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

FORM 8-K/A

(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 23, 2011

Cavco Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

000-08822

(Commission File Number)

56-2405642

(IRS Employer
Identification No.)

1001 North Central Avenue, Suite 800, Phoenix, Arizona

(Address of principal executive offices)

85004

(Zip Code)

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

Not applicable

(Former name or former address if changed from last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Explanatory Note

Cavco Industries, Inc. ("Cavco") is filing this Amendment No. 1 to the Current Report on Form 8-K filed on April 28, 2011, to include Item 9.01 (a) Financial Statements of Business Acquired and Item 9.01 (b) Pro Forma Financial Information.

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

- (1) The consolidated balance sheets of Palm Harbor Homes, Inc., a Florida corporation, and its subsidiaries ("Palm Harbor") as of March 26, 2010 and March 27, 2009 and the consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 26, 2010, and the notes related thereto, are filed as Exhibit 99.1 and incorporated herein by reference.
- (2) The unaudited consolidated condensed balance sheet of Palm Harbor as of December 24, 2010 and the unaudited consolidated condensed statements of operations, shareholders' equity and cash flows for the nine months ended December 24, 2010 and December 25, 2009 and the notes related thereto, are filed as Exhibit 99.2 and incorporated herein by reference.

The consolidated balance sheets of Palm Harbor as of March 26, 2010 and March 27, 2009 and the consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 26, 2010, and the notes related thereto, provided in this filing were previously audited and included in Palm Harbor's Form 10-K for the year ended March 26, 2010. However, Palm Harbor's auditor has not been able to perform its customary procedures to its satisfaction to enable it to consent to the inclusion of its prior audit report in this filing due to the untimely and limited cooperation of Palm Harbor and the bankruptcy estate of Palm Harbor towards the completion of those procedures. Accordingly, (i) these financial statements should be considered unaudited, preliminary and subject to change (ii) this filing is incomplete, and (iii) these financial statements are not presented in accordance with Regulation S-X of the rules and regulations of the United States Securities and Exchange Commission. Cavco is continuing to work with Palm Harbor, the bankruptcy estate of Palm Harbor, Palm Harbor's auditor and the Securities and Exchange Commission to resolve this situation.

(b) Pro Forma Financial Information

The unaudited pro forma condensed combined financial statements of Cavco and Palm Harbor as of and for the nine months ended December 31, 2010 and for the year ended March 31, 2010 are filed as Exhibit 99.3 hereto and incorporated herein by reference.

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	The consolidated balance sheets of Palm Harbor as of March 26, 2010 and March 27, 2009 and the consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 26, 2010, and the notes related thereto.
99.2	The unaudited consolidated condensed balance sheet of Palm Harbor as of December 24, 2010 and the unaudited consolidated condensed statements of operations, shareholders' equity and cash flows for the nine months ended December 24, 2010 and December 25, 2009 and the notes related thereto.
99.3	Unaudited pro forma condensed combined financial statements of Cavco and Palm Harbor as of and for the nine months ended December 31, 2010 and for the year ended March 31, 2010 that give effect to the acquisition of Palm Harbor.

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 hereunto duly authorized.

CAVCO INDUSTRIES, INC.

By: /s/ James P. Glew
Name: James P. Glew
Title: Secretary

Date: July 8, 2011

EXHIBIT INDEX

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99.3	Unaudited pro forma condensed combined financial statements of Cavco and Palm Harbor as of and for the nine months ended December 31, 2010 and for the year ended March 31, 2010.

FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED

The consolidated balance sheets of Palm Harbor Homes, Inc., a Florida corporation, and its subsidiaries as of March 26, 2010 and March 27, 2009 and the consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 26, 2010, and the notes related thereto.

Palm Harbor Homes, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share data)

	March 26, 2010	March 27, 2009
Assets		
Cash and cash equivalents	\$ 26,705	\$ 12,374
Restricted cash	16,330	17,771
Investments	16,041	17,175
Trade receivables	18,533	23,458
Consumer loans receivable, net	176,143	191,597
Inventories	60,303	97,144
Assets held for sale	6,538	5,775
Prepaid expenses and other assets	9,909	10,451
Property, plant and equipment, at cost:		
Land and improvements	12,713	16,381
Buildings and improvements	38,176	45,985
Machinery and equipment	45,270	55,822
Construction in progress	245	265
	96,404	118,453
Accumulated depreciation	(69,153)	(82,516)
Property, plant and equipment, net	27,251	35,937
Total assets	\$ 357,753	\$ 411,682
Liabilities and Shareholders' Equity		
Accounts payable	\$ 20,713	\$ 18,954
Accrued liabilities	39,987	45,882
Floor plan payable	42,249	49,401
Construction lending line	3,890	3,589
Securitized financings	122,494	140,283
Virgo debt, net	18,518	-
Convertible senior notes, net	50,486	47,940
Total liabilities	298,337	306,049
Commitments and contingencies		
Preferred stock, \$0.01 par value	-	-
Authorized shares - 2,000,000		
Issued and outstanding shares - none		
Common stock, \$0.01 par value	239	239
Authorized shares - 50,000,000		
Issued shares - 23,807,879 at March 26, 2010 and March 27, 2009		
Additional paid-in capital	69,919	68,200
Retained earnings	3,389	54,521
Treasury stock - 827,786 at March 26, 2010 and 932,634 at March 27, 2009	(13,949)	(15,717)
Accumulated other comprehensive loss	(182)	(1,610)
Total shareholders' equity	59,416	105,633
Total liabilities and shareholders' equity	\$ 357,753	\$ 411,682

See accompanying Notes to Consolidated Financial Statements.

Palm Harbor Homes, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands, except per share data)

	Fiscal Year Ended		
	March 26, 2010	March 27, 2009	March 28, 2008
Net sales	\$ 298,371	\$ 409,274	\$ 555,096
Cost of sales	234,664	312,428	421,371
Selling, general and administrative expenses	100,209	120,402	150,562
Goodwill impairment	-	-	78,506
Loss from operations	(36,502)	(23,556)	(95,343)
Interest expense	(17,533)	(18,265)	(21,853)
Gain on repurchase of convertible senior notes	-	7,723	-
Other income	2,944	2,095	3,625
Loss before income taxes	(51,091)	(32,003)	(113,571)
Income tax (expense) benefit	(41)	8	(8,409)
Net loss	\$ (51,132)	\$ (31,995)	\$ (121,980)
Net loss per common share - basic and diluted	\$ (2.23)	\$ (1.40)	\$ (5.34)
Weighted average common shares outstanding - basic and diluted	22,888	22,856	22,852

See accompanying Notes to Consolidated Financial Statements.

Palm Harbor Homes, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
(In thousands, except share data)

	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-In Capital	Earnings	Other Income (Loss)	Shares	Amount	
Balances, March 30, 2007	23,807,879	\$ 239	\$ 68,014	\$ 208,496	\$ (1,409)	(956,086)	\$ (15,896)	\$ 259,444
Net loss	-	-	-	(121,980)	-	-	-	(121,980)
Unrealized gain on available-for-sale investments, net of tax	-	-	-	-	398	-	-	398
Amortization of interest rate hedge	-	-	-	-	108	-	-	108
Total comprehensive income (loss)	-	-	-	(121,980)	506	-	-	(121,474)
Terminations	-	-	-	-	-	72	-	-
Share-based compensation	-	-	201	-	-	-	-	201
Balances, March 28, 2008	23,807,879	\$ 239	\$ 68,215	\$ 86,516	\$ (903)	(956,014)	\$ (15,896)	\$ 138,171
Net loss	-	-	-	(31,995)	-	-	-	(31,995)
Unrealized loss on available-for-sale investments	-	-	-	-	(803)	-	-	(803)
Amortization of interest rate hedge	-	-	-	-	96	-	-	96
Total comprehensive loss	-	-	-	(31,995)	(707)	-	-	(32,702)
Shares granted for compensation	-	-	(179)	-	-	23,380	179	-
Share-based compensation	-	-	164	-	-	-	-	164
Balances, March 27, 2009	23,807,879	\$ 239	\$ 68,200	\$ 54,521	\$ (1,610)	(932,634)	\$ (15,717)	\$ 105,633
Net loss	-	-	-	(51,132)	-	-	-	(51,132)
Unrealized gain on available-for-sale investments	-	-	-	-	1,337	-	-	1,337
Amortization of interest rate hedge	-	-	-	-	91	-	-	91
Total comprehensive income (loss)	-	-	-	(51,132)	1,428	-	-	(49,704)
Warrants	-	-	2,178	-	-	-	-	2,178
Shares granted for compensation	-	-	(1,768)	-	-	104,848	1,768	-
Share-based compensation	-	-	1,309	-	-	-	-	1,309
Balances, March 26, 2010	23,807,879	\$ 239	\$ 69,919	\$ 3,389	\$ (182)	(827,786)	\$ (13,949)	\$ 59,416

See accompanying Notes to Consolidated Financial Statements.

Palm Harbor Homes, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands, except per share data)

	Year Ended		
	March 26, 2010	March 27, 2009	March 28, 2008
Operating Activities			
Net loss	\$ (51,132)	\$ (31,995)	\$ (121,980)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation and amortization	5,647	5,928	8,130
Provision for credit losses	2,942	2,862	3,572
Non-cash interest expense	3,407	2,848	3,199
Deferred income taxes	-	-	8,995
Goodwill impairment	-	-	78,506
Impairment of investment securities	243	508	432
Impairment of property, plant and equipment	-	-	582
Impairment of assets held for sale	290	1,543	-
Impairment of inventories	1,861	-	-
(Gain) loss on disposition of assets	2,682	(1,045)	(623)
(Gain) loss on sale of investments	100	(146)	(359)
Gain on sale of loans	(53)	(1,336)	-
Loss on sale leaseback transaction	-	504	-
Gain on repurchase of convertible senior notes	-	(7,723)	-
Provision for stock-based compensation	1,309	164	201
Proceeds from business interruption insurance	-	-	3,300
Changes in operating assets and liabilities:			
Restricted cash	1,441	7,716	17,982
Trade receivables	4,925	7,931	2,362
Consumer loans originated for investment or sale	(36,328)	(32,756)	(78,925)
Principal payments on consumer loans originated	13,109	37,663	36,006
Proceeds from sales of loans	35,784	69,833	-
Inventories	33,598	26,150	15,396
Prepaid expenses and other assets	821	705	9,065
Accounts payable and accrued expenses	(5,006)	(32,089)	(18,677)
Net cash provided by (used in) operating activities	15,640	57,265	(32,836)
Investing Activities			
Purchase of minority interest	-	-	(1,800)
Net Disposals (purchases) of property, plant and equipment	898	567	(1,326)
Insurance proceeds received for property, plant and equipment	-	-	3,000
Purchases of investments	(4,648)	(15,165)	(7,258)
Sales of investments	7,338	19,301	7,215
Net cash provided by (used in) investing activities	3,588	4,703	(169)
Financing Activities			
Net (payments on) proceeds from floor plan payable	(7,152)	(9,966)	15,764
Net (payments on) proceeds from warehouse revolving debt	-	(42,175)	30,130
Net proceeds from construction lending line	301	3,589	-
Payments to repurchase convertible senior notes	-	(10,577)	-
Net proceeds from sale leaseback transactions	929	6,476	-
Net proceeds from Virgo debt	18,979	-	-
Payments on Virgo debt	(165)	-	-
Payments on securitized financings	(17,789)	(25,147)	(28,975)
Net cash (used in) provided by financing activities	(4,897)	(77,800)	16,919
Net increase (decrease) in cash and cash equivalents	14,331	(15,832)	(16,086)
Cash and cash equivalents at beginning of year	12,374	28,206	44,292
Cash and cash equivalents at end of year	\$ 26,705	\$ 12,374	\$ 28,206
Supplemental disclosures of cash flow information:			
Cash paid (received) during the year for:			
Interest	\$ 12,922	\$ 14,405	\$ 17,075
Income taxes	\$ (350)	\$ 49	\$ (8,752)
Non-cash transactions:			
Foreclosed loans	\$ 1,566	\$ 2,048	\$ 1,206

See accompanying Notes to Consolidated Financial Statements.

Palm Harbor Homes, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of Palm Harbor Homes, Inc. and its wholly owned subsidiaries (the Company). All significant intercompany transactions and balances have been eliminated in consolidation. Headquartered in Addison, Texas, the Company markets factory-built homes nationwide through vertically integrated operations, encompassing factory-built housing, financing and insurance.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from the estimates and assumptions used by management in preparation of the consolidated financial statements.

General Business Environment

The accompanying financial statements and related disclosures have been prepared on a going concern basis, which contemplates the realization of assets and extinguishment of liabilities in the normal course of business. However, the continued depressed economic environment in fiscal 2011, the subsequent decline in the Company's cash and cash equivalents, the defaults occurring under the Company's credit agreements, and the Company's November 29, 2010 filing of a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code and subsequent bankruptcy-related actions, all discussed further below, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these conditions involved maximizing the value of the Company's assets through a court-approved sale, which has since been completed as described below, and subsequent administration of the Company's bankruptcy estate, including making payments to creditors which is ongoing.

Fiscal 2010 Operations and Management Actions

The prevailing economic uncertainties and depressed housing market continued to challenge the factory-built housing industry and the Company's business during fiscal 2010. The Company's revenues for the year are indicative of the constrained demand for factory-built housing products resulting from a more restrictive financing environment and an over-supply of discounted site-built homes. The Company's fiscal year revenues declined 27.1% over the prior year period and its gross margin decreased to 21.4% from 23.7% a year ago.

In light of the economic environment during fiscal 2010 and the ongoing challenges facing the factory-built housing industry, the Company's top priority in fiscal 2011 was to manage its liquidity with a tight focus on cash generation and cash preservation in every area of its operations. During fiscal 2010, the Company focused on this priority through the following:

- The Company reached an agreement with Textron Financial Corporation to amend the terms of its floor plan facility and extend the expiration date until April 2011, and in certain circumstances, further extend through June 2012. The agreement also provided for a gradual step-down of the current total committed amount of \$45 million to \$25 million between March 2010 and March 2011, favorably adjusted certain financial covenants, and allowed for an increased percentage of eligible inventory to be borrowed subject to the total credit line at the lender's discretion.
- Through CountryPlace, the Company closed on a four-year, \$20 million secured term loan from entities managed by Virgo Investment Group LLC ("Virgo"). Net proceeds of \$19.0 million, after fees, were used for working capital and general corporate purposes.
- The Company reduced inventories by \$36.8 million and receivables by \$4.9 million.
- The Company continued to reduce its overhead costs (selling, general and administrative expenses decreased \$20.2 million in fiscal 2010 despite including \$4.4 million for restructuring costs).
- The Company received \$1.8 million from the sale to a third party of a portion of Palm Harbor Insurance Agency's book of business, including rights to future commissions, profit sharing and renewals.
- The Company completed a sale leaseback transaction totaling \$1.0 million in cash for two of its retail properties.
- CountryPlace was approved to issue Ginnie Mae mortgage-backed securities.

The Company also took additional steps to reduce its manufacturing capacity and distribution channels and realign its operational overhead to meet current and expected demand. During the fourth quarter of fiscal 2010, the Company closed one factory and 23 underperforming sales centers, resulting in the Company having eight factories in operation and a total of 55 sales locations. The Company recorded restructuring charges of approximately \$9.2 million during fiscal 2010 in connection with these actions.

Fiscal 2011 Operations, Bankruptcy Filing and Asset Sale

In fiscal 2011, the general U.S. economic downturn, an industry-wide lack of available external financing and an oversupply of competitive site-built homes continued to have a significant adverse effect on the factory-built housing industry overall, and the Company's factory-built housing operations and cash flows specifically. The Company's cash and cash equivalents decreased \$17.2 million and the Company incurred a \$9.3 million loss from operations in the first six months of fiscal 2011. Additionally, as of September 24, 2010, the Company was in default under three provisions of its amended floor plan financing facility with Textron Financial Corporation because the Company failed to reduce its outstanding borrowings under the facility to \$32 million, exceeded the maximum permissible loan-to-collateral coverage ratio at September 24, 2010 of 62% by having a ratio of approximately 70%, and sold approximately \$4.0 million of homes which funds should have been paid to Textron but were not paid. Subsequently, on November 29, 2010, Palm Harbor Homes, Inc. and five of its domestic subsidiaries, Palm Harbor Manufacturing, L.P., Palm Harbor Albemarle LLC, Palm Harbor Real Estate LLC, Palm Harbor GenPar LLC, and Nationwide Homes, Inc. filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware in Wilmington, case number 10-13850. The Company's insurance and finance subsidiaries Standard Casualty Company, Standard Insurance Agency, Inc., Palm Harbor Insurance Agency of Texas, Inc. and CountryPlace Acceptance Corporation were not part of the bankruptcy filing, however, such subsidiaries were wholly-owned by entities that were part of the bankruptcy filing.

In connection with the bankruptcy filing, on November 29, 2010, the Company entered into an asset purchase agreement with the entities subject to the bankruptcy (collectively, the "Sellers") and Palm Harbor Homes, Inc. a Delaware corporation (the "Purchaser") under which the Purchaser purchased substantially all of the assets and assumed specified liabilities of the Sellers. Additionally, on November 29, 2010, the Company entered into a Senior Secured, Super-Priority Debtor-in-Possession Revolving Credit Agreement (the "DIP Credit Agreement") among the Company, the entities subject to the bankruptcy, and Fleetwood Homes, Inc., as lender (the "Lender") and a Security Agreement (the "Security Agreement") among the Company, the entities subject to the bankruptcy, and the Lender as the secured party, with a Promissory Note (the "Promissory Note") executed by the Company and its filing subsidiaries in favor of the Lender. Pursuant to the terms of the DIP Credit Agreement, the Security Agreement, and the Promissory Note, the lender agreed to loan up to \$50 million (which may increase to \$55 million if certain conditions are met), bearing interest at 7% per annum and maturing on the earlier of April 30, 2011 (as amended) or 15 days after entry of a final order from the Bankruptcy Court approving the sale of the Company's assets. Subsequently, on March 1, 2011, the Purchaser was selected as the successful bidder to purchase substantially all of the Company's assets, and assume specified liabilities, pursuant to an auction process with a bid of approximately \$83.9 million, and on April 25, 2011, pursuant to an Amended and Restated Asset Purchase Agreement dated March 1, 2011, the previously announced and approved sale was completed with an effective date of the transaction of April 23, 2011.

After closing and the receipt of proceeds of the DIP Credit Agreement, in December 2010 all of the Company's then-current indebtedness to Textron Financial Corporation was repaid. After closing and receipt of the proceeds of the asset sale to the Purchaser, approximately \$45.3 million of the \$83.9 million purchase price was used to retire amounts outstanding under the DIP Credit Agreement, which was thereafter terminated. Additionally, certain expenses that include title insurance and prorated taxes were paid. Remaining net proceeds from the asset sale are intended to be used by the Company's bankruptcy estate to satisfy various creditor obligations. The Company estimates that after payments to creditors, there will not be sufficient proceeds to make any distributions to stockholders.

Year End

The Company's fiscal year ends on the last Friday in March. The Company's financial services subsidiaries' fiscal year ends on different dates than the Company's. CountryPlace's fiscal year ends on March 31 and Standard Casualty's (Standard) fiscal year ends on the last day of February.

Revenue recognition

Retail sales of manufactured homes and certain single story modular homes, including shipping charges, are recognized when a down payment is received, the customer enters into a legally binding sales contract, title has transferred and the home is accepted by the customer, delivered and permanently located at the customer's site. Sales of the Company's commercial buildings, including shipping charges, are recognized when the customer enters into a legally binding sales contract, title has transferred and the home is substantially complete and accepted by the customer. Additionally, for retail sales of all multi-story modular homes, Nationwide modular homes, and manufactured homes in which the Company serves as the general contractor with respect to virtually all aspects of the sale and construction process, sales are not recognized until after final consumer closing. Transportation costs, unless borne by the retail customer or independent retailer, are included in cost of sales.

Interest income on consumer loans receivable is recognized as net sales on an accrual basis. When CountryPlace determines that a loan held for investment is partially or fully uncollectible, the estimated loss is charged against the allowance for loan losses. Recoveries on losses previously charged to the allowance are credited to the allowance at the time the recovery is collected. For loans held for investment, loan origination fees are deferred and amortized into net sales over the contractual life of the loan using the interest method. For loans held for sale, loan origination fees and gains or losses on sales are recognized upon sale of the loans.

CountryPlace's policy is to place loans on nonaccrual status when either principal or interest is past due and remains unpaid for 120 days or more. In addition, they place loans on nonaccrual status 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 accounted for on a cash basis, first to interest and then to principal. Upon determining that a nonaccrual loan is impaired, interest accrued and the uncollected receivable prior to identification of nonaccrual status is charged to the allowance for loan losses.

Most of the homes sold to independent retailers are financed through standard industry arrangements which include repurchase agreements (see Note 12). The Company extends credit in the normal course of business under normal trade terms and its receivables are subject to normal industry risk.

Premium income from insurance policies is recognized on an as earned basis. Premium amounts collected are amortized into net sales over the life of the policy. Policy acquisition costs are also amortized as cost of sales over the life of the policy.

Cash and cash equivalents

Cash and cash equivalents are all liquid investments with maturities of three months or less when purchased.

Restricted cash

Restricted cash consists of the following (in thousands):

	March 26, 2010	March 27, 2009
Cash pledged as collateral for outstanding insurance programs and surety bonds	\$ 9,917	\$ 10,358
Cash related to customer deposits held in trust accounts	2,496	3,225
Cash related to CountryPlace customers' principal and interest payments on the loans that are serviced for third parties	3,917	4,188
	<u>\$ 16,330</u>	<u>\$ 17,771</u>

Consumer loans receivable

Consumer loans receivable consists of manufactured housing loans (held for investment, held for sale or securitized) and construction advances on non-conforming mortgages less allowances for loan losses and deferred financing costs, net of amortization. Loans held for investment and loans securitized are stated at the aggregate remaining unpaid principal balances. Loans held for sale are recorded at the lower of cost or market on an aggregate basis. Interest income is recognized based upon the unpaid principal amount outstanding.

As of March 31, 2010 and March 31, 2009, the Company had \$0.6 million and \$1.1 million of loans held for sale, respectively. These loans were transferred from loans held for investment to loans held for sale at the lower of cost or estimated fair market value. See Note 4 for more information.

Certain direct loan origination costs for loans held for investment are deferred and amortized over the estimated life of the portfolio and amortized using the effective interest method. Certain direct loan origination costs for loans held for sale are expensed as incurred.

Allowance for loan losses

The allowance for loan losses reflects CountryPlace's judgment of the probable loss exposure on their loans held for investment portfolio as of the end of the reporting period. CountryPlace's loan portfolio is comprised of loans related primarily to factory-built Palm Harbor homes. The allowance for loan losses is developed at a portfolio level, as pools of homogeneous loans, and not allocated to specific individual loans or to impaired loans. A range of probable losses is calculated after giving consideration to, among other things, the composition of the loan portfolio, including historical loss experience by static pool, expected probable losses based on industry knowledge of losses for a given range of borrower credit scores, the composition of the portfolio by credit score and seasoning, loan type characteristics, and recent loss experience. CountryPlace then makes a determination of the best estimate within the range of loan losses.

The accrual of interest is discontinued when either principal or interest is more than 120 days past due. In addition, loans are placed on nonaccrual status 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 accounted for on a cash basis, first to interest and then to principal. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Upon determining that a nonaccrual loan is impaired, interest accrued prior to identification of nonaccrual status is charged to the allowance for loan losses. As of March 31, 2010, CountryPlace management was not aware of any potential problem loans that would have a material effect on loan delinquency or charge-offs.

The portion of the loan portfolio with payments delinquent sixty-one or more days has decreased to 1.37% at March 31, 2010 from 2.09% at March 31, 2009. Based on prior experience with factory-built home loan performance, CountryPlace management expects the incidence of defaults to increase as loans age for the first three to six years of a portfolio life, and then decrease in later years, under normal economic conditions. The weighted average remaining contractual life of the portfolio increased from 46 months at March 31, 2009 to 57 months at March 31, 2010. The weighted average remaining contractual life for chattel and mortgages was 62 and 42 months, respectively, as of March 31, 2010.

The average unpaid balance of defaulted loans increased in 2010, due primarily to the increase in percentage of mortgage loan defaults. The portion of CountryPlace's defaulted loans attributable to mortgage loans increased to 31.3% in 2010 from 13.4% in 2009. The average unpaid balance of defaulted mortgage loans was \$146,000 in 2010 versus \$94,000 in 2009. The average unpaid balance of chattel loans was \$67,000 in 2010 versus \$58,000 in 2009. During 2010, recovery rates for chattel and mortgage loans were 29.7% and 51.6%, respectively, versus 36.1% and 57.6% respectively in 2009.

House price depreciation, elevated unemployment, and general economic weakness continue to adversely affect the rates of delinquency and default in mortgage loan portfolios. California, Florida, and Arizona have been especially affected. With the exception of a 43.2% concentration of loans receivable in Texas, CountryPlace's loan portfolio is well diversified across 26 states. Accordingly, CountryPlace's exposure to isolated local or regional economic downturns is, in normal conditions, offset by more favorable economic conditions in other states. Texas continues to perform better than other states in the current economic downturn and CountryPlace's loans receivable concentration in Texas has offset the effects of economic weakness in other states. The portion of CountryPlace's total defaulted loans located in Texas decreased during fiscal 2010 to 37.9% from 52.8% in fiscal 2009. The portion of CountryPlace's loans receivable located in Texas that were 61 days or more past due at March 31, 2010 was 0.71%, or 0.66% lower than the delinquency rate for the total loans receivable portfolio of 1.37%. The portion of CountryPlace's total defaulted loans located in Florida increased to 10.5% in 2010 from 0.4% in 2009. Florida loans receivable past due 61 days or more represented 0.08% of total loans receivable at March 31, 2010, down from 0.25% at March 31, 2009. The portion of CountryPlace's total defaulted loans located in Arizona decreased to 5.2% in 2010 from 8.5% in 2009. The portion of total loans receivable past due 61 days or more located in Arizona at March 31, 2010 increased to 0.20% from 0.14% at March 31, 2009. The portion of defaulted loans located in California in 2010 increased to 9.6% from 2.5% in 2009. However, delinquent accounts in California represent less than 0.1% of the total loans receivable balance at March 31, 2010.

In addition to declining economic growth and increasing levels of unemployment, deteriorating performance of mortgage loans in general has been driven, in large part, by product features (such as adjustable rates, interest-only payments, payment options, etc.) that have a high propensity to induce payment shock or negative equity, and underwriting practices which relied on the expectation of continuous house price appreciation. CountryPlace's portfolio is comprised entirely of fixed-rate, full-amortizing loans. CountryPlace's underwriting practices and risk management policies have been based on an assumption that the manufactured home collateral would depreciate, rather than appreciate, in value over the life of the loan. Accordingly, its credit standards are based on both the borrowers' capacity to repay the loan as scheduled, and the borrowers' history of satisfying repayment obligations. As a result, CountryPlace management believes the portfolio is less susceptible to defaults due to adjustable interest rate resets and default losses, since house price depreciation has always been considered in determining CountryPlace's allowance for loan losses.

Allowance for loan losses as of March 31, 2010 was \$3.0 million, or approximately 1.6% of the \$184.3 million total consumer loans receivable and construction advances balance. The Company believes this allowance is adequate for expected loan losses, considering the geographic and loan-type concentrations of the portfolio, the age and remaining life of the portfolio, expected overall future credit losses, collection history, and recent delinquency experience by geographic area and type of loan collateral.

Transfers of Financial Assets

CountryPlace completed two securitizations of factory-built housing loan receivables both of which were accounted for as financings, which use the portfolio method of accounting in accordance with the guidance in ASC Topic 310 where (1) loan contracts are securitized and accounted for as borrowings; (2) interest income is recorded over the life of the loans using the interest method; (3) the loan contracts receivable and the securitization debt (asset-backed certificates) remain on CountryPlace's balance sheet; and (4) the related interest margin is reflected in the income statement. The securitizations include provisions for removal of accounts by CountryPlace and other factors that preclude sale accounting of the securitizations under the guidance in ASC Topic 860.

The structure of CountryPlace's securitizations have no effect on the ultimate amount of profit and cash flow recognized over the life of the loan contracts, except to the extent of surety fees and premiums, trustee fees, backup servicer fees, and securitization issuance costs. However, the structure does affect the timing of cash receipts.

CountryPlace services the loan contracts under pooling and servicing agreements with the securitization trusts. CountryPlace also retains interests in subordinate classes of securitization bonds that provide over-collateralization credit enhancement to senior certificate holders and are subject to risk of loss of interest payments and principal. As is common in securitizations, CountryPlace is also liable for customary representations. The Company guarantees certain aspects of CountryPlace's performance as the servicer under the 2005-1 securitization pooling and servicing agreement.

Investment Securities

Management determines the appropriate classification of its investment securities at the time of purchase. The Company's investments include marketable debt and equity securities that are held as available-for-sale. All investments classified as available-for-sale are recorded at fair value with any unrealized gains and losses reported in accumulated other comprehensive income (loss), net of tax if applicable. Realized gains and losses from the sale of securities are determined using the specific identification method.

Management regularly makes an assessment to determine whether a decline in value of an individual security is other-than-temporary. The Company considers the following factors when making its assessment: (1) the Company's ability and intent to hold the investment to maturity, or a period of time sufficient to allow for a recovery in market value; (2) whether it is probable that the Company will be able to collect the amounts contractually due; and (3) whether any decision has been made to dispose of the investment prior to the balance sheet date. Investments on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value with the loss recorded in earnings (losses).

Inventories

Raw materials inventories are valued at the lower of cost (first-in, first-out method) or market. Finished goods are valued at the lower of cost or market, using the specific identification method.

Each quarter the Company assesses the recoverability of its inventory by comparing the carrying amount to its estimated net realizable value. Raw materials consist of home building materials and supplies and turn approximately three times per month. Finished goods consist of homes completed under customer order and homes available for purchase at the Company's retail sales centers. The Company evaluates the recoverability of its finished homes by comparing its inventory cost to its estimated sales price, less costs to sell. The sales price is estimated by product type (HUD code and modular). During fiscal 2010, the Company impaired approximately \$1.9 million of retail finished goods inventories. Management is not aware of any other factors that are reasonably likely to result in valuation adjustments in future periods. These valuations are significantly impacted by estimated average selling prices, average sales rates and product type. The quarterly assessments reflect management's estimates, which management believes are reasonable. However, based on the general economic conditions, future results could differ materially from management's judgments and estimates.

Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation is calculated using the straight-line method over the assets' estimated useful lives. Leasehold improvements are amortized using the straight-line method over the shorter of the lease period or the improvements' useful lives. Estimated useful lives for significant classes of assets are as follows: Land Improvements 10-15 years, Buildings and Improvements 3-30 years, and Machinery and Equipment 2-10 years. The Company had depreciation expense of \$4.8 million, \$5.4 million and \$7.1 million in fiscal 2010, 2009 and 2008, respectively. Repairs and maintenance are expensed as incurred.

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired, the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets, and the net book value of the assets exceeds their estimated fair value. In making these determinations, the Company uses certain assumptions, including, but not limited to: (i) estimated future cash flows expected to be generated by the assets, generally evaluated at the regional level, which are based on additional assumptions such as asset utilization, length of service, and estimated salvage values; and (ii) estimated fair value of the assets, which are generally based on third-party appraisals. Given the difficult business environment in fiscal 2010, indicators of impairment exist with respect to approximately \$25.0 million of long-lived assets in the factory-built housing segment. However, based upon events, circumstances and information available at March 26, 2010, the Company's estimates of undiscounted future cash flows related to these long-lived assets in the normal course of business indicate that such amounts would be recoverable. Nonetheless, it is reasonably possible that estimates of undiscounted cash flows could change in the near term and could result in impairment charges necessary to record the assets at fair value. The Company's estimates of undiscounted future cash flows could change, for example, based upon changes in events, circumstances and information related to the long-lived assets or the factory-built housing segment generally, changes in overall business conditions, or changes resulting from Company realignments responsive to liquidity needs or consumer demand.

The Company recorded no impairment charges in fiscal 2010 and fiscal 2009, and \$0.6 million for fiscal 2008 related to assets held and used. The Company recorded approximately \$0.3 million and \$1.5 million for impairment charges in fiscal 2010 and fiscal 2009, respectively, and none for fiscal 2008 related to its assets held for sale.

Assets held for sale

During fiscal 2008, management committed to sell three manufacturing facilities with a carrying amount of \$7.5 million and determined that the plan of sale criteria contained in ASC Topic 360, "Property, Plant and Equipment" had been met. One of the facilities was sold in fiscal 2010. However, as a result of deteriorating market conditions, the other two properties have not been sold and continue to be classified as held for sale. The

Company continues to actively market these properties and has reduced the selling prices to respond to the current market conditions. During fiscal 2010, management committed to selling two additional facilities with a carrying amount of \$2.3 million.

Impairment losses totaling \$0.3 million and \$1.5 million in fiscal 2010 and fiscal 2009, respectively, were recorded to adjust the carrying value to estimated fair value less costs to sell, which was determined based on third-party appraisals. The carrying value of the facilities that are held for sale is separately presented in the "Assets Held for Sale" caption in the consolidated balance sheets and is reported under the factory-built housing segment.

Goodwill

Goodwill represents the excess of purchase price over net assets acquired. In accordance with guidance in ASC Topic 350, the Company tests goodwill annually for potential impairment by reporting unit as of the first day of its fourth fiscal quarter or more frequently if an event occurred or circumstances changed that indicated the remaining balance of goodwill may not be recoverable. Due to the difficult market environment and the losses incurred during fiscal 2007 and early 2008, the Company, with the assistance of an independent valuation firm, performed an interim goodwill impairment analysis in fiscal 2008 and concluded that the goodwill relating to its factory-built housing reporting unit was impaired. As a result, during the second quarter of fiscal 2008, the Company recorded a non-cash impairment charge of \$78.5 million to fully impair the goodwill related to its factory-built housing segment.

Goodwill totaling \$2.2 million at both March 26, 2010 and March 27, 2009 relates to the Company's minority interest purchase of the remaining 20% of CountryPlace in fiscal 2008 and is included in prepaids and other assets on the Company's consolidated balance sheets.

Warranties

Products are warranted against manufacturing defects for a period of one year commencing at the time of sale to the retail customer. Estimated costs relating to product warranties are provided at the date of sale.

Income taxes

Deferred tax assets and liabilities are determined based on temporary differences between the financial statement amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. To the extent the Company believes it is more likely than not that some portion or all of its deferred tax assets will not be realized prior to expiration, it is required to establish a valuation allowance against that portion of the deferred tax assets. The determination of valuation allowances involves significant management judgments and is based upon the evaluation of both positive and negative evidence, including the Company's best estimates of anticipated taxable profits in the various jurisdictions with which the deferred tax assets are associated. Changes in events or expectations could result in significant adjustments to the valuation allowances and material changes to the Company's provision for income taxes.

In fiscal 2008 the Company recognized in income tax expense a valuation allowance of \$27.6 million against all of its net deferred tax assets which resulted in the Company recording a net income tax provision of approximately \$8.4 million. In fiscal 2009, the Company recorded an additional \$17.0 million valuation allowance against its deferred tax assets generated in fiscal 2009 and an income tax benefit of \$8,000. In fiscal 2010, the Company recorded an additional \$20.2 million valuation allowance against its deferred tax assets generated in fiscal 2010 and income tax expense of \$41,000. The income tax expense related to taxes payable in various states the Company does business. If, after future considerations of positive and negative evidence related to the recoverability of its deferred tax assets, the Company determines a lesser allowance is required, it would record a reduction to income tax expense and the valuation allowance in the period of such determination.

Other Income

Other income totals \$2.9 million, \$2.1 million and \$3.6 million in fiscal 2010, 2009 and 2008, respectively. In fiscal 2010, other income consists of \$1.8 million received from the sale to a third party of a portion of Palm Harbor Insurance Agency's book of business, including rights to future commissions, profit sharing and renewals, \$0.9 million of income earned from mortgage lending and \$0.1 million of interest income earned primarily on cash balances. In fiscal 2009, other income consists of \$0.7 million of interest income earned primarily on cash balances, \$0.7 million of income earned on a real estate investment and \$0.7 million of income earned from mortgage lending. In fiscal 2008, other income consists of \$3.0 million of interest income earned primarily on cash balances, \$0.4 million of income earned from mortgage lending and \$0.3 million of income earned on a real estate investment.

Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) is comprised of unrealized gains and losses on available-for-sale investments and changes in fair value of an interest rate hedge.

New Accounting Pronouncements

The Company adopted new accounting guidance related to its accounting for convertible debt instruments as of March 28, 2009. The adoption impacted the historical accounting of certain senior convertible notes. The Company filed a Current Report on Form 8-K on March 18, 2010 to reflect the retrospective adoption of the new accounting guidance on the fiscal 2009, 2008 and 2007 financial statements.

In accordance with U.S. GAAP, the Company has adopted new fair value measurements guidance as it applies to non-financial assets and liabilities. U.S. GAAP defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. 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. The guidance was applied in the fourth quarter of 2010, in conjunction with a reclassification of two facilities as held for sale, at which time the net carrying value of the facilities were measured at their fair value less costs to sell. It was determined through third-party appraisals that the fair value of one facility was less than the carrying value, and the Company adjusted the value of the facility to its fair value less cost to sell.

In June 2009, the FASB issued guidance to change financial reporting by enterprises involved with variable interest entities (VIEs). The standard replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a VIE with an approach focused on identifying which enterprise has the power to direct the activities of a VIE and the obligation to absorb losses of the entity or the right to receive the entity's residual returns. This accounting standard is effective for fiscal years beginning after November 15, 2009. The Company has evaluated the impact of the adoption of this pronouncement on its consolidated financial statements and has determined the impact of adoption to be immaterial based on its current structures with VIEs.

In June 2009, the FASB issued guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The standard modifies existing guidance by removing the concept of a qualifying special purpose entity (QSPE) and removing the special provisions for guaranteed mortgage securitizations, requiring those securitizations to be treated the same as any other transfer of financial assets. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) and guaranteed mortgage securitizations should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. The standard also limits the unit of account eligible for sale accounting, and clarifies the control and legal isolation criteria to qualify for sale accounting. This accounting standard is effective for fiscal years beginning after November 15, 2009. The Company has evaluated the impact of the adoption of this pronouncement on its consolidated financial statements and has determined the impact of adoption to be immaterial as its securitizations and other financial assets transfers as described in Note 6 are currently consolidated.

2. Inventories

Inventories consist of the following (in thousands):

	March 26, 2010	March 27, 2009
Raw materials	\$ 4,927	\$ 8,198
Work in process	4,085	6,110
Finished goods at factory	1,324	2,934
Finished goods at retail	49,967	79,902
	<u>\$ 60,303</u>	<u>\$ 97,144</u>

Inventories are pledged as collateral with Textron. See Note 5.

3. Investments

The following tables summarize the Company's available-for-sale investment securities as of March 26, 2010 and March 27, 2009 (in thousands):

	March 26, 2010			
	Amortized Cost	Gross		Fair Value
		Unrealized Gains	Unrealized Losses	
U.S. Treasury and Government Agencies	\$ 1,724	\$ 69	\$ -	\$ 1,793
Mortgage-backed securities	5,232	268	(4)	5,496
States and political subdivisions	1,240	17	(7)	1,250
Corporate debt securities	4,455	325	-	4,780
Marketable equity securities	2,674	97	(49)	2,722
Total	\$ 15,325	\$ 776	\$ (60)	\$ 16,041

	March 27, 2009			
	Amortized Cost	Gross		Fair Value
		Unrealized Gains	Unrealized Losses	
Mortgage-backed securities	\$ 7,119	\$ 274	\$ (2)	\$ 7,391
States and political subdivisions	991	16	-	1,007
Corporate debt securities	5,612	27	(128)	5,511
Marketable equity securities	4,355	20	(1,109)	3,266
Total	\$ 18,077	\$ 337	\$ (1,239)	\$ 17,175

The following table shows 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 at March 26, 2010 (in thousands):

	Less than 12 months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage backed securities	\$ 485	\$ (4)	\$ -	\$ -	\$ 485	\$ (4)
State and political subdivisions	533	(7)	-	-	533	(7)
Marketable equity securities	665	(43)	116	(6)	781	(49)
Total	\$ 1,683	\$ (54)	\$ 116	\$ (6)	\$ 1,799	\$ (60)

The following table shows 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 at March 27, 2009 (in thousands):

	Less than 12 months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$ 509	\$ (2)	\$ -	\$ -	\$ 509	\$ (2)
Corporate debt securities	3,830	(128)	-	-	3,830	(128)
Marketable equity securities	1,611	(1,109)	-	-	1,611	(1,109)
Total	\$ 5,950	\$ (1,239)	\$ -	\$ -	\$ 5,950	\$ (1,239)

During fiscal 2010, thirty of the Company's available-for-sale equity securities with a total carrying value of \$0.8 million were determined to be other-than-temporarily impaired and a realized loss of \$0.2 million was recorded in the Company's consolidated statements of operations. During fiscal 2009, fifteen of the Company's available-for-sale equity securities with a total carrying value of \$0.9 million were determined to be other-than-temporarily impaired and a realized loss of \$0.5 million was recorded in the Company's consolidated statements of operations.

The Company's investments in marketable equity securities consist of investments in common stock of bank trust and insurance companies and public utility companies (\$1.4 million of the total fair value and \$4,000 of the total unrealized losses) and industrial companies (\$1.3 million of the total fair value and \$45,000 of the total unrealized losses). The Company has seen increases in the market value of its stock portfolio during fiscal 2010, consistent with improvements seen in the overall stock market. Based on the improvements in the stock market and 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 investment to be other-than-temporarily impaired at March 26, 2010.

The amortized cost and fair value of the Company's investment securities at March 26, 2010, 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.

	Amortized Cost	Fair Value
Due in less than one year	\$ 973	\$ 1,001
Due after one year through five years	7,413	7,870
Due after five years	4,265	4,448
Marketable equity securities	2,674	2,722
Total investment securities available-for-sale	<u>\$ 15,325</u>	<u>\$ 16,041</u>

Gross gains realized on the sales of investment securities for fiscal years 2010, 2009 and 2008 were approximately \$0.5 million, \$0.4 million and \$0.9 million, respectively. Gross losses were approximately \$0.6 million, \$0.7 million and \$0.3 million for fiscal years 2010, 2009 and 2008, respectively.

4. Consumer loans receivable and allowance for loan losses

Consumer loans receivable, net of allowance for loan losses, consist of the following (in thousands):

	March 31, 2010	March 31, 2009
Consumer loans receivable held for investment	\$ 179,549	\$ 198,169
Consumer loans receivable held for sale	558	1,148
Construction advances on non-conforming mortgages	4,148	3,638
Deferred financing costs, net	(5,096)	(5,558)
Allowance for loan losses	(3,016)	(5,800)
Consumer loans receivable, net	<u>\$ 176,143</u>	<u>\$ 191,597</u>

The allowance for loan losses and related additions and deductions to the allowance are as follows (in thousands):

	March 31, 2010	March 31, 2009	March 31, 2008
Allowance for loan losses, beginning of period	\$ 5,800	\$ 8,975	\$ 7,739
Provision for credit losses	2,942	2,862	3,572
Loans charged off, net of recoveries	(5,726)	(4,396)	(2,336)
Reduction of reserve due to loan sale	-	(1,641)	-
Allowance for loan losses, end of period	<u>\$ 3,016</u>	<u>\$ 5,800</u>	<u>\$ 8,975</u>

CountryPlace's policy is to place loans on nonaccrual status when either principal or interest is past due and remains unpaid for 120 days or more. In addition, they place loans on nonaccrual status 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 accounted for on a cash basis, first to interest and then to principal. Upon determining that a nonaccrual loan is impaired, interest accrued and the uncollected receivable prior to identification of nonaccrual status is charged to the allowance for loan losses. At March 31, 2010, CountryPlace's management was not aware of any potential problem loans that would have a material effect on loan delinquency or charge-offs. Loans are subject to continual review and are given management's attention whenever a problem situation appears to be developing. The following table sets forth the amounts and categories of CountryPlace's non-performing loans and assets as of March 31, 2010 and March 31, 2009 (dollars in thousands):

	March 31, 2010	March 31, 2009
Non-performing loans:		
Loans accounted for on a nonaccrual basis ⁽¹⁾	\$ 1,219	\$ 2,574
Accruing loans past due 90 days or more	594	390
Total nonaccrual and 90 days past due loans	1,813	2,964
Percentage of total loans	1.01%	1.49%
Other non-performing assets ⁽²⁾	1,566	2,048
Troubled debt restructurings	1,268	303

⁽¹⁾ As of March 31, 2010 CountryPlace identified \$2.4 million of loans in nonaccrual status for which foreclosure is probable. Accordingly, the Company reduced the loans receivable balance and the allowance for loan losses by \$1.2 million to reflect the difference between the unpaid balance and the estimated fair market value of the related loans receivable. At March 31, 2009 loans in accounted for on a nonaccrual basis were reflected at the unpaid balance of \$2.6 million.

⁽²⁾ Consists of land and homes acquired through foreclosure, which are carried at the lower of carrying value or fair value less estimated selling expenses.

During fiscal 2010, CountryPlace modified loans to retain borrowers with good payment history. These modifications were considered to represent credit concessions due to borrowers' loss of income and other repayment matters impacting these borrowers. For the years ended March 31, 2010 and March 31, 2009, CountryPlace modified the payments or rates for approximately \$1.6 million and \$0.1 million, respectively. These loans are not reflected as non-performing loans but as troubled debt restructurings. As of March 31, 2010, the allowance for loan losses totaled \$3.0 million.

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. CountryPlace has loan contracts secured by factory-built homes located in the following key states as of March 31, 2010 and March 31, 2009:

	March 31, 2010	March 31, 2009
Texas	43.2%	42.6%
Arizona	6.3	6.3
Florida	6.6	7.1
California	2.1	2.2

The states of California, Florida and Arizona, and to a lesser degree Texas, have experienced economic weakness resulting from the decline in real estate values. The risks created by these concentrations have been considered by CountryPlace's management in the determination of the adequacy of the allowance for loan losses. No other states had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of March 31, 2010 or March 31, 2009. Management believes the allowance for loan losses is adequate to cover estimated losses at March 31, 2010.

5. Floor plan payable

The Company has an agreement with Textron Financial Corporation for a floor plan facility. The advance rate for the facility is 90% of manufacturer's invoice. This facility is used to finance a portion of the new home inventory at the Company's retail sales centers and is secured by the assets of the Company, excluding CountryPlace assets. During the third quarter of fiscal 2009, Textron announced that they wanted to perform an orderly liquidation of certain of their commercial finance businesses, including their housing inventory finance business.

As of December 25, 2009, the Company was required to reduce the outstanding borrowings under the Textron facility to \$40 million by December 31, 2009. However, on December 29, 2009, the Company and Textron agreed to an amendment to delay the requirement to reduce outstanding borrowings to \$40 million until January 31, 2010. Additionally, certain other covenant and condition modifications to the agreement were made at the time. On January 27, 2010, Textron and the Company agreed to a further amendment that included, among other things, the following modifications:

- Extends the maturity date from June 30, 2010 to the earlier of June 30, 2012 or one month prior to the date of the first repurchase option for the holder of the Company's convertible senior notes;
- Alters the maximum credit line to \$45 million for the fourth quarter of fiscal 2010, \$43 million for the first quarter of fiscal 2011, \$38 million for the second quarter of fiscal 2011, \$32 million for the third quarter of fiscal 2011, \$28 million for the fourth quarter of fiscal 2011 and \$25 million thereafter;
- Provides for a maximum loan-to-collateral coverage ratio of 65% through the first quarter of fiscal 2011, 62% for the second quarter of fiscal 2011 and 60% for all quarters thereafter;
- Allows for an increased percentage of eligible inventory to be borrowed subject to the total credit line at the lender's discretion;
- Pledges 100% of the Company's equity in Standard Casualty Company to Textron; and
- Alters financial covenants as follows:
 - Maximum quarterly net loss before taxes and restructuring charges - \$15 million through the second quarter of fiscal 2011, \$10 million for the third and fourth quarters of fiscal 2011 and \$1 million of net income for all quarters thereafter;
 - Eliminates the borrowing base requirement in its entirety effective December 29, 2009.

As of March 26, 2010, the Company was required to comply with a minimum inventory turn of not less than 2.75:1, and a maximum quarterly net loss (before taxes and restructuring charges) not to exceed \$15 million, as defined by the agreement. The Company was in compliance with these financial covenants as of March 26, 2010 and believes that covenant requirements under the amended Textron facility are achievable for the foreseeable future. However, in light of current market conditions, and because covenant compliance is dependent upon a number of factors, including prevailing economic and financial conditions and other factors beyond the Company's control, no assurances can be given in this regard. Textron could also declare a loan violation due to a material adverse change, as defined in the agreement. Should a covenant violation occur, the Company would seek a waiver from Textron and consider any other available remedies. However, no assurances can be made that Textron would provide the Company with a waiver or that the Company will otherwise have available remedies and, if a loan violation were to occur and not be waived or remedied in accordance with the terms of the floor plan facility, Textron could declare an event of default and demand that the full amount of the facility be paid in full prior to maturity. Such a demand would result in, among other things, a cross default on the Company's convertible senior notes described in Note 6.

Additionally, as of March 26, 2010, the Company had a loan-to-collateral coverage ratio of 82% which exceeded the maximum requirement of 65% and resulted in its having an increased percentage of eligible inventory borrowed subject to the total credit line by \$8.9 million. While Textron could demand that the entire \$8.9 million be repaid immediately, Textron has approved the coverage ratio to be out of formula and in connection with that waiver, reset the total credit line from \$43 million to \$38 million effective May 18, 2010.

The Company's liability under this credit facility was \$42.2 million as of March 26, 2010.

6. Debt obligations

Debt obligations consist of the following (in thousands):

	March 26, 2010	March 27, 2009
Convertible senior notes, net	\$ 50,486	\$ 47,940
Securitized financing 2005-1	60,031	68,413
Securitized financing 2007-1	62,463	71,870
Virgo debt, net	18,518	-
Construction lending line	3,890	3,589
	<u>\$ 195,388</u>	<u>\$ 191,812</u>

In fiscal 2005, the Company issued \$75.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2024 (the Notes) in a private, unregistered offering. Interest on the Notes is payable semi-annually in May and November. The Notes are senior, unsecured obligations and rank equal in right of payment to all of the Company's existing and future unsecured and senior indebtedness. The note holders may require the Company to repurchase all or a portion of their notes for cash on May 15, 2011, May 15, 2014 and May 15, 2019 at a repurchase price equal to 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest, if any. Each \$1,000 in principal amount of the Notes is convertible, at the option of the holder, at a conversion price of \$25.92, or 38.5803 shares of the Company's common stock upon the satisfaction

of certain conditions and contingencies. For fiscal years 2010, 2009 and 2008, the effect of converting the senior notes to 2.1 million, 2.1 million and 2.9 million shares of common stock, respectively, was anti-dilutive, and was, therefore, not considered in determining diluted earnings per share. During fiscal 2009, the Company repurchased \$21.2 million principal amount of the Notes, which had a book value of \$18.3 million net of debt discount, for \$10.6 million in cash, resulting in a gain of \$7.7 million. The Company did not repurchase any Notes during fiscal 2010.

The liability component related to the convertible senior notes is being amortized through May, 2011 and is reflected in the condensed consolidated balance sheets as of March 26, 2010 and March 27, 2009 as follows (in thousands):

	March 26, 2010	March 27, 2009
Principal amount of the liability component	\$ 53,845	\$ 53,845
Unamortized debt discount	(3,359)	(5,905)
Convertible senior notes, net	<u>\$ 50,486</u>	<u>\$ 47,940</u>

Interest expense for fiscal 2010 and 2009 totaled \$4.5 million and \$5.0 million, respectively, of which \$2.5 million and \$2.8 million, respectively, represented amortization of the debt discount at an effective interest rate of 9.11%.

On July 12, 2005, the Company, through its subsidiary 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%. Maturity of the bonds is at varying dates beginning in 2006 through 2015 and were issued with an expected weighted average maturity of 4.66 years. The proceeds from the securitization were used to repay approximately \$115.7 million of borrowings on the Company's warehouse revolving debt with the remaining proceeds being used for general corporate purposes, including future origination of new loans. For accounting purposes, this transaction was structured as a securitized borrowing. CountryPlace's servicing obligation under this securitized financing is guaranteed by the Company.

On March 22, 2007, the Company, through its subsidiary 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%. Maturity of the bonds is at varying dates beginning in 2008 through 2017 and were issued with an expected weighted average maturity of 4.86 years. The proceeds from the securitization were used to repay approximately \$97.1 million of borrowings on the Company's warehouse revolving debt with the remaining proceeds being used for general corporate purposes, including future origination of new loans. For accounting purposes, this transaction was also structured as a securitized borrowing.

Upon completion of the 2007-1 securitization, CountryPlace extinguished its interest rate swap agreement on its variable rate debt which was used to hedge against an increase in variable interest rates. Upon extinguishment of the hedge, CountryPlace recorded a loss of \$1.0 million, net of tax, for the change in fair value to other comprehensive income (loss), which is amortized to interest expense over the life of the loans.

On January 29, 2010, the Company, through its subsidiary CountryPlace, entered into an agreement for a \$20 million secured term loan from entities managed by Virgo Investment Group LLC. The agreement provides an option for CountryPlace to exercise a subsequent commitment to borrow an additional \$5.0 million, which expires on August 1, 2010. Currently, the Company does not expect CountryPlace to exercise the secondary commitment. The facility has a maturity date of January 29, 2014 and bears interest at an annual rate of the Eurodollar Rate plus 12%. The Eurodollar Rate cannot be less than 3.0% nor greater than 4.5%. The proceeds will be used by CountryPlace to repay the intercompany indebtedness to the Company and the Company expects to use the proceeds for working capital and general corporate purposes.

The agreement also contains financial covenants that CountryPlace must comply with. CountryPlace shall not incur capital expenditures exceeding \$300K in any fiscal year; and the maximum amount of the Virgo loan divided by the value of the collateral securing the loan shall not exceed the ratios below for more than three consecutive months during the applicable periods:

Time Period	Maximum Loan-to-Value Ratio
Twelve Months Ended 2/1/2011	0.36:1
Twelve Months Ended 2/1/2012	0.35:1
Twelve Months Ended 2/1/2013	0.34:1
Twelve Months Ended 2/1/2014	0.33:1

For the year ended March 31, 2010, CountryPlace was in compliance with the financial covenants with a loan-to-value ratio of 0.34:1.

As a precedent to Virgo making the loan, the parties also agreed to create a special purpose vehicle (SPV) to hold certain mortgage loans as collateral. Under the agreement, CountryPlace transferred its right, title, and interest to certain manufactured housing installment sales contracts and mortgages, along with certain related property, to a newly created subsidiary, CountryPlace Mortgage Holdings, LLC ("Mortgage SPV"). The transferred sales contracts and mortgages consist of \$39.4 million of the overcollateralization on the 2005-1 and 2007-1 securitizations (Class X and R certificates), and \$19.8 million of certain other mortgage loans held for investment that were not previously securitized.

The Mortgage SPV is consolidated on the Company's financial statements as CountryPlace will continue to service the mortgage loans and collect the related service fee and residual income even after the termination of the loan facility, is obligated to repurchase or substitute contracts that materially adversely affect the Mortgage SPV's interest, and will be solely liable for losses incurred by the Mortgage SPV.

As partial consideration for the loan with Virgo, the Company issued warrants to purchase up to an aggregate of 1,296,634 shares of the Company's common stock at a purchase price of \$2.1594 per share. These warrants contain an anti-dilution provision that prevents the warrant holder's fully-diluted percentage interest in the Company from being diluted in the event that any convertible securities of the Company are converted into other securities of the Company. The warrants also contain an anti-dilution provision that prevents the warrant holder from having its percentage ownership in the Company diminished by more than 10% in the event that the Company issues additional securities, subject to certain exceptions. These anti-dilution provisions expire four years after the issuance of the warrants.

On April 27, 2009, the Company issued warrants to each of Capital Southwest Venture Corporation, Sally Posey and the Estate of Lee Posey (collectively, the lenders) to purchase up to an aggregate of 429,939 shares of common stock of the Company at a price of \$3.14 per share, which was the closing price of the Company's common stock on April 24, 2009. The Black-Scholes-Merton method was used to value the warrants, which resulted in the Company recording \$0.8 million in non-cash interest expense in the first quarter of fiscal 2010. The warrants were granted in connection with a loan made by the lenders to the Company of an aggregate of \$4.5 million pursuant to senior subordinated secured promissory notes between the Company and each of the lenders (collectively, the Promissory Notes). The proceeds were used for working capital purposes. The Promissory Notes were repaid in full on June 29, 2009. The warrants, which expire on April 24, 2019, contain anti-dilution provisions and other customary provisions. The Promissory Notes bore interest at the rate of LIBOR plus 2.0% and were secured by 150,000 shares of Standard's common stock, which was later released upon repayment of the Promissory Notes.

Scheduled maturities of the Company's debt obligations consist of the following (in thousands):

Fiscal Year	Amount
2011	\$ 19,155
2012	14,150
2013	12,071
2014	23,570
2015	7,921

7. Accrued liabilities

Accrued liabilities consist of the following (in thousands):

	March 26, 2010	March 27, 2009
Salaries, wages and benefits	\$ 9,163	\$ 10,949
Accrued expenses on homes sold	3,434	3,693
Customer deposits	7,974	6,060
Deferred revenue	3,017	5,108
Warranty	1,593	2,972
Sales incentives	1,428	2,322
Insurance reserves	3,010	3,008
Taxes	2,918	3,061
Other	7,450	8,709
	<u>\$ 39,987</u>	<u>\$ 45,882</u>

8. Income taxes

Deferred tax assets and liabilities are determined based on temporary differences between the financial statement amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. To the extent the Company believes it is more likely than not that some portion or all of its deferred tax assets will not be realized prior to expiration, it is required to establish a valuation allowance against that portion of the deferred tax assets. The determination of valuation allowances involves significant management judgments and is based upon the evaluation of both positive and negative evidence, including the Company's best estimates of anticipated taxable profits in the various jurisdictions with which the deferred tax assets are associated. Changes in events or expectations could result in significant adjustments to the valuation allowances and material changes to the Company's provision for income taxes.

In fiscal 2008, the Company recognized in income tax expense a valuation allowance of \$27.6 million against all of its net deferred tax assets which resulted in the Company recording a net income tax provision of approximately \$8.4 million. In fiscal 2009, the Company recorded an additional \$17.0 million valuation allowance against its deferred tax assets generated in fiscal 2009 and an income tax benefit of \$8,000. In fiscal 2010, the Company recorded an additional \$20.2 million valuation allowance against its deferred tax assets generated in fiscal 2010 and income tax expense of \$41,000. The income tax expense related to taxes payable in various states the Company does business. If, after future considerations of positive and negative evidence related to the recoverability of its deferred tax assets, the Company determines a lesser allowance is required, it would record a reduction to income tax expense and the valuation allowance in the period of such determination.

Income tax benefit (expense) for fiscal years 2010, 2009 and 2008 is as follows (in thousands):

	March 26, 2010	March 27, 2009	March 28, 2008
Current			
Federal	\$ -	\$ -	\$ -
State	(281)	(70)	(1,095)
Deferred	240	78	(7,314)
Total income tax benefit (expense)	<u>\$ (41)</u>	<u>\$ 8</u>	<u>\$ (8,409)</u>

Significant components of deferred tax assets and liabilities are as follows (in thousands):

	March 26, 2010	March 27, 2009
Deferred tax assets		
Accrued liabilities	\$ 3,164	\$ 3,887
Inventory	1,941	1,567
Property and equipment	2,777	7,182
State net operating loss carryforward	11,488	8,800
Federal net operating loss carryforward	46,547	22,476
Other	2,651	2,774
Gross deferred tax assets	<u>\$ 68,568</u>	<u>\$ 46,686</u>
Valuation allowance	(64,805)	(44,637)
Total deferred tax assets	<u>3,763</u>	<u>2,049</u>
Deferred tax liabilities		
Other	(3,763)	(2,049)
Total deferred tax liabilities	<u>(3,763)</u>	<u>(2,049)</u>
Net deferred income tax assets	<u>\$ -</u>	<u>\$ -</u>

As of March 26, 2010, the Company has federal net operating loss carryforwards of approximately \$133.0 million available to offset future federal income tax and which expire between 2027 and 2030. In addition, the Company has state net operating loss carryforwards of approximately \$180.8 million available to offset future state income tax and which expire between 2010 and 2029.

The effective income tax rate on pretax earnings differed from the U.S. federal statutory rate for the following reasons (in thousands):

	March 26, 2010	March 27, 2009	March 28, 2008
Tax at statutory rate	\$ 17,882	\$ 11,201	\$ 39,750
(Increases) decreases:			
Goodwill impairment	-	-	(21,909)
Valuation allowance	(17,499)	(11,099)	(26,740)
State taxes - net of federal tax benefit	(282)	(71)	729
Tax exempt interest	10	84	103
Other	(152)	(107)	(342)
Income tax benefit (expense)	(41)	8	(8,409)
Effective tax rate	(0.08)%	0.03%	(7.40)%

9. Shareholders' equity

The Board of Directors may, without further action by the Company's shareholders, from time to time, authorize the issuance of shares of preferred stock in series and may, at the time of issuance, determine the powers, rights, preferences and limitations, including the dividend rate, conversion rights, voting rights, redemption price and liquidation preference, and the number of shares to be included in any such series. Any preferred stock so issued may rank senior to the common stock with respect to the payment of dividends or amounts upon liquidation, dissolution or winding up, or both. In addition, any such shares of preferred stock may have class or series voting rights.

10. Employee plan

The Company sponsors an employee savings plan (the "401k Plan") that is intended to provide participating employees with additional income upon retirement. Employees may contribute between 1% and 18% of eligible compensation to the 401k Plan. Effective January 1, 2010, the Company discontinued its 25% match of the first 6% deferred by employees. Employees are immediately eligible to participate and employer contributions, which begin one year after employment, are vested at the rate of 20% per year and are fully vested after five years of employment. Contribution expense was \$0.4 million, \$0.8 million and \$1.0 million in fiscal years 2010, 2009 and 2008, respectively.

11. Stock Incentive Plan

Effective July 22, 2009, the Palm Harbor Homes, Inc. 2009 Stock Incentive Plan (the "Plan") was adopted. The Plan allows for the issuance of up to 1,844,000 shares of common stock to the Company's employees and outside directors in the form of non-statutory stock options, incentive stock options and restricted stock awards. During the second quarter of fiscal 2010, the Company granted options for 1,217,040 shares at an exercise price equal to the market price of the Company's common stock as of the date of grant or \$3.02 per share. Such options have a 10 year term and vest over five years of service. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Plan).

The fair value of each option award is estimated on the date of grant using a Black-Scholes-Merton option valuation model that assumed an expected volatility of 65%, an expected term of 6.5 years, zero dividend payments, and a risk-free rate of 3%.

Expected volatilities are based on historical, implied, and expected volatilities from the Company and other comparable entities. The expected term of options granted is derived from the simplified method given the Company has not historically granted stock options. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The grant-date fair value of options granted during the second quarter was \$1.81 per share. As of March 26, 2010, there was approximately \$2.0 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over 5 years. The outstanding stock options were not included in the calculation of dilutive EPS because to do so would be anti-dilutive.

12. Commitments and contingencies

Future minimum lease payments for all noncancelable operating leases having a remaining term in excess of one year at March 26, 2010, are as follows (in thousands):

Fiscal Year	Amount
2011	\$ 4,233
2012	2,537
2013	2,170
2014	1,762
2015	935
2016 and thereafter	3,528

Rent expense (net of sublease income) was \$8.0 million, \$8.1 million and \$9.8 million for fiscal years 2010, 2009 and 2008, respectively.

The Company is contingently liable under the terms of repurchase agreements covering independent dealers', builders' and developers' floor plan financing. Under such agreements, the Company agrees to repurchase homes at declining prices over the term of the agreement, generally 12 to 18 months. At March 26, 2010, the Company estimates that its potential obligations under all repurchase agreements were approximately \$3.0 million. However, it is management's opinion that no material loss will occur from the repurchase agreements. During fiscal years 2010, 2009 and 2008, the Company did not incur any significant losses under these repurchase agreements.

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Company.

13. Sale-leaseback transactions

During the fourth quarter of fiscal 2010, the Company completed a sale leaseback transaction where it sold two retail sales center properties for \$0.9 million in cash. The transaction resulted in a \$0.3 million gain which will be amortized over the term of the lease. Concurrent with the sale, the Company leased the properties back for a period of ten years at an aggregate rental of \$0.1 million plus escalation under certain circumstances. The lease is renewable at the Company's option for an additional five years.

During the fourth quarter of fiscal 2009, the Company completed two sale leaseback transactions (one transaction was with two members of senior management of the Company who are related parties) where it sold in total 13 retail sales center properties for \$6.5 million in cash. One transaction (the related party transaction) resulted in a \$0.7 million gain which will be amortized over the term of the lease and the other transaction resulted in a \$0.5 million loss which was recorded in selling, general and administrative expenses in the Company's consolidated statement of operations. Concurrent with the sale, the Company leased the properties back for a period of ten years at an aggregate annual rental of \$0.6 million plus escalation under certain circumstances. The lease is renewable at the Company's option for an additional five years.

The Company does not have continuing involvement in the properties other than through a normal leaseback. The future minimum lease payments under the terms of the related lease agreements are disclosed in Note 12.

14. Losses from natural disaster

During the third quarter of fiscal 2007, the Company's Burleson, Texas manufacturing facility was destroyed by fire. The Company had business interruption and general liability insurance that covered the losses. During fiscal 2007, the Company received \$2.0 million in recoveries and recorded \$2.5 million in losses. During fiscal 2008, the Company received recoveries totaling \$4.3 million and recorded \$0.5 million in losses. Final settlement of the claim occurred in fiscal 2008 resulting in a gain of \$3.3 million which is included as a reduction of cost of sales in the consolidated statements of operations.

15. Restructuring charges

In order to more effectively align its manufacturing capacity and distribution channels with current and expected regional demand, the Company closed its Albemarle, North Carolina manufacturing facility and 23 under-performing retail sales centers during the fourth quarter of fiscal 2010. In connection with these actions, the Company recorded restructuring charges totaling \$9.2 million. Of this \$9.2 million, approximately \$4.8 million was recorded in cost of sales and primarily related to the quick selling of retail inventories at reduced margins at the locations that were closing and \$4.4 million was recorded in selling, general and administrative expenses and primarily related to sales centers and plants closing costs as well as expenses for legal and financial consultants. No significant additional charges are expected to be incurred in connection with this restructuring.

During the fourth quarter of fiscal 2008, the Company closed its Sabina, Ohio, Casa Grande, Arizona and one of its Plant City, Florida manufacturing facilities as well as 18 under-performing retail sales centers. The Company recorded restructuring charges totaling \$8.3 million primarily related to facility closure costs. Of this \$8.3 million, approximately \$2.9 million is included in cost of sales and \$5.4 million is included in selling, general and administrative expenses on the Company's statement of operations.

Also, as part of these restructurings, the Company listed two of its manufacturing facilities for sale in fiscal 2010 and three of its manufacturing facilities for sale in fiscal 2008. The Company sold one of these facilities in the first quarter of fiscal 2010 and continues to try to sell the other four. The carrying value of these facilities is included in assets held for sale on the consolidated balance sheets.

16. Fair value of financial instruments

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

	March 26, 2010		March 27, 2009	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Cash and cash equivalents ⁽¹⁾	\$ 26,705	\$ 26,705	\$ 12,374	\$ 12,374
Restricted cash ⁽¹⁾	16,330	16,330	17,771	17,771
Investments ⁽²⁾	16,041	16,041	17,175	17,175
Consumer loans receivables ⁽³⁾	180,107	175,934	199,317	193,029
Floor plan payable ⁽¹⁾	42,249	42,249	49,401	49,401
Construction lending line ⁽¹⁾	3,890	3,890	3,589	3,589
Convertible senior notes ⁽²⁾	50,486	36,076	47,940	13,461
Securitized financings ⁽⁴⁾	122,494	120,019	140,283	108,972
Virgo debt ⁽⁵⁾	18,518	18,213	-	-

(1) The fair value approximates book value due to the instruments' short term maturity.

(2) The fair value is based on market prices.

(3) Includes consumer loans receivable held for investment and held for sale. 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 approximates book value since the sales price of these loans is known as of March 31, 2010.

(4) For fiscal 2009, the fair value is estimated using quoted market prices for similar securities, and for fiscal 2010, fair value is estimated using recent asset backed and commercial real estate securities.

(5) The fair value is estimated based on the remaining cash flows discounted at the implied yield when the transaction was closed.

In accordance with guidance in ASC Topic 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 Topic 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 had no level 3 securities at the end of 2010 or during the year then ended).

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.

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

	As of March 26, 2010			
	Total	Level 1	Level 2	Level 3
Securities issued by the U.S. Treasury and Government Agencies ⁽¹⁾	\$ 1,793	\$ -	\$ 1,793	\$ -
Mortgage-backed securities ⁽¹⁾	5,496	-	5,496	-
Securities issued by states and political subdivisions ⁽¹⁾	1,249	-	1,249	-
Corporate debt securities ⁽¹⁾	4,780	-	4,780	-
Marketable equity securities ⁽¹⁾	2,722	2,722	-	-
Other non-performing assets ⁽²⁾	1,566	-	1,566	-

⁽¹⁾ Unrealized gains or losses on investments are recorded in accumulated other comprehensive loss at each measurement date.

⁽²⁾ Consists of land and homes acquired through foreclosure.

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

	As of March 26, 2010				Total Gains (Losses)
	Total	Level 1	Level 2	Level 3	
Long-lived assets held for sale ⁽¹⁾	\$ 651	\$ -	\$ 651	\$ -	\$ (290)

⁽¹⁾ Long-lived assets held for sale with a carrying amount of \$0.9 million were written down to their fair value of \$0.7 million, resulting in a loss of \$0.3 million, which was included in operating results for the period.

17. Business segment information

The Company operates principally in two segments: 1) factory-built housing, which includes manufactured housing, modular housing and retail operations and 2) financial services, which includes finance and insurance. The following table details net sales, income (loss) from operations, identifiable assets, depreciation and amortization expense and capital expenditures by segment for fiscal 2010, 2009 and 2008 (in thousands):

	Year Ended		
	March 26, 2010	March 27, 2009	March 28, 2008
Net Sales			
Factory-built housing	\$ 262,432	\$ 371,265	\$ 511,577
Financial services	35,939	38,009	43,519
	<u>\$ 298,371</u>	<u>\$ 409,274</u>	<u>\$ 555,096</u>
Net Sales for financial services consists of:			
Insurance	15,961	15,606	17,180
Finance	19,978	22,403	26,339
	<u>\$ 35,939</u>	<u>\$ 38,009</u>	<u>\$ 43,519</u>
Income (loss) from operations			
Factory-built housing	\$ (31,005)	\$ (24,171)	\$ (95,089) ⁽¹⁾
Financial services	16,321	17,753	21,638
General corporate expenses	(21,818)	(17,138)	(21,892)
	<u>\$ (36,502)</u>	<u>\$ (23,556)</u>	<u>\$ (95,343)</u>
Interest expense	\$ (17,533)	\$ (18,265)	\$ (21,853)
Gain on repurchase of convertible senior notes	-	7,723	-
Other income	2,944	2,095	3,625
Loss before income taxes	<u>\$ (51,091)</u>	<u>\$ (32,003)</u>	<u>\$ (113,571)</u>
Identifiable assets			
Factory-built housing	\$ 81,141	\$ 125,333	\$ 159,383
Financial services	270,221	255,623	317,239
Other	6,391	30,726	88,278
	<u>\$ 357,753</u>	<u>\$ 411,682</u>	<u>\$ 564,900</u>
Depreciation and amortization			
Factory-built housing	\$ 4,071	\$ 4,841	\$ 6,433
Financial services	543	280	804
Other	1,033	807	893
	<u>\$ 5,647</u>	<u>\$ 5,928</u>	<u>\$ 8,130</u>
Capital expenditures, net of proceeds from disposition			
Factory-built housing	\$ (963)	\$ (651)	\$ 1,203
Financial services	65	84	123
	<u>\$ (898)</u>	<u>\$ (567)</u>	<u>\$ 1,326</u>

(1) Includes \$78.5 million of goodwill impairment charges.

18. Acquisition

On February 15, 2008, the Company entered into an agreement with CountryPlace's minority interest holders (related parties to the Company) in which the Company purchased the remaining 20% of CountryPlace. In accordance with the agreement, the Company paid the minority interest holders \$1.8 million on February 15 and issued a promissory note to pay \$1.8 million plus interest (LIBOR plus 1.25%) on June 30, 2008 in exchange for 500,000 shares of CountryPlace Common Stock, \$1 par value. Additionally, as an inducement to each minority interest holder to remain in his management capacity with CountryPlace, the Company issued to each minority interest holder who was in the employ of CountryPlace on February 10, 2010, 52,424 shares of the Company's Common Stock. The minority interest acquisition was accounted for using purchase accounting and resulted in goodwill of \$2.2 million. The common stock transaction will be recorded as compensation expense over the service period and is included in selling, general and administrative expenses on the Company's consolidated statements of operations.

19. Accrued product warranty obligations

The Company provides the retail homebuyer a one-year limited warranty covering defects in material or workmanship in home structure, plumbing and electrical systems. The amount of warranty reserves recorded are estimated future warranty costs relating to homes sold, based upon the Company's assessment of historical experience factors, such as actual number of warranty calls and the average cost per warranty call.

Accrued product warranty obligations are classified as accrued liabilities in the consolidated balance sheets. The following table summarizes the accrued product warranty obligations at March 26, 2010, March 27, 2009 and March 28, 2008 (in thousands).

	Year Ended		
	March 26, 2010	March 27, 2009	March 28, 2008
Accrued warranty balance, beginning of period	\$ 2,972	\$ 5,425	\$ 5,922
Net warranty expense provided	4,994	7,736	20,178
Cash warranty payments	(6,373)	(10,189)	(20,675)
Accrued warranty balance, end of period	<u>\$ 1,593</u>	<u>\$ 2,972</u>	<u>\$ 5,425</u>

20. Related party transactions

During the fourth quarter of fiscal 2009, the Company completed a sale leaseback transaction with a partnership which included two members of senior management of the Company. See note 13 for further details of the transaction.

On April 27, 2009, the Company issued warrants to each of Capital Southwest Corporation, Sally Posey and the Estate of Lee Posey, all of which are related parties to the Company. The warrants were granted in connection with a loan made by these related parties to the Company. See Note 6 for further details of the transaction.

The Company did not have any other significant related party transactions in fiscal 2010, 2009 or 2008.

21. Quarterly financial data (unaudited)

The following table sets forth certain unaudited quarterly financial information for the fiscal years 2010 and 2009.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (1)	Total
<i>(in thousands, except per share data)</i>					
Fiscal Year Ended					
March 26, 2010					
Net sales	\$ 82,421	\$ 74,797	\$ 71,802	\$ 69,351	\$ 298,371
Gross profit	19,324	18,013	16,821	9,549	63,707
Loss from operations	(5,054)	(6,644)	(7,298)	(17,506)	(36,502)
Net loss	(9,978)	(10,396)	(9,178)	(21,580)	(51,132)
Loss per share - basic and diluted	\$ (0.44)	\$ (0.45)	\$ (0.40)	\$ (0.94)	\$ (2.23)
Fiscal Year Ended					
March 27, 2009					
Net sales	\$ 130,021	\$ 110,716	\$ 89,642	\$ 78,895	\$ 409,274
Gross profit	31,957	26,635	19,045	19,209	96,846
Income (loss) from operations	778	(4,449)	(10,278)	(9,607)	(23,556)
Net loss	(541)	(7,805)	(13,735)	(9,914)	(31,995)
Loss per share - basic and diluted	\$ (0.02)	\$ (0.34)	\$ (0.60)	\$ (0.43)	\$ (1.40)

- (1) Includes restructuring charges totaling \$9.2 million in the fourth quarter of fiscal 2010 and \$8.3 million in the fourth quarter of fiscal 2009. Of the \$9.2 million in fiscal 2010, approximately \$4.8 million was recorded as a reduction in gross profit and \$4.4 million was recorded in selling, general and administrative expenses. Of the \$8.3 million in fiscal 2009, \$2.9 million was recorded as a reduction in gross profit and \$5.4 million was recorded in selling, general and administrative expenses.

UNAUDITED INTERIM FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED

The unaudited consolidated condensed balance sheet of Palm Harbor Homes, Inc., a Florida corporation, and its subsidiaries as of December 24, 2010 and the unaudited consolidated condensed statements of operations, stockholders' equity and cash flows for the nine months ended December 24, 2010 and December 25, 2009 and the notes related thereto.

PALM HARBOR HOMES, INC. AND SUBSIDIARIES
DEBTOR-IN-POSSESSION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 24, 2010	March 26, 2010
	(Unaudited)	
Assets		
Cash and cash equivalents	\$ 13,721	\$ 26,705
Restricted cash	14,710	16,330
Investments	15,642	16,041
Trade receivables	13,798	18,533
Consumer loans receivable, net	163,445	176,143
Inventories	53,634	60,303
Assets held for sale	5,788	6,538
Prepaid expenses and other assets	9,213	9,909
Property, plant and equipment, net	23,817	27,251
Total assets	\$ 313,768	\$ 357,753
Liabilities and shareholders' equity		
Liabilities not subject to compromise:		
Accounts payable	\$ 10,342	\$ 20,713
Accrued liabilities	14,820	39,987
Floor plan payable	-	42,249
Debtor-in-possession financing	40,430	-
Construction lending lines	2,968	3,890
Securitized financings	110,533	122,494
Virgo debt, net	19,093	18,518
Convertible senior notes, net, not subject to compromise	-	50,486
Total liabilities not subject to compromise	198,186	298,337
Liabilities subject to compromise	85,594	-
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.01 par value	239	239
Additional paid-in capital	70,220	69,919
Retained (deficit) earnings	(26,524)	3,389
Treasury shares	(13,980)	(13,949)
Accumulated other comprehensive income (loss)	33	(182)
Total shareholders' equity	29,988	59,416
Total liabilities and shareholders' equity	\$ 313,768	\$ 357,753

See accompanying notes.

PALM HARBOR HOMES, INC. AND SUBSIDIARIES
DEBTOR-IN-POSSESSION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(Unaudited)

	Nine Months Ended	
	December 24, 2010	December 25, 2009
Net sales	\$ 206,059	\$ 229,020
Cost of sales	161,022	174,862
Selling, general and administrative expenses	62,738	73,154
Loss from operations	<u>(17,701)</u>	<u>(18,996)</u>
Interest expense	(11,977)	(13,064)
Other income	2,547	2,671
Loss before reorganization items and income taxes	<u>(27,131)</u>	<u>(29,389)</u>
Reorganization items	(2,522)	-
Loss before income taxes	<u>(29,653)</u>	<u>(29,389)</u>
Income tax expense	(260)	(163)
Net loss	<u>\$ (29,913)</u>	<u>\$ (29,552)</u>
Net loss per common share – basic and diluted	<u>\$ (1.30)</u>	<u>\$ (1.29)</u>
Weighted average common shares outstanding – basic and diluted	<u>22,975</u>	<u>22,875</u>

See accompanying notes.

PALM HARBOR HOMES, INC. AND SUBSIDIARIES
DEBTOR-IN-POSSESSION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine Months Ended	
	December 24, 2010	December 25, 2009
Operating Activities		
Net loss	\$ (29,913)	\$ (29,552)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,585	4,199
Provision for credit losses	4,368	2,229
Non-cash interest expense	1,432	2,659
(Gain) loss on disposition of assets	(31)	620
Impairment of property, plant and equipment	1,866	243
(Gain) loss on sale of loans	(1,902)	50
Provision for stock based compensation	270	164
(Gain) loss on sale of investments	(317)	91
Changes in operating assets and liabilities:		
Restricted cash	1,620	2,011
Trade receivables	4,735	4,872
Consumer loans originated	(36,928)	(27,743)
Principal payments on consumer loans originated	9,754	10,526
Proceeds from sales of consumer loans	37,406	28,218
Inventories	6,669	18,585
Prepaid expenses and other assets	(145)	1,392
Accounts payable and accrued expenses	(821)	(7,058)
Net cash provided by operating activities	1,648	11,506
Investing Activities		
Net (purchases) disposals of property, plant and equipment	(325)	775
Purchases of investments	(2,035)	(2,358)
Sales of investments	2,976	5,757
Net cash provided by investing activities	616	4,174
Financing Activities		
Net payments on floor plan payable	(42,310)	(4,999)
Proceeds from DIP financing	45,173	-
Payments on DIP financing	(4,743)	-
Net payments on construction lending line	(922)	(1,191)
Payments on Virgo debt	(485)	-
Payments on securitized financings	(11,961)	(14,153)
Net cash used in financing activities	(15,248)	(20,343)
Net decrease in cash and cash equivalents	(12,984)	(4,663)
Cash and cash equivalents at beginning of period	26,705	12,374
Cash and cash equivalents at end of period	\$ 13,721	\$ 7,711

See accompanying notes.

1. Summary of Significant Accounting Policies

Chapter 11 Proceedings

As previously disclosed, on November 29, 2010 ("Petition Date"), Palm Harbor Homes, Inc. ("Palm Harbor") and certain of its domestic subsidiaries (collectively, the "Debtors") filed voluntary petitions for reorganization (the "Bankruptcy Filing") under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware in Wilmington (the "Bankruptcy Court"). The cases are being jointly administered under Case No. 10-13850. Palm Harbor Homes, Inc. and five of its subsidiaries, Palm Harbor Manufacturing, L.P., Palm Harbor Albemarle LLC, Palm Harbor Real Estate LLC, Palm Harbor GenPar LLC, and Nationwide Homes, Inc. (the "Filing Entities") were part of the bankruptcy filing. The Company's insurance and finance subsidiaries, including Standard Casualty Company, Standard Insurance Agency, Inc., Palm Harbor Insurance Agency of Texas, Inc. and CountryPlace Acceptance Corporation (collectively, the "Non-Filing Entities") were not part of the bankruptcy filing; however, such subsidiaries were owned by entities that were part of the bankruptcy filing.

Subject to certain exceptions under the Bankruptcy Code, the Debtors' Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date. Thus, for example, most creditor actions to obtain possession of property from the Debtors, or to create, perfect or enforce any lien against the property of the Debtors, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim are enjoined unless and until the Bankruptcy Court lifts the automatic stay.

The filing of the Chapter 11 petitions constituted an event of default under certain of the Company's debt obligations, and those debt obligations became automatically and immediately due and payable, subject to an automatic stay of any action to collect, assert, or recover a claim against the Debtors and the application of applicable bankruptcy law.

The Debtors operated as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. In general, as debtors-in-possession, the Company is authorized under Chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. The Non-Filing Entities continue to operate in the ordinary course of business.

In connection with the Bankruptcy Filing, on November 29, 2010, Palm Harbor entered into an asset purchase agreement (the "Asset Purchase Agreement") with the Filing Entities (collectively with Palm Harbor, the "Sellers") and Palm Harbor Homes, Inc. a Delaware corporation (the "Purchaser") under which the Purchaser purchased substantially all of the assets of the Sellers and assumed specified liabilities of the Sellers, all on the terms and conditions set forth in the Asset Purchase Agreement and in accordance with sections 105, 363, 365 and other applicable provisions of the Bankruptcy Code.

In connection with the Bankruptcy Filing, on November 29, 2010, the Company (as defined in the Basis of Presentation section below) entered into a Senior Secured, Super-Priority Debtor-in-Possession Revolving Credit Agreement (the "DIP Credit Agreement") among the Company, the Filing Entities and Fleetwood Homes, Inc., as lender (the "Lender"), a Security Agreement (the "Security Agreement") among the Company, the Filing Entities and the Lender as the secured party and a Promissory Note (the "Promissory Note") executed by the Debtors in favor of the Lender. Pursuant to the terms of the DIP Credit Agreement, the Security Agreement and the Promissory Note, the Lender agreed to loan up to \$50 million (which may increase to \$55 million if certain conditions are met). The DIP Agreement bore interest at 7% per annum and matured upon the effective date of the close of the sale of the Company's assets on April 23, 2011. See Note 6.

The Bankruptcy Court approved payment of certain of the Debtors' pre-petition obligations, including, among other things, employee wages, salaries and benefits, and the Bankruptcy Court approved the Company's payment of vendors and other providers in the ordinary course for goods and services ordered pre-petition but received from and after the Petition Date and other business-related payments necessary to maintain the operation of the businesses. The Debtors have retained, subject to Bankruptcy Court approval, legal and financial professionals to advise the Debtors on the bankruptcy proceedings and certain other "ordinary course" professionals.

The Company has incurred and will continue to incur significant costs associated with the reorganization. The amount of these costs, which are being expensed as incurred, are expected to significantly affect the results of operations.

Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must generally be satisfied in full before stockholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the Chapter 11 cases to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of the Company's liabilities and/or securities, including common stock, receiving no distribution on account of their interests and cancellation of their holdings. Because of such possibilities, the value of the Company's liabilities and securities, including common stock, is highly speculative.

Condensed Combined Financial Information of Debtors

The following unaudited condensed combined financial information is presented for the Debtors as of December 24, 2010 or for the nine months then ended (in thousands):

Balance Sheet Information:

Cash and cash equivalents	\$ 7,616
Restricted cash	10,892
Trade receivables	11,862
Inventories	53,634
Assets held for sale	5,788
Investment in subsidiaries	25,000
Prepaid expenses and other assets	7,303
Property, plant and equipment, net	23,466
Total assets	\$ 145,561

Liabilities and shareholders' equity

Post-petition payables and accrued liabilities	\$ 13,012
Debtor-in-possession financing	40,430
Liabilities not subject to compromise	53,442
Liabilities subject to compromise	85,594
Total liabilities	139,036
Total shareholders' equity	6,525
Total liabilities and shareholders' equity	\$ 145,561

Statement of Operations Information:

Net sales	\$	178,996
Gross profit		29,391
Operating loss		(26,468)
Reorganization items		(2,522)
Net loss		(34,091)

Statement of Cash Flows Information

Cash used in operating activities	\$	(13,917)
Cash used in investing activities		(218)
Cash used in financing activities		(1,623)
	\$	<u>(15,758)</u>

Basis of Presentation

The unaudited condensed consolidated financial statements of Palm Harbor Homes, Inc., and its subsidiaries (collectively, the "Company") reflect all adjustments, which include normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation in conformity with U.S. generally accepted accounting principles. Certain footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. The condensed consolidated financial statements should be read in conjunction with the more detailed audited financial statements for the fiscal year ended March 26, 2010 included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission. The consolidated financial statements for the fiscal year ended March 26, 2010 have been reissued and are included herein. Results of operations for any interim period are not necessarily indicative of results to be expected for the remainder of the current fiscal year or for any future period.

The continued depressed economic environment in fiscal 2011, the subsequent decline in the Company's cash and cash equivalents, the defaults occurring under the Company's credit agreements, and the Company's November 29, 2010 filing of a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code and subsequent bankruptcy-related actions, all discussed further below, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with respect to these conditions involved maximizing the value of the Company's assets through a court-approved sale, which has since been completed as described below, and subsequent administration of the Company's bankruptcy estate, including making payments to creditors, which is ongoing. The accompanying unaudited financial statements and related disclosures have been prepared on the basis that the financial services segment (CountryPlace Acceptance Corporation and its finance subsidiaries and Standard Casualty Co. and its insurance agency subsidiaries) will continue as a going concern, which contemplates the realization of assets and extinguishment of liabilities in the normal course of business. The financial statements of Palm Harbor Homes, Inc. and five of its factory-built housing subsidiaries as of and for the nine-month period ended December 24, 2010 include adjustments to reflect the reorganization of the Company in accordance with Accounting Standards Codification 852, *Reorganizations*.

The balance sheet at March 26, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

General Business Environment

In fiscal 2011, the general U.S. economic downturn, an industry-wide lack of available external financing and an oversupply of competitive site-built homes continued to have a significant adverse effect on the factory-built housing industry overall, and the Company's factory-built housing operations and cash flows specifically. The Company's cash and cash equivalents decreased \$13.0 million and the Company incurred a \$17.7 million loss from operations in the first nine months of fiscal 2011. Additionally, as of September 24, 2010, the Company was in default under three provisions of its amended floor plan financing facility with Textron Financial Corporation because the Company failed to reduce its outstanding borrowings under the facility to \$32 million, exceeded the maximum permissible loan-to-collateral coverage ratio at September 24, 2010 of 62% by having a ratio of approximately 70%, and sold approximately \$4.0 million of homes which funds should have been paid to Textron but were not paid. On November 29, 2010, Palm Harbor Homes, Inc. and five of its subsidiaries, Palm Harbor Manufacturing, L.P., Palm Harbor Albemarle LLC, Palm Harbor Real Estate LLC, Palm Harbor GenPar LLC, and Nationwide Homes, Inc. filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code as described above.

After closing and the receipt of proceeds of the DIP Credit Agreement, in December 2010 all of the Company's then-current indebtedness to Textron Financial Corporation was repaid. After closing and receipt of the proceeds of the asset sale to the Purchaser, approximately \$45.3 million of the \$83.9 million purchase price was used to retire amounts outstanding under the DIP Credit Agreement, which was thereafter terminated. Additionally, certain expenses that include title insurance and prorated taxes were paid. Remaining net proceeds from the asset sale are intended to be used by the Company's bankruptcy estate to satisfy various creditor obligations. The Company estimates that after payments to creditors, there will not be sufficient proceeds to make any distributions to stockholders.

New Accounting Pronouncements

Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"). Update No. 2010-06 requires additional disclosures about fair value measurements, including separate disclosures of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers. Additionally, the reconciliation for fair value measurements using significant unobservable inputs (Level 3) should present separately information about purchases, sales, issuances, and settlements. ASU 2010-06 also clarifies previous disclosure requirements, including the requirement that entities provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for both Level 2 and Level 3 measurements. The new disclosures and clarifications of existing disclosures required under ASU 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, and were adopted for the interim reporting period ending December 24, 2010, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The new authoritative guidance did not have a material impact on the Company's financial condition, liquidity, or results of operations, but it has significantly expanded the disclosures that we are required to provide.

On July 21, 2010, the Financial Accounting Standards Board (FASB) issued a final Accounting Standards Update (ASU), ASU 2010-20, that requires entities to provide extensive new disclosures in their financial statements about their financing receivables, including credit risk exposures and the allowance for credit losses. Entities with financing receivables will be required to disclose, among other things (i) a rollforward of the allowance for credit losses, (ii) credit quality information such as credit risk scores or external credit agency ratings, (iii) impaired loan information, (iv) modification information, and (v) nonaccrual and past due information. Public entities are required to adopt all of the ASU's provisions related to disclosures of financing receivables as of the end of a reporting period (e.g., credit quality information, impaired loan information) for interim or annual reporting periods ending on or after December 15, 2010. The financing receivables

disclosures related to activity that occurs during a reporting period (e.g., the rollforward of the allowance for credit losses and the modification disclosures) are required to be adopted by public entities for interim or annual reporting periods beginning on or after December 15, 2010. In January 2011, the FASB issued ASU 2011-01, which temporarily delayed the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 to periods ending after June 15, 2011. The Company adopted the provisions of ASU 2010-20 relating to period-end disclosures as of December 24, 2010 (see Note 3), and the remaining provisions will be adopted during the quarter ended March 25, 2011, except for the disclosures related to troubled debt restructurings, discussed below.

On April 5, 2011, the FASB issued ASU 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, which clarifies when creditors should classify loan modifications as troubled debt restructurings. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the year. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring is effective on a prospective basis. The Company is currently evaluating the new guidance.

2. Inventories

Inventories consist of the following (in thousands):

	December 24, 2010	March 26, 2010
Raw materials	\$ 6,233	\$ 4,927
Work in process	2,958	4,085
Finished goods at factory	1,140	1,324
Finished goods at retail	43,303	49,967
	<u>\$ 53,634</u>	<u>\$ 60,303</u>

3. Investments

The following tables summarize the Company's available-for-sale investment securities as of December 24, 2010 and March 26, 2010 (in thousands):

	December 24, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Government Agencies	\$ 1,472	\$ 94	\$ -	\$ 1,566
Mortgage-backed securities	4,602	284	(8)	4,878
States and political subdivisions	1,241	43	(1)	1,283
Corporate debt securities	4,447	375	-	4,822
Marketable equity securities	2,939	211	(57)	3,093
Total	<u>\$ 14,701</u>	<u>\$ 1,007</u>	<u>\$ (66)</u>	<u>\$ 15,642</u>

	March 26, 2010			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
U.S. Treasury and Government Agencies	\$ 1,724	\$ 69	\$ -	\$ 1,793
Mortgage-backed securities	5,232	268	(4)	5,496
States and political subdivisions	1,240	17	(7)	1,250
Corporate debt securities	4,455	325	-	4,780
Marketable equity securities	2,674	97	(49)	2,722
Total	\$ 15,325	\$ 776	\$ (60)	\$ 16,041

The following table shows 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 at December 24, 2010 (in thousands):

	Less than 12 months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$ 4,878	\$ (8)	\$ -	\$ -	\$ 4,878	\$ (8)
States and political subdivisions	1,283	(1)	-	-	1,283	(1)
Marketable equity securities	334	(55)	100	(2)	434	(57)
Total	\$ 6,495	\$ (64)	\$ 100	\$ (2)	\$ 6,595	\$ (66)

The following table shows 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 at March 26, 2010 (in thousands):

	Less than 12 months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$ 485	\$ (4)	\$ -	\$ -	\$ 485	\$ (4)
States and political subdivisions	533	(7)	-	-	533	(7)
Marketable equity securities	665	(43)	116	(6)	781	(49)
Total	\$ 1,683	\$ (54)	\$ 116	\$ (6)	\$ 1,799	\$ (60)

During the first nine months of fiscal 2011, none of the Company's available-for-sale equity securities were determined to be other-than-temporarily impaired. During the first nine months of fiscal 2010, 30 of the Company's available-for-sale equity securities with a total carrying value of \$0.8 million were determined to be other-than-temporarily impaired and a realized loss of \$0.2 million was recorded in the Company's consolidated statements of operations.

The Company's investments in marketable equity securities consist of investments in common stock of bank trust and insurance companies and public utility companies (\$1.3 million of the total fair value and \$2,000 of the total unrealized losses) and industrial companies (\$1.8 million of the total fair value and \$55,000 of the total unrealized losses). 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 the investments to be other-than-temporarily impaired at December 24, 2010.

The amortized cost and fair value of the Company's investment securities at December 24, 2010, 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.

	Amortized Cost	Fair Value
Due in less than one year	\$ 1,628	\$ 1,645
Due after one year through five years	6,401	6,941
Due after five years	3,733	3,963
Marketable equity securities	2,939	3,093
Total investment securities available-for-sale	<u>\$ 14,701</u>	<u>\$ 15,642</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 first nine months of fiscal 2011 and 2010 were approximately \$334,000 and \$342,000, respectively. Gross losses were approximately \$17,000 and \$433,000 for the first nine months of fiscal 2011 and 2010, respectively.

4. Restricted Cash

Restricted cash consists of the following (in thousands):

	December 24, 2010	March 26, 2010
Cash pledged as collateral for outstanding insurance programs and surety bonds	\$ 9,669	\$ 9,917
Cash related to customer deposits held in trust accounts	1,223	2,496
Cash related to CountryPlace customers' principal and interest payments on the loans that are securitized	3,818	3,917
	<u>\$ 14,710</u>	<u>\$ 16,330</u>

5. Consumer Loans Receivable and Allowance for Loan Losses

Consumer loans receivable, net, consists of the following (in thousands):

	December 31, 2010	March 31, 2010
Consumer loans receivable held for investment	\$ 166,615	\$ 179,549
Consumer loans receivable held for sale	2,529	558
Construction advances on non-conforming mortgages	2,641	4,148
Deferred financing costs, net	(4,450)	(5,096)
Allowance for loan losses	(3,890)	(3,016)
Consumer loans receivable, net	<u>\$ 163,445</u>	<u>\$ 176,143</u>

The Company's consumer loans receivable balance consists of fixed-rate, fixed-term, 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, the Company's loans are secured by a first-lien position and are provided for the purchase of a home. In rare instances the Company may provide other types of loans in second-lien or unsecured positions. Accordingly, the Company classifies its loans receivable assets as follows: chattel loans, conforming mortgages, non-conforming mortgages, and other loans.

The following table disaggregates consumer loans receivable for each class by portfolio segment as of December 31, 2010 (in thousands):

Asset Class:	Consumer Loans Held for Investment			Consumer Loans Held for Sale	Total
	Securitized	Securitized	Unsecuritized		
	2005	2007			
Chattel loans	\$ 70,103	\$ 48,033	\$ 4,308	\$ -	\$ 122,444
Conforming mortgages	-	-	2,137	2,529	4,666
Non-conforming mortgages	6,591	21,370	14,032	-	41,993
Other loans	-	-	41	-	41
	<u>\$ 76,694</u>	<u>\$ 69,403</u>	<u>\$ 20,518</u>	<u>\$ 2,529</u>	<u>\$ 169,144</u>

To assess the adequacy of its allowance for loan losses and to monitor the credit risk of its portfolio, the Company develops and periodically reviews default and loss forecasts for each segment of its portfolio. The portfolio is segmented approximately by period of origination, as represented by the pools of loans included in securitized financings (loans securitized in 2005 and those securitized in 2007), those which generally were originated after the 2007 securitization and have not been included in any subsequent securitized financing, and those which have been originated recently with the intent to sell.

The allowance for loan losses and related additions and deductions to the allowance during the nine months ended December 31, 2010 and December 31, 2009 are as follows (in thousands):

	Nine Months Ended	
	December 31, 2010	December 31, 2009
Allowance for loan losses, beginning of period	\$ 3,016	\$ 5,800
Provision for credit losses	4,367	2,229
Loans charged off, net of recoveries	(3,493)	(3,587)
Allowance for loan losses, end of period	<u>\$ 3,890</u>	<u>\$ 4,442</u>

The allowance for loan losses reflects the Company's judgment of the probable loss exposure on its loans held for investment portfolio as of the end of the reporting period. The loan portfolio is comprised of loans related primarily to factory-built homes, and, in some instances, related land. The allowance for loan losses is developed at a portfolio level, as pools of homogeneous loans, and not allocated to specific individual loans or to impaired loans. A range of probable losses is calculated after giving consideration to, among other things, the composition of the loan portfolio, including historical loss experience by static pool and recent loss experience. The Company then makes a determination of the best estimate within the range of loan losses.

In measuring credit quality within each segment and class, the Company uses commercially available credit scores ("FICO"). At the time of each loan's origination, the Company obtained credit scores from each of the three primary credit bureaus, if available. To evaluate credit quality of individual loans, the Company uses the mid-point of the available credit scores, or if only two scores are available, the Company uses the lower of the two. Except in the case of troubled debt restructurings or other loan modifications, the Company does not update credit bureau scores after the time of origination.

The following table disaggregates the Company's consumer loans receivable by class and credit quality indicator as of December 31, 2010 (in thousands):

Asset Class Credit Quality Indicator	Consumer Loans Held for Investment			Consumer Loans Held for Sale
	Securitized 2005	Securitized 2007	Unsecuritized	
Chattel loans				
0-619	\$ 2,159	\$ 1,610	\$ 1,314	\$ -
620-719	31,477	21,020	1,916	-
720+	36,467	25,403	1,078	-
Conforming mortgages				
0-619	-	-	554	-
620-719	-	-	1,126	1,727
720+	-	-	457	802
Non-conforming mortgages				
0-619	131	1,330	4,016	-
620-719	3,200	12,592	7,797	-
720+	3,260	7,448	2,219	-
Other loans				
Total other	-	-	41	-
	<u>\$ 76,694</u>	<u>\$ 69,403</u>	<u>\$ 20,518</u>	<u>\$ 2,529</u>

CountryPlace's policy is to place loans on nonaccrual status when either principal or interest is past due and remains unpaid for 120 days or more. In addition, they place loans on nonaccrual status 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 accounted for on a cash basis, first to interest and then to principal. Upon determining that a nonaccrual loan is impaired, interest accrued and the uncollected receivable prior to identification of nonaccrual status is charged to the allowance for loan losses. At December 31, 2010, CountryPlace's management was not aware of any potential problem loans that would have a material adverse effect on loan delinquency or charge-offs. Loans are subject to continual review and are given management's attention whenever a problem situation appears to be developing. The following table sets forth the amounts and categories of CountryPlace's non-performing loans and assets as of December 31, 2010 and March 31, 2010 (dollars in thousands):

	December 31, 2010	March 31, 2010
Non-performing loans:		
Loans accounted for on a nonaccrual basis	\$ 1,203	\$ 1,219
Accruing loans past due 90 days or more	1,131	594
Total nonaccrual and 90 days past due loans	2,334	1,813
Percentage of total loans	1.38%	1.01%
Other non-performing assets ⁽¹⁾	1,294	1,566
Troubled debt restructurings	1,018	1,268

⁽¹⁾ Consists of land and homes acquired through foreclosure, which are carried at the lower of carrying value or fair value less estimated selling expenses.

Beginning in fiscal 2009, CountryPlace modified loans to retain borrowers with good payment history. These modifications were considered to represent credit concessions due to borrowers' loss of income and other repayment matters impacting these borrowers. CountryPlace modified the payments or rates for approximately \$1.6 million and \$1.5 million of loans for the nine months ended December 31, 2010 and December 31, 2009, respectively. These loans are not reflected as non-performing loans but as troubled debt restructurings.

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. CountryPlace has loan contracts secured by factory-built homes located in the following key states as of December 31, 2010 and March 31, 2010:

	December 31, 2010	March 31, 2010
Texas	42.8%	43.2%
Florida	6.8	6.6
Arizona	6.5	6.3
California	2.1	2.1

The States of California, Florida and Arizona, and to a lesser degree Texas, have experienced economic weakness resulting from the decline in real estate values. The risks created by these concentrations have been considered by CountryPlace's management in the determination of the adequacy of the allowance for loan losses. No other states had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of December 31, 2010 or March 31, 2010. Management believes the allowance for loan losses is adequate to cover estimated losses at December 31, 2010.

6. Liabilities Subject to Compromise

Liabilities subject to compromise refers to both secured and unsecured obligations that will be accounted for under a plan of reorganization. Generally, actions to enforce or otherwise effect payment of pre-Chapter 11 liabilities are stayed. ASC 852 requires pre-petition liabilities that are subject to compromise to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. These liabilities represent the estimated amount expected to be allowed on known or potential claims to be resolved through the Chapter 11 process, and remain subject to future adjustments arising

from negotiated settlements, actions of the Bankruptcy Court, rejection of executory contracts and unexpired leases, the determination as to the value of collateral securing the claims, proofs of claim, or other events. Liabilities subject to compromise also include certain items that may be assumed under the plan of reorganization, and as such, may be subsequently reclassified to liabilities not subject to compromise. The Company has included unsecured debt as a liability subject to compromise as management believes that there remains uncertainty to the terms under a plan of reorganization since the filing recently occurred. At hearings held in December 2010, the Court granted final approval of many of the Debtors' "first day" motions covering, among other things, human capital obligations, supplier relations, insurance, customer relations, business operations, certain tax matters, cash management, utilities, case management and retention of professionals. Obligations associated with these matters are not classified as liabilities subject to compromise.

In accordance with ASC 852, debt issuance costs should be viewed as valuations of the related debt. When the debt has become an allowed claim and the allowed claim differs from the net carrying amount of the debt, the recorded amount should be adjusted to the amount of the allowed claim (thereby adjusting existing debt issuance costs to the extent necessary to report the debt at this allowed amount). Through December 24, 2011, the Bankruptcy Court had not classified any of the Debtors' outstanding debt as allowed claims. Therefore, the Company classified the Debtors' outstanding debt as liabilities subject to compromise on the Condensed Consolidated Balance Sheet. The Company has not adjusted debt issuance costs, totaling \$138,000 at December 24, 2010, related to the Debtors' convertible senior notes outstanding. The Company may be required to expense these amounts or a portion thereof as reorganization items if the Bankruptcy Court ultimately determines that a portion of the debt is subject to compromise.

The Debtors are seeking to reject certain pre-petition executory contracts and unexpired leases with respect to the Debtors' operations with the approval of the Bankruptcy Court and may reject additional ones in the future. Damages resulting from rejection of executory contracts and unexpired leases are generally treated as general unsecured claims and will be classified as liabilities subject to compromise. Holders of pre-petition claims were required to file proofs of claims by the "bar date", April 18, 2011, established with approval of the Bankruptcy Court. A bar date is the date by which certain claims against the Debtors must be filed if the claimants wish to receive any distribution in the Chapter 11 cases. Differences between liability amounts estimated by the Debtors and claims filed by creditors will be investigated and, if necessary, the Bankruptcy Court will make a final determination of the allowable claim. The determination of how liabilities will ultimately be treated cannot be made until the Bankruptcy Court approves a Chapter 11 plan of reorganization. Accordingly, the ultimate amount or treatment of such liabilities is not determinable at this time.

Liabilities subject to compromise consisted of the following:

	December 24, 2010
Accounts payable	\$ 19,891
Accrued expenses and other liabilities	13,785
Convertible senior notes, net	51,918
Total liabilities subject to compromise	<u>\$ 85,594</u>

Liabilities subject to compromise includes trade accounts payable related to pre-petition purchases, all of which were not paid. As a result, the Company's cash flows from operations were favorably affected by the stay of payment related to these accounts payable.

7. Floor Plan Payable and Debtor-In-Possession Financing

The Company had an agreement with Textron Financial Corporation for a floor plan facility. This facility was used to finance a portion of the new home inventory at its retail sales centers and was secured by the Company's assets, excluding CountryPlace assets. The advance rate for the facility was 90% of manufacturer's invoice and the maturity date is the earlier of June 30, 2012 or one month prior to the date of the first repurchase option for the holder of the Company's convertible senior notes.

The Company was in default of three provisions under its amended floor plan financing facility with Textron Financial Corporation as of September 24, 2010 because the Company failed to reduce its outstanding borrowings under the facility to \$32 million. As a result, the Company exceeded the maximum permissible loan-to-collateral coverage ratio at September 24, 2010 of 62% by having a ratio of approximately 70%. In addition, the Company sold approximately \$4.0 million of homes, which funds should have been paid to Textron but were not paid. Subsequently, on November 29, 2010, Palm Harbor Homes, Inc. and five of its domestic subsidiaries, Palm Harbor Manufacturing, L.P., Palm Harbor Albemarle LLC, Palm Harbor Real Estate LLC, Palm Harbor GenPar LLC, and Nationwide Homes, Inc. filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware in Wilmington, case number 10-13850.

In connection with the bankruptcy filing, on November 29, 2010, the Company entered into an asset purchase agreement with the entities subject to the bankruptcy and Palm Harbor Homes, Inc., a Delaware corporation under which the Purchaser purchased substantially all of the assets and assumed specified liabilities of the Sellers. Additionally, on November 29, 2010, the Company entered into a Senior Secured, Super-Priority Debtor-in-Possession Revolving Credit Agreement (the "DIP Credit Agreement") among the Company, the entities subject to the bankruptcy, and Fleetwood Homes, Inc., as lender (the "Lender") and the Security Agreement among the Company, the entities subject to the bankruptcy, and the Lender as the secured party, with a Promissory Note executed by the Company and its filing subsidiaries in favor of the Lender. Pursuant to the terms of the DIP Credit Agreement, the Security Agreement, and the Note, the lender agreed to loan up to \$50 million (which may increase to \$55 million if certain conditions are met), bearing interest at 7% per annum and maturing on the earlier of April 30, 2011 (as amended) or 15 days after entry of a final order from the Bankruptcy Court approving the sale of the Company's assets. Subsequently, on March 1, 2011, the Purchaser was selected as the successful bidder to purchase substantially all of the Company's assets, and assume specified liabilities, pursuant to an auction process with a bid of approximately \$83.9 million, and on April 25, 2011, pursuant to an Amended and Restated Asset Purchase Agreement dated March 1, 2011, the previously announced and approved sale was completed with an effective date of the transaction of April 23, 2011.

After closing and the receipt of proceeds of the DIP Credit Agreement, in December 2010 all of the Company's then-current indebtedness to Textron Financial Corporation was repaid. Of the \$35.1 million initial draw from the DIP Financing, on December 3, 2010, \$34.2 million was paid to Textron Financial, consisting of \$33.7 million for the then-outstanding principal balance, \$236,000 in interest and \$255,000 in fees. After closing and receipt of the proceeds of the asset sale to the Purchaser, approximately \$45.3 million of the \$83.9 million purchase price was used to retire amounts outstanding under the DIP Credit Agreement, which was thereafter terminated. Additionally, certain expenses that include title insurance and prorated taxes were paid. Remaining net proceeds from the asset sale are intended to be used by the Company's bankruptcy estate to satisfy various creditor obligations. The Company estimates that after payments to creditors, there will not be sufficient proceeds to make any distributions to stockholders.

8. Debt Obligations

In fiscal 2005, the Company issued \$75.0 million aggregate principal amount of 3.25% Convertible Senior Notes due 2024 (the "Notes") in a private, unregistered offering. Interest on the Notes is payable semi-annually in May and November. The Notes are senior, unsecured obligations and rank equal in right of payment to all of the Company's existing and future unsecured and senior indebtedness. Prior to the bankruptcy filing on November 28, 2010, each \$1,000 in principal amount

of the Notes was convertible, at the option of the holder, at a conversion price of \$25.92, or 38.5803 shares of the Company's common stock upon the satisfaction of certain conditions and contingencies. For the first nine months of fiscal 2011 and 2010, the effect of converting the Notes to 2.1 million shares of common stock was anti-dilutive, and was, therefore, not considered in determining diluted earnings per share.

The liability component related to the Notes was being amortized through May, 2011; however, upon the filing of the voluntary petitions for bankruptcy protection on November 29, 2010, the Company ceased recognition of interest expense for the convertible senior notes as there is substantial doubt that it will be paid, subject to the approval of the Bankruptcy Court. The convertible senior notes were reflected in the condensed consolidated balance sheets as of December 24, 2010 and March 26, 2010 as follows (in thousands):

	December 24, 2010	March 26, 2010
Principal amount of the liability component	\$ 53,845	\$ 53,845
Unamortized debt discount	(1,927)	(3,359)
Convertible senior notes, net	<u>\$ 51,918</u>	<u>\$ 50,486</u>

Interest expense related to the convertible senior notes for the first nine months of fiscal 2011 and 2010 totaled \$2.3 million and \$3.6 million, respectively, of which \$1.4 million and \$1.9 million, respectively, represented amortization of the debt discount. But for the bankruptcy filing, the Company would have recognized \$3.4 million of interest expense related to the convertible senior notes for the nine months ended December 24, 2010, of which \$2.2 million would have represented amortization of the debt discount at an effective interest rate of 9.11%.

Given the Company's rapidly declining availability of cash, the Company did not make its November 2010 interest payment to the Noteholders, which caused a default under the Indenture governing the Notes. Subsequently, on November 29, 2010, Palm Harbor Homes, Inc. and five of its domestic subsidiaries, Palm Harbor Manufacturing, L.P., Palm Harbor Albemarle LLC, Palm Harbor Real Estate LLC, Palm Harbor GenPar LLC, and Nationwide Homes, Inc. filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code as described above. See Note 6.

On July 12, 2005, the Company, through its subsidiary 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. The proceeds from the securitization were used to repay approximately \$115.7 million of borrowings on the Company's warehouse revolving debt with the remaining proceeds being used for general corporate purposes, including future origination of new loans. For accounting purposes, this transaction was structured as a securitized borrowing. CountryPlace's servicing obligation under this securitized financing was guaranteed by the Company.

On March 22, 2007, the Company, through its subsidiary 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. The proceeds from the securitization were used to repay approximately \$97.1 million of borrowings on the Company's warehouse revolving debt with the remaining proceeds being used for general corporate purposes, including future origination of new loans. For accounting purposes, this transaction was also structured as a securitized borrowing.

On January 29, 2010, the Company, through its subsidiary CountryPlace, entered into an agreement for a \$19.8 million secured term loan from entities managed by Virgo Investment Group LLC. The agreement provides an option for CountryPlace to exercise a secondary commitment to borrow an additional \$5.0 million. The Company did not exercise the secondary commitment prior to its expiration on August 1, 2010. The facility has a maturity date of January 29, 2014 and bears interest at an annual rate of the Eurodollar Rate plus 12%. The Eurodollar Rate cannot be less than 3.0% nor greater than 4.5%. The proceeds were used by CountryPlace to repay intercompany indebtedness to the Company and the Company used the proceeds for working capital and general corporate purposes.

The agreement also contains financial covenants that must be complied with by CountryPlace. CountryPlace shall not incur capital expenditures exceeding \$300,000 in any fiscal year; and the maximum amount of the Virgo loan divided by the value of the collateral securing the loan shall not exceed the ratios below for more than three consecutive months during the applicable periods:

Time Period	Maximum Loan-to-Value Ratio
Twelve Months Ended 2/1/2011	0.36:1
Twelve Months Ended 2/1/2012	0.35:1
Twelve Months Ended 2/1/2013	0.34:1
Twelve Months Ended 2/1/2014	0.33:1

For the fiscal quarter ended December 31, 2010, CountryPlace was in compliance with the financial covenants with a loan-to-value ratio of 0.34:1.

As a condition to Virgo making the loan, the parties also agreed to create a special purpose vehicle (SPV) to hold certain mortgage loans as collateral. Pursuant to the agreement, at the time of the agreement was executed CountryPlace transferred its right, title, and interest to certain manufactured housing installment sales contracts and mortgages, along with certain related property, to a specially created subsidiary, CountryPlace Mortgage Holdings, LLC ("Mortgage SPV"). On January 29, 2010, the transferred sales contracts and mortgages consisted of \$39.4 million of the overcollateralization on the 2005-1 and 2007-1 securitizations (Class X and R certificates), and \$19.8 million of certain other mortgage loans held for investment that were not previously securitized.

The Mortgage SPV is consolidated on the Company's financial statements as CountryPlace will continue to service the mortgage loans and collect the related service fee and residual income even after the termination of the loan facility, is obligated to repurchase or substitute contracts that materially adversely affect the Mortgage SPV's interest, and will be solely liable for losses incurred by the Mortgage SPV.

As partial consideration for the loan with Virgo, the Company issued warrants to purchase up to an aggregate of 1,296,634 shares of the Company's common stock at a purchase price of \$2.1594 per share. These warrants contain an anti-dilution provision that prevents the warrant holder's fully-diluted percentage interest in the Company from being diluted in the event that any convertible securities of the Company, including the Notes, are converted into shares of common stock of the Company. The warrants also contain an anti-dilution provision that prevents the warrant holder from having its percentage ownership in the Company diminished by more than 10% in the event that the Company issues additional securities, subject to certain exceptions. These anti-dilution provisions expire in January 2014. For the first nine months of fiscal 2011, the effect of converting the warrants to common stock was anti-dilutive, and, therefore, was not considered in determining diluted earnings per share.

On May 10, 2011, CountryPlace exercised its right to prepay in full the secured term loan with entities managed by Virgo Service Company, LLC ("Virgo"). The repayment totaled \$18,926,000, including principal of \$18,375,000 and prepayment premium of \$551,000. The Company also recorded \$583,000 of expense for the unamortized portion of the related debt issuance costs, \$62,000 of additional interest, and \$187,000 of debt-related expenses. In conjunction with the prepayment of the secured term loan, CountryPlace redeemed the preferred stock of CountryPlace Mortgage Holdings, LLC held by Virgo at the par value of \$200,000. The prepayment of the secured term loan was funded by Palm Harbor Homes-Delaware, and \$19,443,000 was included in payable to affiliates at the time of the prepayment.

On April 27, 2009, the Company issued warrants to each of Capital Southwest Venture Corporation, Sally Posey and the Estate of Lee Posey (collectively, the lenders) to purchase up to an aggregate of 429,939 shares of common stock of the Company at a price of \$3.14 per share, which was the closing price of the Company's common stock on April 24, 2009. The Black-Scholes method was used to value the warrants, which resulted in the Company recording \$0.8 million in non-cash interest expense in the first quarter of fiscal 2010. The warrants were granted in connection with a loan made by the lenders to the Company of an aggregate of \$4.5 million pursuant to senior subordinated secured promissory notes between the Company and each of the lenders (collectively, the Promissory Notes). The proceeds were used for working capital purposes. The Promissory Notes were repaid in full on June 29, 2009. The warrants, which expire on April 24, 2019, contain anti-dilution provisions and other customary provisions. For the first nine months of fiscal 2011 and 2010, the effect of converting the warrants to common stock, was anti-dilutive and, therefore, was not considered in determining diluted earnings per share.

9. Other Comprehensive Loss

The difference between net loss and total comprehensive loss for the three months ended December 24, 2010 and December 25, 2009 is as follows (in thousands):

	Nine Months Ended	
	December 24, 2010	December 25, 2009
	<u> </u>	<u> </u>
Net loss	\$ (29,913)	\$ (29,522)
Unrealized gain on available- for-sale investments, net of tax	146	1,563
Amortization of interest rate hedge	69	68
Comprehensive loss	<u>\$ (29,698)</u>	<u>\$ (27,891)</u>

10. Commitments and Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business and claims filed as a result of the Company's voluntary petition for bankruptcy protection. On November 29, 2010, the Debtors filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The cases are being jointly administered under Case No. 10-13850. The Debtors continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As of the date of the Chapter 11 filing, virtually all pending litigation against the Company is stayed as to the Company, and absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against the Debtors.

Under the priority scheme established by the Bankruptcy Code, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must generally be satisfied in full before stockholders are entitled to receive any distribution or retain any property under a plan of reorganization. The ultimate recovery to creditors and/or stockholders, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the Chapter 11 cases to each of these constituencies or what types or amounts of distributions, if any, they would receive. A plan of reorganization could result in holders of our liabilities and/or securities, including our common stock, receiving no distribution on account of their interests and cancellation of their holdings. Because of such possibilities, the value of The Company's liabilities and securities, including common stock, is highly speculative.

11. Accrued Product Warranty Obligations

The Company provides the retail homebuyer a one-year limited warranty covering defects in material or workmanship in home structure, plumbing and electrical systems. The amount of warranty reserves recorded are estimated future warranty costs relating to homes sold, based upon the Company's assessment of historical experience factors, such as actual number of warranty calls and the average cost per warranty call.

The accrued product warranty obligation is classified as accrued liabilities in the condensed consolidated balance sheets. The following table summarizes the accrued product warranty obligations at December 24, 2010 and December 25, 2009 (in thousands):

	Nine Months Ended	
	December 24, 2010	December 25, 2009
Accrued warranty balance, beginning of period	\$ 1,593	\$ 2,972
Net warranty expense provided	3,534	3,697
Cash warranty payments	(3,945)	(4,872)
Accrued warranty balance, end of period	<u>\$ 1,182</u>	<u>\$ 1,797</u>

12. Fair Value Measurements

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

	December 24, 2010		March 26, 2010	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Cash and cash equivalents ⁽¹⁾	\$ 13,721	\$ 13,721	\$ 26,705	\$ 26,705
Restricted cash ⁽¹⁾	14,710	14,710	16,330	16,330
Investments ⁽²⁾	15,642	15,642	16,041	16,041
Consumer loans receivables ⁽³⁾	169,144	156,242	180,107	175,934
Floor plan payable ⁽¹⁾	-	-	42,249	42,249
Construction lending line ⁽¹⁾	2,968	2,968	3,890	3,890
Convertible senior notes, net ⁽²⁾	51,918	3,984	50,486	36,076
Securitized financings ⁽⁴⁾	110,533	112,512	122,494	120,019
Virgo debt, net ⁽⁵⁾	18,033	15,927	18,518	18,213

⁽¹⁾ The fair value approximates book value due to the instruments' short term maturity.

⁽²⁾ The fair value is based on market prices.

⁽³⁾ Includes consumer loans receivable held for investment and held for sale. 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 approximates book value since the sales price of these loans is known as of December 31, 2010.

⁽⁴⁾ The fair value is estimated using recent transactions of factory-built housing asset-backed securities.

⁽⁵⁾ The fair value is estimated based on the remaining cash flows discounted at the implied yield when the transaction was closed.

In accordance with ASC Topic 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 Topic 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 had no level 3 securities at the end of the third quarter ended December 24, 2010.

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.

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

	As of December 24, 2010			
	Total	Level 1	Level 2	Level 3
Securities issued by the U.S. Treasury and Government	\$ 1,566	\$ -	\$ 1,566	\$ -
Mortgage-backed securities ⁽¹⁾	4,878	-	4,878	-
Securities issued by states and political subdivisions ⁽¹⁾	1,283	-	1,283	-
Corporate debt securities ⁽¹⁾	4,822	-	4,822	-
Marketable equity securities ⁽¹⁾	3,093	3,093	-	-
Other non-performing assets ⁽²⁾	1,294	-	1,294	-
	As of March 26, 2010			
	Total	Level 1	Level 2	Level 3
Securities issued by the U.S. Treasury and Government	\$ 1,793	\$ -	\$ 1,793	\$ -
Mortgage-backed securities ⁽¹⁾	5,496	-	5,496	-
Securities issued by states and political subdivisions ⁽¹⁾	1,249	-	1,249	-
Corporate debt securities ⁽¹⁾	4,780	-	4,780	-
Marketable equity securities ⁽¹⁾	2,722	2,722	-	-
Other non-performing assets ⁽²⁾	1,566	-	1,566	-

⁽¹⁾ Unrealized gains or losses on investments are recorded in accumulated other comprehensive loss at each measurement date.

⁽²⁾ Consists of land and homes acquired through foreclosure.

No significant transfers between Level 1 and Level 2 occurred during the nine months ended December 24, 2010. 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 measured at fair value on a non-recurring basis are summarized below (in thousands):

	As of December 24, 2010				Total Gains (Losses)
	Total	Level 1	Level 2	Level 3	
Long-lived assets held for sale ⁽¹⁾	\$ 1,050	\$ -	\$ 1,050	\$ -	\$ (750)
Long-lived assets held for use ⁽²⁾	2,293	-	2,293	-	(1,116)
Loans held for investment	153,585	-	-	153,585	-
Loans held for sale	2,657	2,657	-	-	-
Construction lending facility	2,968	2,968	-	-	-
Virgo debt	15,927	-	-	15,927	-
Securitized financings	112,512	-	112,512	-	-

⁽¹⁾ Long-lived assets held for sale with a carrying amount of \$1.8 million were written down to their fair value of \$1.1 million, resulting in a loss of \$0.8 million, which was included in loss from operations for the period.

⁽²⁾ Long-lived assets held for use with a carrying amount of \$3.4 million were written down to their fair value of \$2.3 million, resulting in a loss of \$1.1 million, which was included in loss from operations for the period.

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. During the nine months ended December 24, 2010, the Company recorded approximately \$0.8 million in impairment charges on assets held for sale. 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. During the nine months ended December 24, 2010, the Company recorded approximately \$1.1 million in impairment charges on assets held for use, primarily related to write-downs of land held at closed retail locations. These impairment charges related to the factory-built housing segment and are included in selling, general and administrative expenses in the Company's condensed consolidated statements of operations.

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 discounted future cash flows. Loans held for sale are measured at the lower of cost or fair value using Level 1 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 currently lower than the fair value.

ASC 825, *Financial Instruments*, 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.

13. Business Segment Information

The Company operates principally in two segments: (1) factory-built housing, which includes manufactured housing, modular housing and retail operations and (2) financial services, which includes finance and insurance. The following table details net sales and income (loss) from operations by segment for the three and nine months ended December 24, 2010 and December 25, 2009 (in thousands):

	Nine Months Ended	
	December 24, 2010	December 25, 2009
Net Sales		
Factory-built housing	\$ 178,996	\$ 201,704
Financial services	27,063	27,316
	<u>\$ 206,059</u>	<u>\$ 229,020</u>
Income (loss) from operations		
Factory-built housing	\$ (8,090)	\$ (15,865)
Financial services	8,767	12,358
General corporate expenses	(18,378)	(15,489)
	<u>\$ (17,701)</u>	<u>\$ (18,996)</u>
Reorganization items	\$ (2,522)	\$ -
Interest expense	(11,977)	(13,064)
Other income	2,547	2,671
Loss before income taxes	<u>\$ (29,653)</u>	<u>\$ (29,389)</u>

14. Income Taxes

During the nine month periods ended December 24, 2010 and December 25, 2009, the Company recorded no federal income tax expense or benefit due to the availability of net operating loss carryforwards, which are not assured of realization. Tax expense recorded in these periods related to taxes payable in various states in which the Company does business. The Company expects to record no federal income tax expense or benefit for the remainder of fiscal 2011, as it is uncertain whether the Company is assured of realization of benefits associated with its net operating loss carryforwards.

15. Stock Incentive Plan

Effective July 22, 2009, the Palm Harbor Homes, Inc. 2009 Stock Incentive Plan (the "Plan") was adopted. The Plan allows for the issuance of up to 1,844,000 shares of common stock to the Company's employees and outside directors in the form of non-statutory stock options, incentive stock options and restricted stock awards. As of December 24, 2010, the Company has granted options twice under the Plan. On May 18, 2010, the Company granted options for 129,080 shares at an exercise price equal to the market price of the Company's common stock as of the date of grant (\$2.76 per share), and on September 8, 2009, the Company granted options for 1,217,040 shares at an exercise price equal to the market price of the Company's common stock as of the date of grant (\$3.02 per share). Such options have a 10 year term and vest over five years of service. Certain option and share awards provide for accelerated vesting if there is a change in control (as defined in the Plan).

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

As previously reported, Fleetwood Homes, Inc. (“Fleetwood Homes”), a subsidiary of Cavco Industries, Inc. (the “Company”), through its wholly-owned subsidiary, Palm Harbor Homes, Inc., a Delaware corporation (“Acquisition Co.”), entered into an agreement (the “Purchase Agreement”) with Palm Harbor Homes, Inc., a Florida corporation and certain of its subsidiaries (“Palm Harbor”) to purchase substantially all of the assets, and assume specified liabilities, of Palm Harbor, pursuant to an auction process under Section 363 of the U.S. Bankruptcy Code. The Company and Third Avenue Value Fund (“Third Avenue”) each owns 50% of Fleetwood Homes. See Notes 10, 11 and 12 of Notes to Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2011 for additional information.

On April 23, 2011 (the “Acquisition Date”), Acquisition Co. completed the purchase of the Palm Harbor assets and the assumption of specified liabilities, except for the stock of Standard Casualty Co., pursuant to the Amended and Restated Asset Purchase Agreement dated March 1, 2011. The aggregate gross purchase price was \$83.9 million and is exclusive of transaction costs and specified liabilities assumed and post-closing adjustments. Of the purchase price, (i) approximately \$45.3 million was used to retire the debtor-in-possession loan previously made by Fleetwood Homes to Palm Harbor; and (ii) \$13.4 million was deposited in escrow pending regulatory approval to transfer the stock of Standard Casualty Co. to Acquisition Co. The purchase price was funded by Fleetwood Homes’ cash on hand along with equal contributions from the Company and Third Avenue.

On June 7, 2011, regulatory approval of the acquisition of Standard Casualty Co. was received from the Texas Department of Insurance and on June 10, 2011, Acquisition Co. completed the purchase of Standard Casualty Co.

The following selected unaudited pro forma condensed combined financial information and explanatory notes, which we refer to as the pro forma financial statements, present the pro forma impact of the acquisition of Palm Harbor on Cavco’s historical financial position and results of operations. The transaction will be accounted for by applying the acquisition method of accounting under Accounting Standards Codification 805, *Business Combinations* (“ASC 805”), as outlined in the accompanying notes to the pro forma financial statements, which we refer to as the pro forma notes. In accordance with ASC 805, Fleetwood Homes was treated as the acquirer and the acquired assets and liabilities will be recorded at their estimated fair values as of the Acquisition Date.

The following unaudited pro forma condensed combined balance sheets at March 31, 2010 and December 31, 2010, which we refer to as the pro forma balance sheets, are presented on a basis to reflect the acquisition as if it had occurred on March 31, 2010 and December 31, 2010, respectively. The pro forma balance sheets have been prepared by combining the balance sheets of both Cavco and Palm Harbor at their respective balance sheet dates. The following unaudited pro forma condensed combined statements of operations, which we refer to as the pro forma statements of operations, for the nine months ended December 31, 2010 and the year ended March 31, 2010, are presented on a basis to reflect the acquisition transactions as if they had occurred on April 1, 2009. The pro forma statement of operations for the nine months ended December 31, 2010 was prepared by combining the statement of operations for Cavco for the nine months ended December 31, 2010 with the statement of operations for Palm Harbor for the nine months ended December 24, 2010 and then making pro forma adjustments. The pro forma statement of operations for the year ended March 31, 2010 was prepared by combining the statement of operations for Cavco for the year ended March 31, 2010 with the statement of operations for Palm Harbor for the year ended March 26, 2010 and then making pro forma adjustments. See Note 1 to the pro forma financial statements for additional information.

The pro forma financial statements should be read in conjunction with the pro forma notes. The pro forma financial statements and pro forma notes were based on, and should be read in conjunction with:

- Cavco’s unaudited consolidated financial statements as of and for the nine months ended December 31, 2010 and the related notes in Cavco’s Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2010;
- Cavco’s historical audited consolidated financial statements as of and for the years ended March 31, 2010 and 2009, respectively, and the related notes included in Cavco’s Annual Report on Form 10-K for the fiscal year ended March 31, 2010;

- Palm Harbor's historical consolidated financial statements as of and for the years ended March 26, 2010 and March 27, 2009 and the related notes filed as Exhibit 99.1 to Cavco's Form 8-K/A filed with the SEC on July 8, 2011; and
- Palm Harbor's unaudited historical financial statements as of and for the nine months ended December 24, 2010 and December 25, 2009 and the related notes filed as Exhibit 99.2 to Cavco's Form 8-K/A filed with the SEC on July 8, 2011.

For ease of reference, all pro forma statements use Cavco's period-end date and no adjustments were made to Palm Harbor's reported financial information for its different quarter and year-end dates.

Cavco's and Palm Harbor's historical consolidated financial information have been adjusted in the pro forma financial statements to give effect to pro forma events that are (1) directly attributable to the acquisition; (2) factually supportable; and (3) with respect to the pro forma statements of operations, expected to have a continuing impact on the combined results. The pro forma financial statements do not reflect any revenue enhancements or any cost savings from operating efficiencies, synergies, overhead reductions or other restructurings that could result from the acquisition and combining of the companies. The pro forma financial statements also do not reflect any restructuring charges to be incurred in connection with the acquisition as they are not factually supportable at this time. In accordance with ASC 805, these costs will be expensed as incurred.

The acquisition accounting is dependent upon the completion of certain valuations and other studies for a definitive measurement. Accordingly, the pro forma adjustments included herein are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information, and may be revised as additional information becomes available and as additional analyses are performed. Differences between the preliminary estimates reflected in these unaudited pro forma condensed combined financial statements and the final acquisition accounting could occur, and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the combined company's future results of operations and financial position.

The pro forma adjustments are based upon available information and assumptions that management believes reasonably reflect the business combination. We present the pro forma financial statements for informational and illustrative purposes only as they do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Cavco would have been had the acquisition occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or financial position.

**CAVCO UNAUDITED PRO FORMA
CONDENSED COMBINED BALANCE SHEET
DECEMBER 31, 2010**
(Dollars in thousands)

	Historical Cavco	Historical Palm Harbor	Pro Forma Adjustments	Pro Forma Combined
Assets				
Cash and cash equivalents	\$ 49,162	\$ 13,721	\$ (35,843)	\$ 27,040
Restricted cash	213	14,710		14,923
Investments	-	15,642		15,642
Accounts receivable	4,457	13,798	(4,418)	13,837
Consumer loans receivable, net	-	163,445	(33,592)	129,853
Inventory finance notes receivable, net	18,413	-		18,413
Inventories	16,804	53,634	(10,147)	60,291
Assets held for sale	-	5,788	2,826	8,614
Prepaid expenses and other assets	6,604	9,213		15,817
Property, plant and equipment, net	37,031	23,817	(3,494)	57,354
Debtor-in-possession note receivable	38,516	-	(38,516)	-
Deferred income taxes	5,223	-	13,554	18,777
Goodwill and other intangibles, net	68,872	-	13,224	82,096
Total assets	<u>\$ 245,295</u>	<u>\$ 313,768</u>		<u>\$ 462,657</u>
Liabilities and Stockholders' Equity				
Liabilities not subject to compromise:				
Accounts payable	\$ 2,318	\$ 10,342	\$ (2,936)	\$ 9,724
Accrued liabilities	25,972	14,820	3,176	43,968
Construction lending line	-	2,968		2,968
Securitized financings	-	110,533	(4,265)	106,268
Virgo debt, net	-	19,093	(19,093)	-
Debtor-in-possession financing	-	40,430	(40,430)	-
Noncontrolling interest note payable	14,000	-	(14,000)	-
Deferred income taxes	18,412	-	3,057	21,469
Total liabilities not subject to compromise	<u>60,702</u>	<u>198,186</u>		<u>184,397</u>
Pre-petition accounts payable	-	19,891	(19,891)	-
Accrued expenses and other liabilities	-	13,785	(13,785)	-
Convertible senior notes, net	-	51,918	(51,918)	-
Total liabilities subject to compromise	<u>-</u>	<u>85,594</u>		<u>-</u>
Redeemable noncontrolling interest	35,695	-	36,000	71,695
Total stockholders' equity	<u>148,898</u>	<u>29,988</u>	27,679	<u>206,565</u>
Total liabilities, redeemable noncontrolling interest and stockholders' equity	<u>\$ 245,295</u>	<u>\$ 313,768</u>		<u>\$ 462,657</u>

**CAVCO UNAUDITED PRO FORMA
CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2010**
(Dollars in thousands, except per share amounts)

	Historical Cavco	Historical Palm Harbor	Pro Forma Adjustments	Combined Pro Forma
Net sales	\$ 133,005	\$ 206,059	\$ (4,329)	\$ 334,735
Cost of sales	114,042	161,022	(4,056)	271,008
Gross profit	18,963	45,037	(273)	63,727
Selling, general and administrative expenses	16,000	62,738	(10,777)	67,961
Income (loss) from operations	2,963	(17,701)	10,504	(4,234)
Interest expense	-	(11,977)	6,641	(5,336)
Other income	957	2,547	(199)	3,305
Income (loss) before reorganization items and income taxes	3,920	(27,131)	16,946	(6,265)
Reorganization items	-	(2,522)	2,522	-
Income (loss) before income taxes	3,920	(29,653)	19,468	(6,265)
Income tax (expense) benefit	(1,581)	(261)	4,083	2,241
Net income (loss)	2,339	(27,392)	21,029	(4,024)
Less: net income (loss) attributable to noncontrolling interest	1,117	-	(3,182)	(2,065)
Net income (loss) attributable to Cavco/Palm Harbor common stockholders	<u>\$ 1,222</u>	<u>\$ (27,392)</u>	<u>\$ 24,211</u>	<u>\$ (1,960)</u>
Net income (loss) per share attributable to Cavco/Palm Harbor common stockholders:				
Basic	<u>\$ 0.19</u>	<u>\$ (1.19)</u>		<u>\$ (0.30)</u>
Diluted	<u>\$ 0.18</u>	<u>\$ (1.19)</u>		<u>\$ (0.30)</u>
Weighted average shares outstanding:				
Basic	<u>6,578,732</u>	<u>22,975,000</u>		<u>6,578,732</u>
Diluted	<u>6,860,385</u>	<u>22,975,000</u>		<u>6,578,732</u>

**CAVCO UNAUDITED PRO FORMA
CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2010**
(Dollars in thousands, except per share amounts)

	Historical Cavco	Historical Palm Harbor	Pro Forma Adjustments	Combined Pro Forma
Net sales	\$ 115,612	\$ 298,371	\$ (71,442)	\$ 342,541
Cost of sales	104,915	234,664	(60,553)	279,026
Gross profit	10,697	63,707	(10,889)	63,515
Selling, general and administrative expenses	16,718	100,209	(33,919)	83,008
Loss from operations	(6,021)	(36,502)	23,030	(19,493)
Interest expense		(17,533)	10,572	(6,961)
Other income	222	2,944	(413)	2,753
(Loss) income before income taxes	(5,799)	(51,091)	33,189	(23,701)
Income tax benefit (expense)	2,006	(41)	6,675	8,640
Net (loss) income	(3,793)	(51,132)	39,864	(15,061)
Less: net loss attributable to noncontrolling interest	(422)	-	(5,634)	(6,056)
Net (loss) income attributable to Cavco/Palm Harbor common stockholders	<u>\$ (3,371)</u>	<u>\$ (51,132)</u>	<u>\$ 45,498</u>	<u>\$ (9,005)</u>
Net loss per share attributable to Cavco/Palm Harbor common stockholders:				
Basic	<u>\$ (0.52)</u>	<u>\$ (2.23)</u>		<u>\$ (1.38)</u>
Diluted	<u>\$ (0.52)</u>	<u>\$ (2.23)</u>		<u>\$ (1.38)</u>
Weighted average shares outstanding:				
Basic	<u>6,516,572</u>	<u>22,888,000</u>		<u>6,516,572</u>
Diluted	<u>6,516,572</u>	<u>22,888,000</u>		<u>6,516,572</u>

**NOTES TO UNAUDITED PRO FORMA CONDENSED
COMBINED FINANCIAL STATEMENTS**

(Dollars in thousands, except per share amounts)

1. Description of the Acquisition

As previously reported, Fleetwood Homes, Inc. ("Fleetwood Homes"), a subsidiary of Cavco Industries, Inc. (the "Company"), through its wholly-owned subsidiary, Palm Harbor Homes, Inc., a Delaware corporation ("Acquisition Co."), entered into an agreement (the "Purchase Agreement") with Palm Harbor Homes, Inc., a Florida corporation and certain of its subsidiaries ("Palm Harbor") to purchase substantially all of the assets, and assume specified liabilities, of Palm Harbor, pursuant to an auction process under Section 363 of the U.S. Bankruptcy Code. On March 1, 2011, Acquisition Co. was selected as the successful bidder in the court auction. The transaction was approved and a sale order entered by the U.S. Bankruptcy Court on March 4, 2011. The Company and Third Avenue Value Fund ("Third Avenue") each owns 50% of Fleetwood Homes. See Notes 10, 11 and 12 of Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011 for additional information.

Acquisition Co. completed the purchase of the Palm Harbor assets and the assumption of specified liabilities, except for the stock of Standard Casualty Co., pursuant to the Amended and Restated Asset Purchase Agreement dated March 1, 2011. The effective date of the transaction was April 23, 2011 (the "Acquisition Date"). The aggregate gross purchase price was \$83,900 and is exclusive of transaction costs, specified liabilities assumed and post-closing adjustments. Of the purchase price, (i) approximately \$45,301 was used to retire the debtor-in-possession loan previously made by Fleetwood Homes to Palm Harbor; and (ii) \$13,400 was deposited in escrow pending regulatory approval to transfer the stock of Standard Casualty Co. to Acquisition Co. The purchase price was funded by Fleetwood Homes' cash on hand, along with equal contributions of \$36,000 each from the Company and Third Avenue (see Note 12).

On June 7, 2011, regulatory approval of the acquisition of Standard Casualty Co. was received from the Texas Department of Insurance and on June 10, 2011 (the "SCC Acquisition Date"), Acquisition Co. completed the purchase of Standard Casualty Co.

Acquisition Co. acquired five operating manufactured housing production facilities, idled factories in nine locations, 49 operating retail locations, one office building, real estate, all related equipment, accounts receivable, customer deposits, inventory, certain trademarks and trade names, intellectual property, and specified contracts and leases. In addition, Acquisition Co. purchased all of the outstanding shares of CountryPlace Acceptance Corp., CountryPlace Mortgage, Ltd. and their wholly-owned finance subsidiaries. Acquisition Co. also acquired all of the outstanding shares of Standard Casualty Co., Standard Insurance Agency, Inc. and its wholly-owned insurance agency subsidiary. Further, Acquisition Co. assumed certain liabilities of Palm Harbor, including primarily debt facilities of the finance subsidiaries and certain warranty obligations.

The foregoing descriptions of the Purchase Agreement does not purport to be complete and is qualified in its entirety by reference to the Purchase Agreement which was filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on November 29, 2010.

The purchase of the Palm Harbor assets provides further geographic expansion, increased home distribution, and entry into financial and insurance businesses specific to the Company's industry. The Company believes it will have the opportunity to achieve business synergies and cost reductions by eliminating redundant processes and overhead.

2. Basis of Presentation

The unaudited pro forma condensed combined financial information and explanatory notes were prepared using the acquisition method of accounting and were based on the historical financial statements of Cavco and Palm Harbor. For ease of reference, all pro forma statements use Cavco's period-end date and no adjustments were made to Palm Harbor's reported information for its different quarter-end date. Certain reclassifications have been made to the historical financial statements of Palm Harbor to conform with Cavco's presentation, primarily related to revenue recognition in the retail sales process, resulting in the reclassification of net sales and cost of sales among periods, and reclassification of certain amounts between accounts receivable and inventory. Retail sales for Company locations are recognized when funding is reasonably assured, the customer has entered into a legally binding sales contract, title has transferred and the home is accepted by the customer, delivered and permanently located at the customer's site.

The pro forma financial statements present the pro forma impact of the acquisition of Palm Harbor on Cavco's historical financial position and results of operations. The transaction will be accounted for by applying the acquisition method of accounting under Accounting Standards Codification 805, *Business Combinations*. In accordance with ASC 805, Fleetwood Homes was treated as the acquirer and the acquired assets and liabilities will be recorded at their estimated fair values as of the Acquisition Date, except for the assets and liabilities of Standard Casualty Co., which were recorded at their estimated fair values as of the SCC Acquisition Date.

Fair value is defined under existing U.S. GAAP standards as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." This is an exit price concept for the valuation of the asset or liability. In addition, market participants are assumed to be buyers and sellers in the principal (or the most advantageous) market for the asset or liability. Fair value measurements for an asset assume the highest and best use by these market participants. As a result, Cavco may be required to record assets which are not intended to be used or sold and/or to value assets at fair value measures that do not reflect Cavco's intended use of those assets. Many of these fair value measurements can be highly subjective and it is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

Acquisition-related transaction costs (i.e., advisory, legal, valuation, and other professional fees) are not included as a component of consideration transferred but are accounted for as expenses in the periods in which the costs were incurred. During the fiscal year ended March 31, 2011, the Company recognized \$272 of acquisition related costs that were expensed as incurred. These costs were recognized in selling, general and administrative expenses. We anticipate additional acquisition-related costs in the fiscal year ended March 31, 2012 related to the Palm Harbor transaction.

The unaudited pro forma condensed combined financial information was prepared under existing U.S. GAAP standards, which are subject to change and interpretation.

3. Accounting Policies

As a result of the continuing review of Palm Harbor's accounting policies, Cavco may identify differences between the accounting policies of the two companies that, when conformed, could have a material impact on the combined financial statements.

4. Consideration Transferred

The following table details the acquisition-date fair value of the consideration transferred to acquire Palm Harbor (in thousands), of which \$74,459 was in cash:

	Acquisition Date Fair Value
Cash advanced to Palm Harbor under DIP financing, credited to purchase	\$ 44,117
Paid-in-kind interest on DIP financing, credited to purchase price	1,184
Additional cash consideration transferred at closing	30,342
Amounts credited at closing	<u>8,257</u>
Total consideration transferred	<u>\$ 83,900</u>

5. Recording of Assets Acquired and Liabilities Assumed

The acquisition has been accounted for using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the provisional amounts recognized for assets acquired and liabilities assumed as of the Acquisition Date. Assets and liabilities of Standard Casualty Co. have also been included in the following table at their fair values as of the SCC Acquisition Date. Certain estimated values are not yet finalized (see below) and are subject to change, which could be significant. The allocation of the purchase price is still preliminary due to the short duration since the Acquisition Date and the SCC Acquisition Date and will be finalized upon completion of the analysis of the fair values of Palm Harbor's assets and specified liabilities. We expect to finalize these amounts as soon as possible but no later than one year from the Acquisition Date.

The following table summarizes the provisional estimated fair values of the assets acquired and liabilities assumed at the acquisition dates (in thousands):

	Acquisition Date <u>Fair Value</u>
Cash and cash equivalents of the finance subsidiaries	\$ 6,395
Restricted cash	5,924
Investments	16,637
Accounts receivable	3,960
Inventories	42,034
Prepaid expenses and other assets	5,863
Property, plant and equipment	14,160
Assets held for sale	8,360
Consumer loans receivable	126,030
Deferred income tax assets	13,744
Intangible assets	<u>13,224</u>
Total identifiable assets acquired	<u>\$ 256,331</u>
Accounts payable of the finance subsidiaries	\$ (2,746)
Accrued liabilities	(26,390)
Construction lending line	(3,974)
Securitized financings	(101,786)
Debt of the finance subsidiaries	(19,662)
Deferred income tax liabilities	<u>(3,518)</u>
Total liabilities assumed	<u>(158,076)</u>
Net identifiable assets acquired	98,255
Bargain purchase recognized	<u>(14,355)</u>
Net assets acquired	<u>\$ 83,900</u>

The fair value of accounts receivables acquired is \$3,960, with the gross contractual amount being \$4,342. The Company determined that \$382 would be uncollectible.

Of the \$13,224 of acquired intangible assets, \$5,450 was assigned to trademarks and trade names and \$1,100 was assigned to state insurance licenses, which are considered indefinite lived intangible assets and are not subject to amortization and \$6,674 was assigned to customer-related intangibles, technology and insurance policies and renewal rights, subject to a weighted-average useful life of approximately 6 years.

In connection with the acquisition of Palm Harbor, subsequent to Cavco's fiscal year ended March 31, 2011, approximately \$30,342 was transferred at closing of the Palm Harbor transaction on April 23, 2011 and \$19,443 was used to retire a certain debt obligation of the Company's new subsidiary, CountryPlace Acceptance Corp., on May 10, 2011 (including payoff of the loan, prepayment penalty and related legal fees).

During the fiscal year ended March 31, 2011, the Company recognized \$272 of acquisition related costs that were expensed as incurred. These costs were recognized in selling, general and administrative expenses on the Consolidated Statement of Operations. We anticipate additional acquisition-related costs in the fiscal year ended March 31, 2012 related to the purchase of the Palm Harbor assets.

Because the Company purchased Palm Harbor out of bankruptcy, the fair value of identifiable assets acquired and specified liabilities assumed exceeded the fair value of the consideration transferred. In accordance with ASC 805, the Company consequently reassessed the recognition and measurement of identifiable assets acquired and specified liabilities assumed and concluded that the valuation procedures and resulting measures were appropriate. As a result, the Company will recognize a gain of \$14,725 in its consolidated statements of operations as of the Acquisition Date.

The recorded amounts are provisional and subject to change primarily as follows:

- Amounts for inventory and property and equipment are pending completion of certain confirmation of physical existence and condition.
- Amounts for intangibles, investments, property held for sale, consumer loans receivable, securitized financing obligation, deferred income taxes and accrued liabilities are pending finalization of valuation efforts.

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. Judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact results of operations.

6. Pro Forma Adjustments

This note should be read in conjunction with *Note 1. Description of the Acquisition*; *Note 2. Basis of Presentation*; *Note 4. Consideration Transferred*; and *Note 5. Recording of Assets Acquired and Liabilities Assumed*. Adjustments included in the column under the heading “Pro Forma Adjustments” represent the following:

Balance sheet reclassifications and pro forma adjustments:

- Reclassification of amounts to conform to Cavco’s accounting policies for revenue recognition on retail sales, resulting in the reclassification of accounts receivable to inventory, prepaid assets and customer deposits. These revenue recognition adjustments resulted in a decrease in accounts receivable of \$4,418 and an increase in inventory of \$3,359 at December 31, 2010. Accrued liabilities for customer deposits increased by \$1,849 at December 31, 2010.
- Reclassification of fixed asset amounts to held for sale for the idle Tempe, Arizona facility and Buda, Texas facility. The adjustments resulted in a decrease in property, plant and equipment and a corresponding increase in assets held for sale of \$2,054 at December 31, 2010.
- Elimination of \$1,050 from assets held for sale for the LaGrange, Georgia facility that was not included among the assets purchased and was sold by Palm Harbor prior to the acquisition.
- Elimination of Palm Harbor’s historical Senior Convertible Notes certain accounts payable, and certain accrued liabilities discharged in bankruptcy, a floor plan note payable settled prior to the bankruptcy and a credit agreement that has been terminated and will not be a part of the Company’s capitalization going forward (Virgo debt).
- Elimination of the debtor-in-possession (DIP) financing debt (on Palm Harbor’s books) and DIP receivable (on Cavco’s books) and recognition of the DIP financing credited to the purchase price.
- Recognition of the equal contribution received from the holder of the redeemable noncontrolling interest, Third Avenue, and conversion of the Fleetwood Homes convertible note payable which occurred in conjunction with the acquisition to fund the remaining purchase price.
- Recording the fair value of assets acquired and specified liabilities assumed.

Statements of operations reclassifications and pro forma adjustments:

- Reclassification of amounts to conform to Cavco's accounting policies resulting in no impact to net income/(loss) (grossed up both net sales and cost of sales by \$12,040 for the nine months ended December 31, 2010, and \$16,733 in fiscal year 2010, respectively, and decreased SG&A and increased cost of sales by \$1,826 and \$3,889, respectively).
- Reclassification of amounts to conform to Cavco's accounting policies for revenue recognition in the retail sales process, resulting in the reclassification of net sales and cost of sales among periods. These revenue recognition adjustments resulted in an increase in net sales and cost of sales for the nine months ended December 31, 2010 of \$8,634 and \$6,157, respectively, net of adjustment for amounts deferred to the fourth quarter of fiscal year 2011 under Cavco's revenue recognition policy. For fiscal year 2010, the revenue recognition pro forma adjustment resulted in a net decrease in net sales and cost of sales of \$4,705 and \$4,227, respectively.
- Elimination of Palm Harbor's historical interest expense related to Senior Convertible Notes discharged in bankruptcy, a note payable settled prior to the bankruptcy and a credit agreement that has been terminated and will not be a part of the Company's capitalization going forward (\$6,670 in the nine months ended December 31, 2010, and \$10,572 in fiscal years 2010).
- Elimination of \$2,522 of costs incurred and \$97 of interest income in the nine months ended December 31, 2010, which are directly attributable to the bankruptcy and subsequent acquisition, and which do not have a continuing impact on the combined company's operating results. Included in these costs are advisory, legal and regulatory costs incurred by both legacy Cavco and legacy Palm Harbor income and costs related to the debtor-in-possession financing that has been terminated.
- Additional amortization expense (approximately \$991 for the nine months ended December 31, 2010 and \$1,322 in fiscal year 2010) related to the fair value of identifiable intangible assets acquired.
- Reduction in depreciation expense (approximately \$1,456 in the nine months ended December 31, 2010 and \$2,986 in fiscal year 2010, respectively) related to the fair value adjustment to property, plant and equipment acquired.
- Elimination of operating activities related to closed manufacturing facilities and retail locations that (i) were not purchased in the transaction or (ii) are held for sale as of the Date of Acquisition. The amounts eliminated included sales of \$25,034, cost of sales of \$23,474, and SG&A of \$8,726 for the nine months ended December 31, 2010. For fiscal year 2010, the amounts eliminated were sales of \$80,789, cost of sales of \$75,727, and SG&A of \$26,691.

In addition, all of the above adjustments were adjusted for the applicable income tax impact.

7. Forward-looking Statements

These Unaudited Pro Forma Condensed Combined Financial Statements may be deemed to be forward-looking statements, within the meaning of the United States Private Securities Litigation Reform Act of 1995, and as "forward-looking statements" is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Forward-looking statements are often characterized by the use of words such as "believes," "estimates," "expects," "projects," "may," "will," "intends," "plans," or "anticipates," or by discussions of strategy, plans or intentions.

All forward-looking statements are subject to risks and uncertainties, many of which are beyond our control. As a result, our actual results or performance may differ materially from anticipated results or performance. Also, forward-looking statements are based upon management's estimates of fair values and of future costs, using currently available information. Therefore, actual results may differ materially from those expressed or implied in those statements. Factors that could cause such differences to occur include, but are not limited to, those discussed under Item 1A, "Risk Factors," and elsewhere in Cavco's 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on June 3, 2011. We expressly disclaim any obligation to update any forward-looking statements contained herein, whether as a result of new information, future events or otherwise. For all of these reasons, you are cautioned not to place undue reliance on any forward-looking statements included in these Unaudited Pro Forma Condensed Combined Financial Statements.