CAVCO INDUSTRIES INC
Form 10-Q
November 06, 2008

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

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from __________ to __________

Commission File Number 000-08822

Cavco Industries, Inc.

(Exact name of Registrant as specified in its charter)

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

1001 North Central Avenue, Suite 800, Phoenix, Arizona 85004
(Address of principal executive offices)
(Zip Code)
(602) 256-6263
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last year)

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

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

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

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

As of November 5, 2008, there were 6,496,460 shares of the registrant s common stock, $.01 par value, issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2008 (Unaudited)	March 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 75,701	$ 73,610
Restricted cash	151	330
Accounts receivable	7,812	10,093
Inventories	12,489	11,293
Prepaid expenses and other current assets	1,761	1,839
Deferred income taxes	3,778	4,033
Total current assets	101,692	101,198
Property, plant and equipment, at cost:		
Land	6,580	6,050
Buildings and improvements	7,379	7,290
Machinery and equipment	8,114	7,979
	22,073	21,319
Accumulated depreciation	(8,991)	(8,613)
	13,082	12,706
Goodwill	67,346	67,346
Total assets	$ 182,120	$ 181,250
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 1,834	$ 2,147
Accrued liabilities	16,227	18,005
Total current liabilities	18,061	20,152
Deferred income taxes	15,642	14,747

Commitments and contingencies				
Stockholders equity				
Preferred Stock, $.01 par value; 1,000,000 shares authorized; No shares issued or outstanding				
Common Stock, $.01 par value; 20,000,000 shares authorized; Outstanding 6,496,460 and 6,452,415 shares, respectively		65		65
Additional paid-in capital		125,509		124,814
Retained earnings		22,843		21,472
Total stockholders equity		148,417		146,351
Total liabilities and stockholders equity	$	182,120	$	181,250

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2008	2007	2008	2007
Net sales	$ 30,030	$ 38,435	$ 65,539	$ 75,801
Cost of sales	26,329	32,887	57,650	64,813
Gross profit	3,701	5,548	7,889	10,988
Selling, general and administrative expenses	3,145	3,555	6,246	7,129
Income from operations	556	1,993	1,643	3,859
Interest income	285	718	579	1,389
Income before income taxes	841	2,711	2,222	5,248
Income tax expense	323	802	851	1,604
Net income	$ 518	$ 1,909	$ 1,371	$ 3,644
Net income per share:				
Basic	$ 0.08	$ 0.30	$ 0.21	$ 0.57
Diluted	$ 0.08	$ 0.29	$ 0.20	$ 0.55
Weighted average shares outstanding:				
Basic	6,484,362	6,423,387	6,472,677	6,411,961
Diluted	6,705,005	6,660,242	6,695,902	6,656,135

See accompanying Notes to Consolidated Financial Statements

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

	Six Months Ended September 30,	
	2008	2007
OPERATING ACTIVITIES		
Net income	$ 1,371	$ 3,644
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	425	387
Deferred income taxes	1,150	954
Share-based compensation expense	143	219
Tax benefits from option exercises	(31)	374
Incremental tax benefits from option exercises		(313)
Gain on sale of property, plant and equipment	(4)	
Changes in operating assets and liabilities:		
Restricted cash	179	16
Accounts receivable	2,281	(534)
Inventories	(1,196)	1,775
Prepaid expenses and other current assets	78	399
Accounts payable and accrued liabilities	(2,091)	128
Net cash provided by operating activities	2,305	7,049
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(817)	(501)
Proceeds from sale of property, plant and equipment	20	
Purchases of short-term investments		(215,375)
Proceeds from sale of short-term investments		201,600
Net cash used in investing activities	(797)	(14,276)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	583	578
Incremental tax benefits from option exercises		313
Net cash provided by financing activities	583	891
Net increase (decrease) in cash and cash equivalents	2,091	(6,336)
Cash and cash equivalents at beginning of period	73,610	12,976

Cash and cash equivalents at end of period	$ 75,701	$ 6,640
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$ 25	$

See accompanying Notes to Consolidated Financial Statements

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CAVCO INDUSTRIES, INC.
Notes to Consolidated Financial Statements
September 30, 2008
(Dollars in thousands, except per share data)
(Unaudited)

1. Basis of Presentation

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

In the opinion of management, these statements include all the normal recurring adjustments necessary to fairly state the Company s Consolidated Financial Statements. The Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year. The Company suggests that these Consolidated Financial Statements be read in conjunction with the audited Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K filed with the SEC on May 30, 2008 (the Form 10-K).

The Company s deferred tax assets primarily result from financial statement accruals and its deferred tax liabilities primarily result from tax amortization of goodwill.

The Company complies with the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the provisions of FIN 48, the Company has recorded an insignificant amount of unrecognized tax benefits and there would be an insignificant effect on the effective tax rate if all unrecognized tax benefits were recognized. The Company classifies interest and penalties related to unrecognized tax benefits in tax expense.

Consolidated and separate income tax returns are filed in the U.S. federal jurisdiction and in several state jurisdictions. In June 2008, the Company received a notice of examination from the Internal Revenue Service (IRS) for the Company s federal income tax return for the fiscal year ended March 31, 2007. In January 2007, the IRS completed an examination of the Company s federal income tax return for fiscal year 2005, which resulted in a Revenue Agent Report that indicated no changes. The Company is no longer subject to examination by the IRS for years before fiscal year 2006. The Company is under audit by the Arizona Department of Revenue for the fiscal years ended March 31, 2004 through March 31, 2006. The Company is no longer subject to examinations by tax authorities in Arizona and California for years before fiscal year 2004. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to the Company s financial position. The total amount of unrecognized tax benefit related to any particular tax position is not anticipated to change significantly within the next 12 months.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS 157), which clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure, and gives the highest priority to quoted prices in active markets in determining fair value. SFAS 157 requires disclosures about (1) the extent to which companies measure assets and liabilities at fair value, (2) the methods and assumptions used to measure fair value, and (3) the effect of fair value measures on earnings. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FSP FAS 157-2, *Effective Date of FASB Statement No. 157* that delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for the majority of non-financial assets and non-financial liabilities. Therefore, effective April 1, 2008, the Company adopted SFAS 157

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for financial assets and liabilities only, which had no effect on our consolidated financial position, results of operations or cash flows. Management is currently evaluating the impact, if any, SFAS 157 will have upon adoption for non-financial assets and liabilities on our results of operations and consolidated financial position.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (SFAS 159), which permits an entity to choose to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items including insurance contracts. Entities electing the fair value option would be required to recognize changes in fair value in earnings and to expense upfront cost and fees associated with the item for which the fair value option is elected. The provisions of SFAS 159 are effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 159 on April 1, 2008 but did not elect the fair value option for any of its assets or liabilities.

Revenue from homes sold to independent retailers is generally recognized when the home is shipped, at which time title passes to the independent retailer, and collectability is reasonably assured. Homes sold to independent retailers are generally either paid for prior to shipment or financed by the independent retailer through standard industry arrangements which include repurchase agreements (see Note 4). Manufacturing sales are reduced by a provision for estimated repurchase obligations based upon past experience and market conditions. 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. For a description of other significant accounting policies used by the Company in the preparation of its Consolidated Financial Statements, please refer to Note 1 of the Notes to Consolidated Financial Statements in the Form 10-K.

2. Composition of Certain Financial Statement Captions

Inventories consist of the following:

	September 30, 2008	March 31, 2008
Raw materials	$ 5,517	$ 4,753
Work in process	2,678	2,416
Finished goods	4,294	4,124
	$ 12,489	$ 11,293

Accrued liabilities consist of the following:

	September 30, 2008	March 31, 2008
Estimated warranties	$ 6,524	$ 6,619
Salaries, wages and benefits	1,899	2,568
Accrued volume rebates	1,496	1,588
Accrued insurance	1,234	1,401
Customer deposits	1,007	1,989
Reserve for repurchase commitments	797	950
Other	3,270	2,890
	$ 16,227	$ 18,005

3. Warranties

Homes are warranted against manufacturing defects for a period of one year commencing at the time of sale to the retail customer. Estimated costs relating to home warranties are provided at the date of sale. The Company has recorded a liability for estimated future warranty costs relating to homes sold based upon management s

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assessment of historical experience factors, an estimate of the amount of homes in the distribution channel and current industry trends. Activity in the liability for estimated warranties was as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2008	2007	2008	2007
Balance at beginning of period	$ 6,681	$ 6,828	$ 6,619	$ 6,590
Charged to costs and expenses	1,524	2,000	3,347	4,098
Deductions	(1,681)	(1,904)	(3,442)	(3,764)
Balance at end of period	$ 6,524	$ 6,924	$ 6,524	$ 6,924

4. Contingencies

Repurchase Contingencies The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for retailers of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to retailers in the event of default by the retailer. The risk of loss under these agreements is spread over numerous retailers. The price the Company is obligated to pay generally declines over the period of the agreement (generally 18 to 24 months) and is further reduced by the resale value of the homes. The maximum amount for which the Company was contingently liable under such agreements approximated $23,342 at September 30, 2008, without reduction for the resale value of the homes. The Company applies FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 3* (FIN 45) and SFAS No. 5, *Accounting for Contingencies* (SFAS 5) to account for its liability for repurchase commitments. Under the provisions of FIN 45, the Company records the greater of the estimated fair value of the non-contingent obligation or a contingent liability under the provisions of SFAS 5. The Company recorded an estimated liability of $797 at September 30, 2008 related to these commitments.

Letter of Credit The Company maintains an $870 outstanding letter of credit with J.P. Morgan Chase Bank N.A. for any remaining claims under a self funded workers compensation program which concluded on September 30, 2006.

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

5. Stock-Based Compensation

The Company maintains stock incentive plans whereby stock option grants or awards of restricted stock may be made to certain officers, directors and key employees. The plans, which are shareholder approved, permit the award of up to 1,350,000 shares of the Company s common stock, of which 544,001 shares were still available for grant at September 30, 2008. When options are exercised, new shares of the Company s common stock are issued. Stock options may not be granted below 100% of the fair market value of the Company s common stock at the date of grant and generally expire seven years from the date of grant. Stock options and awards of restricted stock vest over a three to five-year period. The stock incentive plans provide for accelerated vesting of stock options and removal of restrictions on restricted stock awards upon a change in control (as defined in the plans).

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The following table summarizes the option activity within the Company s stock-based compensation plans for the six months ended September 30, 2008:

	Number of Shares
Outstanding at March 31, 2008	624,580
Granted	27,500
Exercised	(54,993)
Canceled or forfeited	
Outstanding at September 30, 2008	597,087
Exercisable at September 30, 2008	556,837

A summary of restricted stock activity within the Company s share-based compensation plans and changes for the six months ended September 30, 2008 is as follows:

	Number of Shares
Nonvested at March 31, 2008	1,524
Granted	
Vested	(342)
Forfeited	
Nonvested at September 30, 2008	1,182

6. Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period increased by the weighted-average number of dilutive common stock equivalents outstanding during the period, using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2008	2007	2008	2007
Net income	$ 518	$ 1,909	$ 1,371	$ 3,644
Weighted average shares outstanding:				
Basic	6,484,362	6,423,387	6,472,677	6,411,961
Common stock equivalents treasury stock method	220,643	236,855	223,225	244,174
Diluted	6,705,005	6,660,242	6,695,902	6,656,135
Net income per share:				

Basic	$	0.08	$	0.30	$	0.21	$	0.57
Diluted	$	0.08	$	0.29	$	0.20	$	0.55

Anti-dilutive common stock equivalents excluded from the computation of diluted earnings per share for the three months ended September 30, 2008 and 2007 were 4,401 and 3,633, respectively. There were 3,403 and 1,899 anti-dilutive common stock equivalents excluded from the computation of diluted earnings per share for the six months ended September 30, 2008 and 2007, respectively.

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7. Discontinued Operations

The Company has plans to dispose of certain of its retail sales centers and these operations are considered discontinued retail operations. Included in the accompanying Consolidated Balance Sheet are finished goods inventories to be liquidated in conjunction with the disposal of these retail sales centers of approximately $79 at September 30, 2008. There were no operating losses for the three and six months ended September 30, 2008 or 2007 for the stores identified for disposal as the costs related to the liquidation of inventory were consistent with management s expectations of net realizable values. Net sales for the retail sales centers to be disposed of approximated $744 and $1,048 for the three month periods ended September 30, 2008 and 2007, respectively, and $1,608 and $1,903 for the six month periods ended September 30, 2008 and 2007, respectively.

8. Business Segment Information

The Company operates in two business segments Manufacturing and Retail. Through its Manufacturing segment, the Company designs and manufactures homes which are sold primarily in the southwestern United States to a network of distributors and Company-owned retail locations comprising the Retail segment. The Company s Retail segment derives its revenues from home sales to individuals. The accounting policies of the segments are the same as those described in the Form 10-K. Retail segment results include retail profits from the sale of homes to consumers but do not include any manufacturing segment profits associated with the homes sold. Intercompany transactions between reportable operating segments are eliminated in consolidation. Substantially all depreciation and capital expenditures are related to the Manufacturing segment. Each segment s results include corporate office costs that are directly and exclusively incurred for the segment. The following table summarizes information with respect to the Company s business segments for the periods indicated:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2008	2007	2008	2007
Net sales				
Manufacturing	$ 29,888	$ 35,130	$ 63,971	$ 71,368
Retail	1,808	4,414	4,324	7,024
Less intercompany	(1,666)	(1,109)	(2,756)	(2,591)
Total consolidated net sales	$ 30,030	$ 38,435	$ 65,539	$ 75,801
Income (loss) from operations				
Manufacturing	$ 1,569	$ 2,924	$ 3,761	$ 5,900
Retail	(5)	120	(62)	106
Intercompany profit in inventory	76	93	66	171
General corporate charges	(1,084)	(1,144)	(2,122)	(2,318)
Total consolidated income from operations	$ 556	$ 1,993	$ 1,643	$ 3,859

	As of	
	September 30, 2008	March 31, 2008
Total assets		