized in the balance sheet on a recurring basis are summarized below (in thousands):

	December 28, 2013			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 59,520	\$ 59,520	\$ —	\$ —
Restricted cash	7,131	7,131	—	—
Loans held for investment	92,416	—	—	92,416
Loans held for sale	7,729	—	7,729	—
Loans held—construction advances	2,969	—	—	2,969
Inventory finance receivable	22,246	—	—	22,246
Securitized financings	80,969	—	80,969	—

The Company records impairment losses on long-lived assets held for sale when the fair value of such long-lived assets is below their carrying values. The Company records impairment charges on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. The Company recorded impairment charges of \$560,000 on property, plant and equipment including assets held for sale during the nine months ended December 28, 2013. No other asset impairment charges were recorded during the period. No impairment charges were recorded during the nine months ended December 29, 2012.

Assets measured on a nonrecurring basis also include impaired loans (nonaccrual loans) disclosed in Note 5 and loans held for sale. No recent sales have been executed in an orderly market of manufactured home loan portfolios with comparable product features, credit characteristics, or performance. Impaired loans are measured using Level 3 inputs that are calculated using estimated discounted future cash flows with discount rates considered to reflect current market conditions. Loans held for sale are measured at the lower of cost or fair value using Level 2 inputs that consist of commitments on hand from investors. These loans are held for relatively short periods, typically no more than 45 days. As a result, changes in loan-specific credit risk are not a significant component of the change in fair value. The cost of loans held for sale is lower than the fair value as of December 28, 2013.

ASC 825, *Financial Instruments* (“ASC 825”), requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and the relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience, and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in an immediate sale of the instrument. Also, because of differences in methodologies and assumptions used to estimate fair values, the Company’s fair values should not be compared to those of other companies.

Under ASC 825, fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying market value of the Company.

Mortgage Servicing. Mortgage Servicing Rights (“MSRs”) are the rights to receive a portion of the interest coupon and fees collected from the mortgagors for performing specified mortgage servicing activities, which consist of collecting loan payments, remitting principal and interest payments to investors, managing escrow accounts, performing loss mitigation activities on behalf of investors and otherwise administering the loan servicing portfolio. MSRs are initially recorded at fair value. Changes in fair value subsequent to the initial capitalization are recorded in the Company’s results of operations. The Company recognizes MSRs on all loans sold to investors that meet the requirements for sale accounting and for which servicing rights are retained.

The Company applies fair value accounting to MSRs, with all changes in fair value recorded to net revenue in accordance with ASC 860-50, *Servicing Assets and Liabilities*. The fair value of MSRs is based on the overall market demand for MSRs and the present value of the expected future cash flows related to servicing these loans. The revenue components of the cash flows are servicing fees, interest earned on custodial accounts, and other ancillary income. The expense components include operating costs related to servicing the loans (including delinquency and foreclosure costs) and interest expenses on servicer advances that the Company believes are consistent with the assumptions major market participants use in valuing MSRs. The expected cash flows are primarily impacted by prepayment estimates, delinquencies, and market discounts. Generally, the value of MSRs is expected to increase when interest rates rise and decrease when interest rates decline due to the effect those changes in interest rates have on prepayment estimates.

	December 28, 2013	March 30, 2013
Number of loans serviced with MSRs	2,634	2,106
Weighted average servicing fee (basis points)	34.50	34.59
Capitalized servicing multiple	36.64%	38.82%
Capitalized servicing rate (basis points)	12.64	13.43
Serviced portfolio with MSRs (in thousands)	\$ 308,515	\$ 249,378
Mortgage servicing rights (in thousands)	\$ 390	\$ 335

19. Redeemable Noncontrolling Interest

Redeemable Noncontrolling Interest. During fiscal year 2010, the Company and an investment partner, Third Avenue Value Fund, formed Fleetwood Homes, Inc., with an initial contribution of \$35.0 million each for equal 50 percent ownership interests. On July 21, 2009, Fleetwood entered into an asset purchase agreement with Fleetwood Enterprises, Inc. and certain of its subsidiaries to purchase certain assets and liabilities of its manufactured housing business.

The Company and Third Avenue Value Fund subsequently contributed an additional \$36.0 million each in anticipation of the purchase of Palm Harbor, which was completed during the first quarter of fiscal year 2012. Subsequent to the transaction, a portion of Third Avenue Value Fund’s interests were transferred to an affiliate along with the applicable rights and obligations. This transfer had no impact on Cavco’s ownership interest. Third Avenue Value Fund and its affiliate are hereinafter collectively referred to as “Third Avenue.”

Financial information for Fleetwood is included in the Company’s Consolidated Financial Statements and the related Notes in accordance with the provisions of ASC 810, *Consolidation*. Management determined that, under GAAP, although Fleetwood was only 50 percent owned by the Company, Cavco had a controlling interest and was required to fully consolidate the results of Fleetwood. The primary factors that contributed to this determination were Cavco’s board and management control of Fleetwood. Members of Cavco’s management held all of the seats on the board of directors of Fleetwood. In addition, as part of a management services agreement among Cavco, Fleetwood and Third Avenue, Cavco provided all executive-level management services to Fleetwood including, among other things, general management oversight, marketing and customer relations, accounting and cash management. Third Avenue’s financial interest in Fleetwood was considered a “redeemable noncontrolling interest,” as determined by GAAP, and was designated as such in the Consolidated Financial Statements.

During the quarter ended September 28, 2013, Cavco purchased all noncontrolling interests in Fleetwood, Cavco's subsidiary that owns Fleetwood Homes, Palm Harbor Homes, CountryPlace Mortgage and Standard Casualty Company (the "Fleetwood Businesses"). As consideration for the 50 percent interest that it did not already own, the Company issued 1,867,370 shares of Cavco common stock, derived by dividing the purchase price of \$91.4 million by the 60-day volume-weighted average price per share, in accordance with the terms of the Stock Purchase Agreement filed with the SEC on June 14, 2013 as an exhibit to the Company's Current Report on Form 8-K.

Historically, 50 percent of the financial results of these businesses has been recorded as attributable to Cavco's common stockholders in the Consolidated Financial Statements. The acquisition closed on July 22, 2013, resulting in Cavco owning 100 percent of the Fleetwood Businesses and entitling Cavco to all of the associated earnings from that date forward. The acquisition was accounted for as an equity transaction under ASC 810; accordingly, no gain or loss was recorded in the purchase of the noncontrolling interest, which had a carrying value of \$94.4 million as of the closing date (see Note 15). As of July 22, 2013, Fleetwood and its subsidiaries are wholly-owned by the Company and Third Avenue no longer has a noncontrolling interest in Fleetwood.

20. Related Party Transactions

As discussed in Note 19, on July 22, 2013, Cavco completed the purchase of all noncontrolling interests in Cavco's subsidiary that owns Fleetwood Homes, Palm Harbor Homes, CountryPlace Mortgage and Standard Casualty Company from Third Avenue. The Company satisfied the purchase price with 1,867,370 newly issued shares of Company common stock (the "Cavco Shares"). Third Avenue is considered a principal owner, and therefore a related party, under ASC 850, *Related Party Disclosures* ("ASC 850"). Subsequent to the transaction, Third Avenue beneficially owned approximately 22.3% of Cavco's outstanding common stock.

The Company issued the Cavco Shares in reliance upon the exemption from registration provided by Section 4 (2) under the Securities Act of 1933, as amended. In accordance with the Stock Purchase Agreement, the Company filed a registration statement with the SEC seeking registration of the Cavco Shares. The SEC declared the registration statement effective on October 11, 2013. However, each of the Third Avenue parties remains subject to certain restrictions on its ability to transfer its Cavco Shares, including, among other things, a one year prohibition on the transfer of the Cavco Shares, except for "Permitted Transfers" (defined in the Stock Purchase Agreement), which includes any single transfer or series of transfers equal to 15% or less of the Cavco Shares. During the Standstill Period (defined below) Cavco has a "right of first offer" to acquire any Cavco Shares that either of the Third Avenue parties wishes to transfer to independent third parties.

From and after the closing and continuing until the termination of the Standstill Period, each of the Third Avenue parties agreed that it would vote all Cavco Shares in accordance with the recommendations of the Company's Board of Directors with respect to any action, proposal or other matter to be voted on by the stockholders of Cavco. The "Standstill Period" ends on the earlier of (i) the fourth anniversary of the Closing Date (July 22, 2017) or (ii) the third anniversary of the Closing Date (July 22, 2016) if the Third Avenue parties own less than 12.5% of the outstanding Cavco common stock on the third anniversary date. Additionally, during the Standstill Period, each of the Third Avenue parties has agreed not to do any of the following without the prior written consent of the Company: acquire beneficial ownership of common equity securities of the Company or any other securities of the Company entitled to vote generally in the election of directors of the Company; deposit any securities of the Company in a voting trust or similar arrangement or subject any voting securities of the Company to any voting agreement, pooling arrangement or similar arrangement, or grant any proxy with respect to any voting securities of the Company; enter, agree to enter, propose or offer to enter into or facilitate any merger, business combination, tender offer, recapitalization, restructuring, change in control transaction or other similar extraordinary transaction involving the Company or any of its subsidiaries; make, or in any way participate or engage in, any "solicitation" of "proxies" to vote, or advise or knowingly influence any person with respect to the voting of, any voting securities of the Company or any of its subsidiaries; call, or seek to call, a meeting of the shareholders of the Company or initiate any shareholder proposal for action by the shareholders of the Company; form, join or in any way participate in a Group within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with respect to any voting securities of the Company; otherwise act, alone or in concert with others, to seek to control or influence the Board, or the management or policies of the Company; publicly disclose any intention, plan or arrangement prohibited by, or inconsistent with, the foregoing; advise or knowingly assist or encourage or enter into any discussions, negotiations, agreements or arrangements with any other person or Group (within the meaning of Section 13(d)(3) of the Exchange Act) in connection with the foregoing; or knowingly transfer more than 3% of the Cavco Shares to any one individual or entity.

21. Business Segment Information

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 related consumer finance and insurance. The following table details net revenue and income (loss) before income taxes by segment (in thousands):

	Three Months Ended		Nine Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Net revenue:				
Factory-built housing	\$ 126,294	\$ 103,472	\$ 366,349	\$ 310,822
Financial services	12,023	11,131	35,781	32,646
	<u>\$ 138,317</u>	<u>\$ 114,603</u>	<u>\$ 402,130</u>	<u>\$ 343,468</u>
Income before income taxes:				
Factory-built housing	\$ 7,420	\$ 3,856	\$ 21,501	\$ 10,827
Financial services	3,727	3,653	8,722	7,647
General corporate charges	(2,643)	(2,228)	(8,951)	(5,994)
	<u>\$ 8,504</u>	<u>\$ 5,281</u>	<u>\$ 21,272</u>	<u>\$ 12,480</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes that appear in Item 1 of this Report. References to "Note" or "Notes" refer to the Notes to the Company's Consolidated Financial Statements.

Overview

Headquartered in Phoenix, Arizona, the Company designs and produces factory-built homes primarily distributed through a network of independent and company-owned retailers. We are one of the largest producers of manufactured homes in the United States, based on reported wholesale shipments, marketed under a variety of brand names, including Cavco Homes, Fleetwood Homes, and Palm Harbor Homes. The Company is also a leading producer of modular homes built primarily under the Nationwide Homes brand, as well as park model homes, vacation cabins, and systems-built commercial structures. Cavco's mortgage subsidiary, CountryPlace, is an approved Fannie Mae and Ginnie Mae seller/servicer and offers conforming mortgages to purchasers of factory-built and site-built homes. Our insurance subsidiary, Standard Casualty, provides property and casualty insurance to owners of manufactured homes.

Company Growth

From its inception in 1965, Cavco traditionally served affordable housing markets in the southwestern United States primarily through its manufactured home production and retail operations. During the period from 1997 to 2000, Cavco was purchased by and became a wholly-owned subsidiary of Centex Corporation, which operated the company until 2003, when Cavco became a stand-alone publicly-held company traded on the NASDAQ Global Select Market under the ticker symbol CVCO.

In 2009, the Company and an investment partner, Third Avenue Value Fund, formed a jointly-owned corporation, Fleetwood Homes, Inc. ("Fleetwood"). Cavco and Third Avenue each owned 50 percent of Fleetwood, which has been operated by the Company since Fleetwood's inception. Third Avenue Management LLC is an investment adviser to Third Avenue Value Fund and is a related party to the Company, as described further in Notes 19 and 20.

On August 17, 2009, Fleetwood acquired certain assets and liabilities of Fleetwood Enterprises, Inc. The assets acquired included seven operating homebuilding factories in seven states, which substantially expanded the organization's geographic presence and increased the diversity of products offered by the Company.

Beginning on April 23, 2011 and concluding on June 10, 2011, Fleetwood acquired certain manufactured housing assets and liabilities of Palm Harbor Homes, Inc., a Florida corporation. The assets acquired included five operating homebuilding factories in four states, 49 operating retail locations, a manufactured housing finance company and a homeowners insurance company.

Subsequent to these transactions, a portion of Third Avenue Value Fund's interest in Fleetwood was transferred to an affiliate along with the applicable rights and obligations. This transfer had no impact on Cavco's ownership interest.

Financial information for Fleetwood historically was included in the Company's Consolidated Financial Statements and related Notes as a result of Cavco's management control of Fleetwood. The financial interest of Third Avenue and its affiliate in Fleetwood was considered a "redeemable noncontrolling interest," and was designated as such in the Consolidated Financial Statements (see Notes 1 and 19).

On July 22, 2013, Cavco purchased all noncontrolling interests in Fleetwood pursuant to a Stock Purchase Agreement, which was filed with the SEC on June 14, 2013 as an exhibit to the Company's Current Report on Form 8-K. As a result of the transaction, Cavco owns 100 percent of Fleetwood and its holdings, including Fleetwood Homes, Palm Harbor Homes, CountryPlace Mortgage and Standard Casualty Company. The Company issued 1,867,370 shares of Cavco common stock (the "Cavco Shares"), derived by dividing the purchase price of \$91.4 million by the 60-day volume-weighted average price per share, in accordance with the Stock Purchase Agreement. Subsequent to the transaction closing, Third Avenue Value Fund owned approximately 22.3% of Cavco's outstanding common stock. The new Cavco Shares are subject to registration, voting, lock-up and standstill provisions in accordance with the Stock Purchase Agreement (see Note 20). The transaction eliminated the need for noncontrolling interest accounting and therefore should provide for simpler presentation and analysis of Cavco's consolidated financial statements and capital structure subsequent to the closing of the transaction.

The acquisition resulted in Cavco owning 100 percent of the Fleetwood businesses, which is consistent with the original intention of the Company and Third Avenue at the outset of their partnership in forming Fleetwood. We believe that the earnings accretion resulting from the purchase will provide ongoing value to the Company and its shareholders. Since the purchase was made using Cavco Shares, the Company's equity balance increased by the amount of the redeemable noncontrolling interest account balance on the closing date, which was \$94.4 million. Although it is subject to other market variables, the Company believes the resulting increase in total stockholders' equity improves the Company's opportunities to gain exposure to a greater number of institutional and other investors and may generate additional overall investor interest in the Company.

Growth has been an important part of the Company's history since it became a stand-alone public company as described above. The use of Cavco Shares also allowed the Company to preserve cash and cash equivalents, which stood at approximately \$59.5 million at December 28, 2013. This permits flexibility for potential future growth opportunities and other capital needs that may arise. The issuance of the new Cavco Shares did not require the Company to incur debt to consummate the transaction.

The Company operates 15 homebuilding facilities located in Millersburg and Woodburn, Oregon; Nampa, Idaho; Riverside, California; Phoenix and Goodyear, Arizona; Austin, Fort Worth, Seguin and Waco, Texas; Lafayette, Tennessee; Martinsville and Rocky Mount, Virginia; Douglas, Georgia; and Plant City, Florida. The majority of the homes produced by these facilities are sold to and distributed by independently owned retailers located primarily throughout the United States. In addition, our homes are sold through 49 Company-owned retail locations. The Company's mortgage subsidiary is an approved Fannie Mae and Ginnie Mae seller/servicer and offers conforming mortgages to purchasers of factory-built and site-built homes. Our insurance subsidiary provides property and casualty insurance to owners of manufactured homes.

We continually review our product offerings throughout the combined organization and strive to expand product designs, production methods and marketing strategies. The supportive response to the Palm Harbor and Fleetwood acquisitions and advancement to full ownership by Cavco shareholders has been encouraging. We plan to continue a consistent focus of developing synergies among all operations. Overall, we believe that these expansions and ongoing improvements will provide positive long-term strategic benefits for the Company.

Industry and Company Outlook

According to data reported by the Manufactured Housing Institute ("MHI"), annual home shipments from 2008 to 2012 were lower than each of the 49 years from 1959 to 2007. For the past 10- and 20-year periods, annual home shipments averaged 91,000 and 193,000, respectively. While industry HUD code manufactured home shipments improved modestly in 2012 to 55,000 homes compared to approximately 52,000 homes shipped in 2011, the manufactured housing industry and the Company continue to operate at relatively low production and shipment levels.

Ongoing economic challenges continue to hinder annual industry and Company home sales. High unemployment and underemployment rates among home buyers who favor affordable housing, and continuing low consumer confidence levels are two of the most significant impediments. “First-time” and “move-up” buyers of affordable homes are historically among the largest segments of new manufactured home purchasers. Included in this group are lower-income households that are particularly affected by the high unemployment and underemployment consequences of the recession. Low consumer confidence in the U.S. economy is not conducive for potential customers to commit to a home purchase. Many potential manufactured home buyers interested in our products for retirement living may remain concerned about financial stability and, therefore, may be hesitant to commit to a new home purchase. As employment and consumer confidence levels improve, we anticipate rising demand for our homes.

Consumer financing for the retail purchase of manufactured homes needs to become generally more available before marked emergence from current low home shipment levels can occur. Restrictive underwriting guidelines, irregular appraisal processes, higher interest rates compared to site-built homes, regulatory burdens, a limited number of institutions lending to manufactured home buyers and limited secondary market availability for manufactured home loans are significant restraints to industry growth. We are working directly with other industry participants to develop manufactured home consumer financing models to better attract industry financiers interested in furthering or expanding lending opportunities in the industry. We are also working through industry trade associations to encourage favorable legislative and government-sponsored enterprise action to address the mortgage financing needs of potential buyers of affordable homes. Only limited progress has been made in this area and meaningful positive impact in the form of increased home orders has yet to be realized. See “Regulatory Developments” below.

While sales activity of existing homes appear to be showing signs of improvement, the current lending environment that favors site-built housing and more affluent home buyers has not resulted in similar improved capabilities for affordable-home buyers to facilitate a new home purchase. In addition, the contingency contract process, wherein potential manufactured home buyers must sell their existing home in order to facilitate the purchase of a new factory-built home continues to be somewhat impeded.

Based on the relatively low cost associated with manufactured home ownership, our products have traditionally competed with rental housing's monthly payment affordability. Rental housing activity is reported to have increased in recent years. As a result, tenant housing vacancy rates appear to have declined, which often causes a corresponding rise in associated rental rates. These rental market factors may cause some renters to become interested buyers of affordable housing alternatives including manufactured homes.

Further, with respect to the general rise in demand for rental housing, we have realized a larger proportion of orders from developers and community owners for new manufactured homes intended for use as rental housing. This demand has likely been driven by a shift to a rent-versus-own perspective somewhat tied to low consumer confidence levels and high unemployment rates.

Home order backlogs improved as of the third quarter of fiscal year 2014. The backlog of sales orders at December 28, 2013 varied among our fifteen factories, but in total was approximately \$26 million, compared to \$16 million at December 29, 2012. The Company's capacity utilization rate was approximately 44% during the third quarter of fiscal year 2014, versus 36% during the same quarter last year.

Inventory financing for the industry's wholesale distribution chain continues to be in short supply. Faced with illiquid capital markets in late calendar year 2008, each of the manufactured housing sector's remaining inventory finance companies (floor plan lenders) initiated significant changes, and one company ceased lending activities in this industry entirely. Other finance programs are subject to more restrictive terms that continue to evolve and in some cases require the financial involvement of the Company. In connection with certain of these participation inventory finance programs, the Company provides a significant amount of the funds that independent financiers lend to distributors to finance retail inventories of our products. In addition, the Company has entered into direct inventory finance arrangements with distributors of our products under which the Company provides all of the inventory finance funds (see Note 6).

The Company's involvement in inventory finance has increased the availability of manufactured home inventory financing to distributors of our products. We believe that our taking part in the wholesale financing of inventory is quite helpful to retailers and allows our homes continued exposure to potential home buyers. These initiatives support the Company's ongoing efforts to expand our distribution base in all of our markets with existing and new customers. However, the initiatives expose the Company to risks associated with the creditworthiness of certain customers and business partners, including independent retailers, developers and inventory financing partners, many of whom may be adversely affected by the volatile conditions in the economy and financial markets.

The two largest manufactured housing consumer demographics, young adults and those who are 55+ years old, are both growing. The U.S. adult population is estimated to expand by 15.3 million between 2013 and 2020. Young adults born from 1976 to 1995, sometimes referred to as Gen Y, represent a large segment of the population. Late-stage Gen Y is approximately 2 million people larger than the next age category born from 1966 to 1975, Gen X, and is considered to be in the peak household-formation and home-buying years. Gen Y represents prime first-time home buyers who may be attracted by the affordability, diversity of style choices and location flexibility of factory-built homes. The age 55 and older category is reported to be the fastest growing segment of the U.S. population. This group is similarly interested in the value proposition; however, they are also motivated by the energy efficiency and low maintenance requirements of systems-built homes, and by the lifestyle offered by planned communities that are specifically designed for owners of factory-built homes that fall into this age group.

With manufacturing facilities strategically positioned across the nation, we utilize local market research to design homes to meet the demands of our customers. We have the ability to customize floor plans and designs to fulfill specific needs and interests. By offering a full range of homes from entry-level models to large custom homes and with the ability to engineer designs in-house, we can accommodate virtually any customer request. In addition to homes built to the Federal HUD code, we construct modular homes that conform to state and local codes, park models and cabins, and light commercial buildings at many of our manufacturing facilities.

We employ a concerted effort to identify niche market opportunities where our diverse product lines and custom building capabilities provide us with a competitive advantage. Our green building initiatives involve the creation of an energy efficient envelope including higher utilization of renewable materials. These homes provide environmentally-friendly maintenance requirements, typically lower utility costs, specially designed ventilation systems and sustainability. Cavco also builds homes designed to use alternative energy sources such as solar and wind. Building green may significantly reduce greenhouse gas emissions without sacrificing features, style or comfort. From bamboo flooring and tankless water heaters to solar-powered homes, our products are diverse and tailored to a wide range of consumer interests. Innovation in housing design is a forte of the Company and we continue to introduce new models at competitive price points with expressive interiors and exteriors that complement home styles in the areas in which they are located.

We maintain a conservative cost structure, which enables us to build added value into our homes. We have placed a consistent focus on developing synergies among all operations. In addition, the Company has worked diligently to maintain a solid financial position. Our balance sheet strength and position in cash and cash equivalents should help us to avoid the liquidity problems faced by other companies and enable us to act effectively as market opportunities present themselves.

We were named the "Manufacturer of the Year" by the members of MHI, the factory-built home industry's national trade organization, for the fourth consecutive year in 2013. In addition, several new product designs from each of our main housing brands, namely Cavco Homes, Fleetwood Homes, and Palm Harbor Homes, were individually recognized recently by receiving design awards from MHI.

In January 2008, we announced a stock repurchase program. A total of \$10.0 million may be used to repurchase our outstanding common stock. The repurchases may be made in the open market or in privately negotiated transactions in compliance with applicable state and federal securities laws and other legal requirements. The level of repurchase activity is subject to market conditions and other investment opportunities. The plan does not obligate us to acquire any particular amount of common stock and may be suspended or discontinued at any time. The repurchase program will be funded using our available cash. No repurchases have been made under this program to date.

Regulatory Developments

In 2010, the Dodd-Frank Act was passed into law. The Dodd-Frank Act is a sweeping piece of legislation, and the financial services industry is still assessing its implications and implementing necessary changes in procedures and business practices. Congress detailed some significant changes, but the Dodd-Frank Act leaves many details to be determined by regulation and further study. The full impact will not be fully known for months or even years, as regulations that are intended to implement the Dodd-Frank Act are adopted by the appropriate agencies, and the text of the Dodd-Frank Act is analyzed by impacted stakeholders and possibly the courts. The Dodd-Frank Act established the Consumer Financial Protection Bureau (“CFPB”) to regulate consumer financial products and services. On January 10, 2013, the CFPB released certain mortgage finance rules required under the Dodd-Frank Act. These rules define standards for origination of “Qualified Mortgages,” establish specific requirements for lenders to prove borrowers' ability to repay loans, and outline the conditions under which Qualified Mortgages are subject to safe harbor limitations on liability to borrowers. The rules became effective January 10, 2014 and apply to consumer credit transactions secured by a dwelling, including real property mortgages and chattel loans (financed without land) secured by manufactured homes. The rules also establish interest rate and other cost parameters for determining which Qualified Mortgages fall under safe harbor protection. Among other issues, Qualified Mortgages with interest rates and other costs outside the limits are deemed “rebuttable” by borrowers and expose the lender and its assignees (including investors in loans, pools of loans, and instruments secured by loans or loan pools) to litigation and penalties.

While many manufactured homes are currently financed with agency-conforming mortgages in which the ability to repay is verified and at interest rates and other costs that are within the safe harbor limits, a significant amount of loans to finance the purchase of manufactured homes, especially chattel loans and non-conforming land-home loans, fall outside the safe harbor limits. The rules may cause lenders to become reluctant to write such loans, and investors reluctant to own or participate in owning such loans because of the uncertainty of potential litigation and other costs. If so, some prospective buyers of manufactured homes may be unable to secure financing necessary to complete purchases. In addition, compliance with the law may be costly from implementation of new processes, procedures, controls and infrastructure which may be required to comply with the regulations. Compliance may also create operational constraints and place limits on pricing. Failure to comply with these regulations, changes in these or other regulations, or the imposition of additional regulations, could affect our earnings, limit our access to capital and have a material adverse effect on our business and results of operations.

On January 10, 2013 the CFPB also issued a rule amending the Truth in Lending Act and the Real Estate Settlement Procedures Act. The rule became effective on January 10, 2014 and amends Regulation Z (Truth in Lending) by expanding the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 (“HOEPA”), revising and expanding the tests for coverage under HOEPA, and imposing additional restrictions on mortgages that are covered by HOEPA. As a result, certain manufactured home loans are now subject to HOEPA limits on interest rates and fees. Loans with rates or fees in excess of the limits are deemed High Cost Mortgages and provide additional protections for borrowers. Although most loans for the purchase of manufactured home have been written at rates and fees that would not be considered High Cost Mortgages under the new rule, and some lenders may continue to offer loans that are now deemed High Cost Mortgages, the rate and fee limits may deter some lenders from offering loans to certain borrowers due to the limits on rates and fees or the reluctance to enter into loans subject to HOEPA borrower protections. If so, some prospective buyers of manufactured homes may be unable to secure financing necessary to complete purchases.

The American Housing Rescue and Foreclosure Prevention Act was enacted in 2008 to provide assistance by way of legislation for the housing industry, including the manufactured housing industry. Among other things, the act provides for increased loan limits for chattel (home-only Title I) loans to \$69,678, up 43% from the previous limit of \$48,600 set in 1992. New FHA (Federal Housing Administration) Title I program guidelines became effective on June 1, 2010. On June 10, 2010, Ginnie Mae began accepting applications by lenders for participation as issuers of mortgage backed securities backed by Title I loans originated under the new program. Ginnie Mae released related pooling guidelines in November 2010. The issuance of these guidelines provides Ginnie Mae the ability to securitize manufactured home FHA Title I loans. This will allow lenders to obtain new capital, which can then be used to fund new loans for our customers. Chattel loans have languished in recent years and these changes are meant to broaden opportunities for prospective homeowners. However, we are aware of only a small number of loans currently being securitized under the Ginnie Mae program.

The Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (“SAFE Act”) established requirements for the licensing and registration of all individuals that are Mortgage Loan Originators (“MLOs”). MLOs must be registered or licensed by the states. Traditionally, manufactured housing retailers have assisted homebuyers with securing financing for the purchase of homes. This assistance may have included assisting with loan applications and presenting terms of loans. Under the SAFE Act, these activities are prohibited unless performed by a registered or licensed MLO. Although the definition of an MLO contains exemptions for administrative and other specific functions and industries, such as time-share plans, manufactured housing retailers are no longer able to negotiate rates and terms for loans unless they are licensed as MLOs. Compliance may require some manufactured housing retailers to become licensed lenders and employ MLOs, or alter business practices related to assisting home buyers in securing financing. This may result in increased costs for retailers who elect to employ MLOs, penalties assessed or litigation costs incurred by retailers found to be in violation, reduced home sales from home buyers’ inability to secure financing without retailer assistance, or increased costs to homebuyers or reduced transaction profitability for retailers as a result of the additional cost of mandatory MLO involvement.

In 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, was passed into law. As enacted, the Health Reform Law reforms, among other things, certain aspects of health insurance. The Health Reform Law could increase our healthcare costs, adversely impacting the Company’s earnings.

Results of Operations

Three and nine months ended December 28, 2013 compared to December 29, 2012

Net Revenue. Total net revenue increased 20.7% to \$138.3 million for the three months ended December 28, 2013 compared to \$114.6 million for the comparable quarter last year. For the nine months ended December 28, 2013, net revenue increased 17.1% to \$402.1 million from \$343.5 million for the same period last year.

Factory-built housing net revenue increased 22.1% to \$126.3 million from \$103.5 million for the comparable quarter last year. Homes sold increased by 15% to 2,376 for the three months ended December 28, 2013 from 2,065 in the same quarter last year, combined with an overall increase in average sales price. For the nine months ended December 28, 2013, factory-built housing net revenue increased 17.9% to \$366.3 million from \$310.8 million for the same period last year. Homes sold during the nine month period ended December 28, 2013 increased 15.9% to 7,214 from 6,222 for the same period last year.

The financial services segment, consisting of CountryPlace and Standard, contributed \$12.0 million and \$11.1 million in net revenue for the three months ended December 28, 2013 and December 29, 2012, respectively. For the nine months ended December 28, 2013, financial services net revenue increased 9.6% to \$35.8 million from \$32.6 million for the same period last year.

Gross Profit. Gross profit as a percent of net revenue decreased to 22.8% for the three months ended December 28, 2013 from 23.2% for the same period last year. The decrease is the result of changes in the product mix. Gross profit as a percent of net revenue increased to 22.6% for the nine months ended December 28, 2013 from 22.2% last year. The increase in gross profit as a percent of net revenue is reflective of improved production efficiencies from increased home sales volume partially offset by changes in product mix and competitive pricing pressure as well as fewer loan sales by our higher margin mortgage subsidiary.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by 8.4% or \$1.7 million to \$22.0 million, or 15.9% of net revenue, for the three months ended December 28, 2013, versus \$20.3 million, or 17.7% of net revenue, for the same period last year. For the nine month period ended December 28, 2013, selling, general and administrative expenses increased 10.2% or \$6.2 million to \$66.6 million, or 16.6% of net revenue, from \$60.4 million, or 17.6% of net revenue last year.

Income Before Income Taxes. Income before income taxes increased to \$8.5 million for the three months ended December 28, 2013, compared to \$5.3 million for the comparable quarter last year. For the nine months ended December 28, 2013, income before income taxes increased to \$21.3 million compared to \$12.5 million for the same period last year.

Interest Expense. Interest expense was \$1.2 million for the three months ended December 28, 2013, compared to \$1.4 million for the three months ended December 29, 2012. For the nine months ended December 28, 2013, interest expense was \$3.7 million compared to \$4.7 million for the nine months ended December 29, 2012. Interest expense consisted primarily of debt service on securitized financings connected to the CountryPlace Mortgage securitized manufactured home loan portfolios and decreased in connection with continued principal reductions of the securitized financings.

Other Income. Other income primarily represents interest income earned on inventory finance notes receivable, and gains, losses or impairment on property, plant and equipment, including assets held for sale or sold. Other income decreased 58.4% to \$173,000 for the three months ended December 28, 2013 as compared to \$416,000 for the comparable quarter last year. Other income decreased 43.9% to \$673,000 for the nine months ended December 28, 2013 as compared to \$1.2 million for the same period last year.

Income Taxes. For the three month period ended December 28, 2013, the effective income tax rate was approximately 31% compared to 43% for the three months ended December 29, 2012. The effective income tax rate for the current quarter was positively impacted by adjustments arising from manufacturing-specific deductions and certain income tax credits. The effective income tax rate for the prior year quarter was adversely affected by changes in applied tax rates and tax laws in certain states, as well as the absence of income tax credits that were not enacted until the subsequent fiscal 2013 fourth quarter. For the nine month period ended December 28, 2013, the effective income tax rate was approximately 32%, compared to 41% for the same period last year. The difference in rates between the two periods resulted primarily from the timing of certain tax credits and deductions, as well as the impact of the purchase of all noncontrolling interests in Fleetwood. As Cavco's taxable income has grown, we have realized additional benefit from tax deductions established to favor domestic manufacturing operations. During the nine months ended December 28, 2013, we received benefit from tax credits, including the Work Opportunity Tax Credit and the New Energy Efficient Home Credit, which expired again on December 31, 2013, and if not renewed, we will no longer be able to utilize these tax credits in the future.

Net Income. Net income attributable to Cavco stockholders for the three months ended December 28, 2013 was \$5.9 million compared to \$1.5 million the same quarter last year. For the nine months ended December 28, 2013 net income attributable to Cavco stockholders was \$12.0 million, compared to \$3.6 million for the comparable quarter last year.

Liquidity and Capital Resources

We believe that cash and cash equivalents at December 28, 2013, together with cash flow from operations, will be sufficient to fund our operations and provide for growth for the next 12 months and into the foreseeable future. We maintain cash in various deposit accounts, the balances of which are in excess of federally insured limits. Because of the Company's sufficient cash position, the Company has not sought external sources of liquidity, such as a credit facility; however, depending on our operating results and strategic opportunities, we may need to seek additional or alternative sources of financing. There can be no assurance that such financing would be available on satisfactory terms, if at all. If this financing were not available, it could be necessary for us to reevaluate our long-term operating plans to make more efficient use of our existing capital resources. The exact nature of any changes to our plans that would be considered depends on various factors, such as conditions in the factory-built housing industry and general economic conditions outside of our control.

Projected cash to be provided by or used in operations in the coming year is largely dependent on sales volume. Operating activities provided \$26.7 million of cash during the nine months ended December 28, 2013, compared to \$12.1 million during the same period last year. Cash provided by operating activities during the current period was primarily the result of cash generated by operating income before non-cash charges, principal payments collected on consumer loans receivable, as well as increased wage, unearned insurance premium and volume rebate accruals. Cash provided by operating activities in the prior year was primarily the result of cash generated by operating income before non-cash charges, as well as principal payments collected on consumer loans receivable.

Investing activities required the use of \$5.6 million of cash during the nine months ended December 28, 2013, compared to the use of \$1.2 million of cash during the same period last year. Cash used by investing activities in each period was primarily for the purchase of publicly-traded securities by our insurance subsidiary for its investment portfolio, offset by that subsidiary's investment sales. Cash was also used by investing activities in each period for building improvements and the purchase of production equipment.

Financing activities required the use of \$9.4 million in cash during the nine months ended December 28, 2013 primarily made up of \$9.5 million used to repay securitized financings. Financing activities required the use of \$9.6 million in cash during the nine months ended December 29, 2012, consisting of \$7.2 million used to repay securitized financings and \$4.6 million net repayment of the construction lending line, offset by \$2.2 million from the issuance of common stock under our stock incentive plans.

CountryPlace's securitized debt is subject to provisions which have required acceleration of debt repayment. If cumulative loss ratios exceed levels specified in the respective pooling and servicing agreement for the 2005-1 and 2007-1 securitizations, repayment of the principal of the related Class A bonds is accelerated until cumulative loss ratios return to specified levels. During periods when cumulative loss ratios exceed the specified levels, cash collections from the securitized loans in excess of servicing fees payable to CountryPlace and amounts owed to the Class A bondholders, trustee, and surety are applied to reduce the debt. However, principal repayment of the securitized debt, including accelerated amounts, is payable only from cash collections from the securitized loans and no additional sources of repayment are required or permitted. As of December 28, 2013, the cumulative loss ratio was within the specified level for the 2005-1 securitized portfolio; however, the cumulative loss ratio and current realized loss ratio for the 2007-1 securitized portfolio exceeded the specified levels. The resulting acceleration of securitized debt repayment did not have a materially adverse impact on our cash flows. This specified level subsequently increased in October 2013, but did not ameliorate the situation. The next scheduled increase in the specified level is October 2014.

Critical Accounting Policies

In Part II, Item 7 of our Form 10-K, under the heading "Critical Accounting Policies," we have provided a discussion of the critical accounting policies that management believes affect its more significant judgments and estimates used in the preparation of our Consolidated Financial Statements.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("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.

Forward-looking Statements

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. In addition to the Risk Factors described in Part I, Item 1A. Risk Factors in our Form 10-K, factors that could affect our results and cause them to materially differ from those contained in the forward-looking statements include, but are not limited to:

- We operate in an industry that is currently experiencing a prolonged and significant downturn;
- We may not be able to successfully integrate Fleetwood, Palm Harbor, CountryPlace, Standard Casualty and any future acquisition or attain the anticipated benefits, and the acquisition of Fleetwood, Palm Harbor, CountryPlace, Standard Casualty and other future acquisitions may adversely impact the Company's liquidity;
- Our expansion of retail and manufacturing businesses and entry into new lines of business, namely manufactured housing consumer finance and insurance, through the Palm Harbor transaction exposes the Company to additional risks;
- Tightened credit standards, curtailed lending activity by home-only lenders and increased government lending regulations have contributed to a constrained consumer financing market;
- The availability of wholesale financing for industry retailers is limited due to a reduced number of floor plan lenders and reduced lending limits;
- Our participation in certain wholesale financing programs for the purchase of our products by industry retailers may expose us to additional risk of credit loss, which could adversely impact the Company's liquidity and results of operations;
- We have contingent repurchase obligations related to wholesale financing provided to industry retailers;
- Our operating results could be affected by market forces and declining housing demand;
- We have incurred net losses in certain prior periods and there can be no assurance that we will generate income in the future;
- A write-off of all or part of our goodwill could adversely affect our operating results and net worth;
- The cyclical and seasonal nature of the manufactured housing industry causes our revenues and operating results to fluctuate, and we expect this cyclicity and seasonality to continue in the future;
- Our liquidity and ability to raise capital may be limited;
- The manufactured housing industry is highly competitive, and increased competition may result in lower revenue;
- If we are unable to establish or maintain relationships with independent distributors who sell our homes, our revenue could decline;
- Our results of operations can be adversely affected by labor shortages and the pricing and availability of raw materials;
- If the manufactured housing industry is not able to secure favorable local zoning ordinances, our revenue could decline and our business could be adversely affected;
- The loss of any of our executive officers could reduce our ability to execute our business strategy and could have a material adverse effect on our business and results of operations;

- Certain provisions of our organizational documents could delay or make more difficult a change in control of our Company;
- Volatility of stock price;
- Deterioration in economic conditions in general and continued turmoil in the credit markets could reduce our earnings and financial condition;
- The cost of operations could be adversely impacted by increased costs of healthcare benefits provided to employees;
- Governmental and regulatory disruption; and
- Information technology failures and data security breaches.

We may make additional written or oral forward-looking statements from time to time in filings with the SEC or in public news releases or statements. Such additional statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, acquisitions, plans for future operations, financing needs or plans, the impact of inflation and plans relating to our products or services, as well as assumptions relating to the foregoing.

Statements in this Report on Form 10-Q, including those set forth in this section, may be considered “forward looking statements” within the meaning of Section 21E of the Securities Act of 1934. These forward-looking statements are often identified by words such as “estimate,” “predict,” “hope,” “may,” “believe,” “anticipate,” “plan,” “expect,” “require,” “intend,” “assume,” and similar words.

Forward-looking statements contained in this Report on Form 10-Q speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. We do not intend to publicly update or revise any forward-looking statement contained in this Report on Form 10-Q or in any document incorporated herein by reference to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market prices and interest rates. We may from time to time be exposed to interest rate risk inherent in our financial instruments, but are not currently subject to foreign currency or commodity price risk. We manage our exposure to these market risks through our regular operating and financing activities.

Our operations are interest rate sensitive. As overall manufactured housing demand can be adversely affected by increases in interest rates, a significant increase in wholesale or mortgage interest rates may negatively affect the ability of retailers and home buyers to secure financing. Higher interest rates could unfavorably impact our revenues, gross margins and net earnings. Our business is also sensitive to the effects of inflation, particularly with respect to raw material and transportation costs. We may not be able to offset inflation through increased selling prices.

CountryPlace is exposed to market risk related to the accessibility and terms of long-term financing of its loans. In the past, CountryPlace accessed the asset-backed securities market to provide term financing of its chattel and non-conforming mortgage originations. At present, asset-backed and mortgage-backed securitization markets are effectively closed to CountryPlace and other manufactured housing lenders. Accordingly, it is unlikely that CountryPlace can continue to securitize its loan originations as a means to obtain long-term funding. This inability to continue to securitize its loans caused CountryPlace to discontinue origination of chattel loans and non-conforming mortgages until other sources of funding are available.

We are also exposed to market risks related to our fixed rate consumer loans receivable balances. For fixed rate loans receivable, changes in interest rates do not change future earnings and cash flows from the receivables. However, changes in interest rates could affect the fair market value of the loan portfolio. Assuming CountryPlace's level of loans held for investment as of December 28, 2013 is held constant, a 1% increase in average interest rates would decrease the fair value of CountryPlace's portfolio by approximately \$3.5 million.

In originating loans for sale, CountryPlace issues interest rate lock commitments ("IRLCs") to prospective borrowers and third-party originators. These IRLCs represent an agreement to extend credit to a loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to loan closing or sale. These IRLCs bind CountryPlace to fund the approved loan at the specified rate regardless of whether interest rates or market prices for similar loans have changed between the commitment date and the closing date. As such, outstanding IRLCs are subject to interest rate risk and related loan sale price risk during the period from the date of the IRLC through the earlier of the loan sale date or IRLC expiration date. The loan commitments generally range between 30 and 180 days; however, borrowers are not obligated to close the related loans. As a result, CountryPlace is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. As of December 28, 2013 CountryPlace had outstanding IRLCs with a notional amount of \$3.6 million and are recorded at fair value in accordance with ASC 815, *Derivatives and Hedging* ("ASC 815"). The estimated fair values of IRLCs are based on quoted market values and are recorded in other assets in the consolidated balance sheets. The fair value of IRLCs is based on the value of the underlying mortgage loan adjusted for: (i) estimated cost to complete and originate the loan and (ii) the estimated percentage of IRLCs that will result in closed mortgage loans. The initial and subsequent changes in the value of IRLCs are a component of current income. Assuming CountryPlace's level of IRLCs is held constant, a 1% increase in average interest rates would decrease the fair value of CountryPlace's obligations by approximately \$200,000.

Certain of our inventory finance notes receivable and securitized financings have fixed interest rates as well. For fixed rate instruments, changes in interest rates do not change future earnings and cash flows from the receivables. However, changes in interest rates could affect the fair market value of the instruments.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended December 28, 2013, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding reportable legal proceedings is contained in Part I, Item 3, *Legal Proceedings*, in our Form 10-K. The following describes legal proceedings, if any, that became reportable during the quarter ended December 28, 2013, and, if applicable, amends and restates descriptions of previously reported legal proceedings in which there have been material developments during such quarter.

We are party to certain legal proceedings that arise in the ordinary course and are incidental to our business. Certain of the claims pending against us in these proceedings allege, among other things, breach of contract and warranty, product liability, construction defect 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 our consolidated financial position, liquidity or results of operations in any future reporting periods.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Part I, Item 1A, *Risk Factors*, in our Form 10-K, which could materially affect our business, financial condition or future results. The risks described in this Report and in our Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

The risk factors included in our Form 10-K have not materially changed other than as follows.

(1) With respect to an additional risk factor related to potential governmental and regulatory disruption:

A prolonged delay by Congress and the President to approve budgets or continuing appropriation resolutions to facilitate the operations of the federal government could delay the completion of home sales and/or cause cancellations, and thereby negatively impact our deliveries and revenues.

Congress and the President may not timely approve budgets or appropriation legislation to facilitate the operations of the federal government. As a result, many federal agencies have historically and may again cease or curtail some activities. The affected activities include Internal Revenue Service ("IRS") verification of loan applicants' tax return information, and approvals by the Federal Housing Administration ("FHA") and other government agencies to fund or insure mortgage loans under programs that these agencies operate. As a number of our homebuyers use these programs to obtain financing to purchase our homes, and many lenders, including CountryPlace, require ongoing coordination with these and other governmental entities to originate home loans, a prolonged delay in the performance of their activities could prevent prospective qualified buyers of our homes from obtaining the loans they need to complete such purchases, which could lead to delays or cancellations of home sales. These and other affected governmental bodies could cause interruptions in various aspects of our business and investments. Depending on the length of disruption, such factors could have a material adverse impact on our consolidated financial statements.

(2) With respect to an additional risk factor related to potential information technology failures and data security breaches:

Information technology failures or data security breaches could harm our business.

We use information technology and other computer resources to carry out important operational activities and to maintain our business records. Our computer systems, including our back-up systems, are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches (through cyber-attacks from computer hackers and sophisticated organizations), catastrophic events such as fires, tornadoes and hurricanes, and human error. Given the unpredictability of the timing, nature and scope of information technology disruptions, if our computer systems and our backup systems are damaged, breached, or cease to function properly, we could potentially be subject to production downtimes, operational delays, the compromising of confidential or otherwise protected information (including information about our homebuyers and business partners), destruction or corruption of data, security breaches, other manipulation or improper use of our systems and networks or financial losses from remedial actions, any of which could have a material adverse effect on our cash flows, competitive position, financial condition or results of operations.

Item 6. Exhibits

See Exhibit Index.

All other items required under Part II are omitted because they are not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cavco Industries, Inc.

Registrant

Signature	Title	Date
<u>/s/ Joseph H. Stegmayer</u> Joseph H. Stegmayer	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 5, 2014
<u>/s/ Daniel L. Urness</u> Daniel L. Urness	Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	February 5, 2014

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Exhibit</u>
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Rule 13a-14(a)/15d-14(a)
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Rule 13a-14(a)/15d-14(a)
32	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials contained in this Quarterly Report on Form 10-Q for the period ended December 28, 2013 were formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements

Certification of Periodic Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Joseph H. Stegmayer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cavco Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 5, 2014

By: /s/ Joseph H. Stegmayer

Joseph H. Stegmayer

Chairman, President and
Chief Executive Officer

Certification of Periodic Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Daniel L. Urness, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cavco Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 5, 2014

By: /s/ Daniel L. Urness
Daniel L. Urness
Vice President, Treasurer,
and Chief Financial Officer

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Cavco Industries, Inc. (the “Registrant”) on Form 10-Q for the period ending December 28, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Joseph H. Stegmayer and Daniel L. Urness, Chief Executive Officer and Chief Financial Officer, respectively, of the Registrant, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

February 5, 2014

/s/ Joseph H. Stegmayer

Joseph H. Stegmayer
Chairman, President and
Chief Executive Officer

/s/ Daniel L. Urness

Daniel L. Urness
Vice President, Treasurer, and
Chief Financial Officer