

CAVCO INDUSTRIES INC

Form 10-Q

August 07, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from ____ to ____

Commission File Number 000-08822

Cavco Industries, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

56-2405642

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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 No

As of August 7, 2009, there were 6,507,000 shares of the registrant's common stock, \$.01 par value, issued and outstanding.

CAVCO INDUSTRIES, INC.
FORM 10-Q
June 30, 2009
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CAVCO INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2009 (Unaudited)	March 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 66,933	\$ 70,557
Short-term investments	5,208	4,464
Restricted cash	313	244
Accounts receivable	6,276	6,234
Inventories	8,726	9,333
Prepaid expenses and other current assets	4,951	4,160
Deferred income taxes	3,179	3,434
Total current assets	95,586	98,426
Property, plant and equipment, at cost:		
Land	6,580	6,580
Buildings and improvements	7,336	7,355
Machinery and equipment	8,232	8,203
	22,148	22,138
Accumulated depreciation	(9,563)	(9,279)
	12,585	12,859
Goodwill	67,346	67,346
Total assets	\$ 175,517	\$ 178,631
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 388	\$ 739
Accrued liabilities	13,302	13,753
Total current liabilities	13,690	14,492
Deferred income taxes	15,191	16,099

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 6,507,000 and 6,506,843 shares, respectively

Additional paid-in capital

Retained earnings

Total stockholders' equity

Total liabilities and stockholders' equity

65	65
126,090	126,045
20,481	21,930
146,636	148,040

\$ 175,517	\$ 178,631
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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 June 30,	
	2009	2008
Net sales	\$ 13,595	\$ 35,509
Cost of sales	13,501	31,321
Gross profit	94	4,188
Selling, general and administrative expenses	2,469	3,101
(Loss) income from operations	(2,375)	1,087
Interest income	27	294
(Loss) income before income taxes	(2,348)	1,381
Income tax benefit (expense)	899	(528)
Net (loss) income	\$ (1,449)	\$ 853
Net (loss) income per share:		
Basic	\$ (0.22)	\$ 0.13
Diluted	\$ (0.22)	\$ 0.13
Weighted average shares outstanding:		
Basic	6,506,898	6,460,992
Diluted	6,506,898	6,696,158

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended June 30,	
	2009	2008
OPERATING ACTIVITIES		
Net (loss) income	\$ (1,449)	\$ 853
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	284	227
Deferred income taxes	(653)	586
Share-based compensation expense	45	71
Tax benefits from option exercises		(31)
Changes in operating assets and liabilities:		
Restricted cash	(69)	(361)
Accounts receivable	(42)	784
Inventories	607	(2,105)
Prepaid expenses and other current assets	(791)	98
Accounts payable and accrued liabilities	(802)	(252)
Net cash used in operating activities	(2,870)	(130)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(10)	(75)
Purchases of short-term investments	(1,488)	
Proceeds from sale of short-term investments	744	
Net cash used in investing activities	(754)	(75)
FINANCING ACTIVITIES		
Net cash provided by financing activities		
Net decrease in cash and cash equivalents	(3,624)	(205)
Cash and cash equivalents at beginning of period	70,557	73,610
Cash and cash equivalents at end of period	\$ 66,933	\$ 73,405
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$	\$ 5

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CAVCO INDUSTRIES, INC.
Notes to Consolidated Financial Statements
June 30, 2009

(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 21, 2009 (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 Financial Accounting Standards Board (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.

The income tax benefit recognized during the three months ended June 30, 2009 is the result of current quarter taxable losses and the tax amortization of goodwill. Income tax returns are filed in the U.S. federal jurisdiction and in several state jurisdictions. The Company is no longer subject to examination by the Internal Revenue Service (IRS) for years before fiscal year 2006. In June 2009, the Arizona Department of Revenue completed its audit for the fiscal years ended March 31, 2004 through March 31, 2006, which resulted in an insignificant overpayment to be refunded to the Company. 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.

During the first quarter of fiscal year 2010, the Company moved its park model and vacation cabin manufacturing operations from its Specialty plant to a second production line at its Litchfield facility. Both of these plants are located in the metropolitan area of Phoenix, Arizona. This move will provide greater capabilities for the production of park models, cabins, and other specialty buildings, create improved overall operational efficiencies at the Litchfield factory, and will reduce overhead expenses. The Company incurred immaterial costs associated with this transition. Cavco will continue to utilize the Specialty facility for supplemental support of its other factories.

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Revenue from homes sold to independent retailers is generally recognized when the home is shipped, at which time title passes to the independent retailer, and collectability is reasonably assured. Homes sold to independent retailers are generally either paid for prior to shipment or financed by the independent retailer through standard industry arrangements, which include repurchase agreements. Manufacturing sales are reduced by a provision for estimated repurchase obligations (see Note 4). Revenue from homes sold under special inventory finance programs is deferred until such time that the home is sold by a retailer and/or payment for the related loan receivable is received by the Company. 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.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which defines the term fair value, establishes a framework for measuring fair value and enhances related disclosures. SFAS 157 was 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 for financial assets and liabilities and, effective April 1, 2009, the Company adopted SFAS 157 for non-financial assets and non-financial liabilities, which had no effect on our consolidated financial position, results of operations or cash flows. As of June 30, 2009, the Company had no assets or liabilities required to be measured at fair value pursuant to SFAS 157.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS 141R), and Statement of Financial Accounting Standards No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160), which significantly change the financial accounting and reporting of business combination transactions and noncontrolling interests in consolidated financial statements. The provisions of SFAS 141R and SFAS 160 are effective for fiscal years beginning after December 15, 2008. Therefore, effective April 1, 2009, the Company adopted SFAS 141R and SFAS 160, which had no effect on our consolidated financial position, results of operations and cash flows as of and for the three months ended June 30, 2009, but will affect the accounting for any future business combination transactions undertaken by the Company subsequent to April 1, 2009.

In July 2009, the FASB issued Statement of Financial Accounting Standards No. 168, *The FASB Accounting Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168). SFAS 168 supersedes Statement No. 162 issued in May 2008. SFAS 168 will establish the *Financial Accounting Standards Board Accounting Standards Codification* (the Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases issued by the SEC are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS 168 will not impact our financial statements other than references to authoritative accounting literature in future periods will be made in accordance with the Codification.

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.

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Inventories consist of the following:

	June 30, 2009	March 31, 2009
Raw materials	\$ 3,898	\$ 4,380
Work in process	1,480	1,570
Finished goods	3,348	3,383
	\$ 8,726	\$ 9,333

Accrued liabilities consist of the following:

	June 30, 2009	March 31, 2009
Estimated warranties	\$ 5,417	\$ 5,902
Salaries, wages and benefits	1,243	1,152
Accrued insurance	1,091	1,467
Customer deposits	896	899
Accrued volume rebates	887	863
Reserve for repurchase commitments	815	741
Other (various)	2,953	2,729
	\$ 13,302	\$ 13,753

3. Warranties

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

	Three Months Ended June 30,	
	2009	2008
Balance at beginning of period	\$ 5,902	\$ 6,619
Charged to costs and expenses	752	1,823
Deductions	(1,237)	(1,761)
Balance at end of period	\$ 5,417	\$ 6,681

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 \$16,706 at June 30, 2009, 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. 34 (FIN 45) and Statement of Financial Accounting Standards 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 value of the non-contingent obligation or a contingent liability under the provisions of SFAS 5. The Company recorded an estimated liability of \$815 at June 30, 2009 related to these commitments.

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Letter of Credit The Company maintains a \$550 outstanding letter of credit with J.P. Morgan Chase Bank N.A. for any remaining claims under a self-funded workers' compensation program, which concluded on September 30, 2006. There have been no draws against the letter of credit.

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 422,126 shares were still available for grant at June 30, 2009. When options are exercised, new shares of the Company's common stock are issued. Stock options may not be granted below 100% of the fair market value of the Company's common stock at the date of grant and generally expire seven years from the date of grant. Stock options and awards of restricted stock vest over a three to five-year period. The stock incentive plans provide for accelerated vesting of stock options and removal of restrictions on restricted stock awards upon a change in control (as defined in the plans).

The following table summarizes the option activity within the Company's stock-based compensation plans for the three months ended June 30, 2009:

	Number of Shares
Outstanding at March 31, 2009	576,079
Granted	132,500
Outstanding at June 30, 2009	708,579
Exercisable at June 30, 2009	543,079

A summary of restricted stock activity within the Company's share-based compensation plans and changes for the three months ended June 30, 2009 is as follows:

	Number of Shares
Nonvested at March 31, 2009	1,182
Vested	(157)
Nonvested at June 30, 2009	1,025

Table of Contents**6. Earnings Per Share**

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

	Three Months Ended June 30,	
	2009	2008
Net (loss) income	\$ (1,449)	\$ 853
Weighted average shares outstanding:		
Basic	6,506,898	6,460,992
Common stock equivalents treasury stock method		235,166
Diluted	6,506,898	6,696,158
Net (loss) income per share:		
Basic	\$ (0.22)	\$ 0.13
Diluted	\$ (0.22)	\$ 0.13

Anti-dilutive common stock equivalents excluded from the computation of diluted earnings per share for the three months ended June 30, 2009 and 2008 were 120,579 and 1,565, respectively.

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 \$260 at June 30, 2009. There were no operating losses for the three months ended June 30, 2009 or 2008 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 \$213 and \$864 for the three month periods ended June 30, 2009 and 2008, respectively.

Table of Contents**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 and South Central 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 June 30,	
	2009	2008
Net sales		
Manufacturing	\$ 12,966	\$ 34,083
Retail	2,017	2,516
Less intercompany	(1,388)	(1,090)
 Total consolidated net sales	 \$ 13,595	 \$ 35,509
 (Loss) income from operations		
Manufacturing	\$ (1,470)	\$ 2,192
Retail	40	(57)
Intercompany profit in inventory	7	(10)
General corporate charges	(952)	(1,038)
 Total consolidated (loss) income from operations	 \$ (2,375)	 \$ 1,087

	As of	
	June 30, 2009	March 31, 2009
Total assets		
Manufacturing	\$ 96,637	\$ 96,987
Retail	3,463	3,071
Corporate	75,417	78,573
 Total consolidated assets	 \$ 175,517	 \$ 178,631

Total Corporate assets are comprised primarily of cash and cash equivalents, and deferred taxes.

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9. Subsequent Events

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events* (SFAS 165). SFAS 165 is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, and is effective for interim and annual periods ending after June 15, 2009. The Company has evaluated subsequent events through the date of issuance, August 7, 2009.

On July 15, 2009, the Company and an investment partner, Third Avenue Value Fund (Third Avenue), formed FH Holding, Inc. (FH), each with a fifty percent ownership interest. On July 21, 2009, FH entered into an Asset Purchase Agreement (the Purchase Agreement) with Fleetwood Enterprises, Inc. and certain of its subsidiaries (collectively, Fleetwood). Generally, the Fleetwood assets proposed for purchase include seven manufactured housing plants, one office building, all related equipment, accounts receivable, inventory, certain trademarks and trade names, intellectual property, and specified contracts and leases. The manufactured housing plants are located in Nampa, Idaho; Woodburn, Oregon; Riverside, California; Waco, Texas; Lafayette, Tennessee; Douglas, Georgia; and Rocky Mount, Virginia.

Fleetwood has been operating under Chapter 11 protection since March 10, 2009. Consequently, the Purchase Agreement does not include customary indemnification provisions and, in addition to customary closing conditions, the Purchase Agreement does contain representations and warranties and covenants that are customary for a transaction of this nature. In addition, the Purchase Agreement must be approved by the United States Bankruptcy Court, which is expected to make its ruling in August 2009.

Pursuant to the terms and conditions of the Purchase Agreement, Fleetwood has agreed to sell, and FH has agreed to purchase, certain of Fleetwood s assets comprising its manufactured housing business. The cash consideration to be paid to Fleetwood in connection with the sale of the assets is expected to be approximately \$29.9 million. However, the final cash consideration is subject to post-closing adjustments related to working capital, standard prorations related to real estate conveyances, and assumption of certain liabilities of Fleetwood, including among other things, certain warranty and contractual obligations.

In addition, the Purchase Agreement further contemplates that the parties or their affiliates will enter into a number of ancillary agreements related to the transaction, including a: (1) transition services agreement, pursuant to which Fleetwood will provide certain fee-based transition services to FH; and (2) co-existence agreement describing the rights to certain of Fleetwood s transferred intellectual property.

The foregoing description of the Purchase Agreement does not purport to be complete and is qualified entirely by reference to the Purchase Agreement, which is filed as Exhibit 10.1 to the Form 8-K filed on July 23, 2009.

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

Introduction

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

Overview

We are the largest producer of manufactured homes in Arizona and the 8th largest producer of HUD code manufactured homes in the United States, based on 2008 total home production data published by Manufactured Home Merchandiser magazine. The Company is also a leading producer of park model homes and vacation cabins in the United States.

Headquartered in Phoenix, Arizona, the Company designs and produces factory-built homes, which are sold to a network of retailers located primarily in the Southwestern and South Central United States. In an effort to further streamline our cost structure in this environment, we have moved our Phoenix, Arizona park model and vacation cabin operation to one of our other nearby factories. The combining factory had excess capacity available for a second production line, which is now being utilized for these specialty products. The transition was completed by the end of the first quarter with no disruption of service to the customers of that business. As of June 30, 2009, the Company operated two homebuilding facilities located in Arizona and one in Texas. The retail segment of the Company operated six retail sales locations in Arizona, New Mexico and Texas, which offer homes produced by the Company and other manufacturers to retail customers. Management has plans to close certain of these retail locations and does not anticipate that the closure of any of our retail outlets will materially affect the operations of our manufacturing segment.

Industry and Company Outlook

The manufactured housing industry continues to operate at increasingly low production and shipment levels. The availability of consumer financing for the retail purchase of manufactured homes and inventory financing for the wholesale distribution chain needs to be increased before marked emergence from the current lows can occur. Progress has also been impeded by several general economic challenges, including turmoil in the mortgage loan markets, overall housing sector weakness, and lower consumer confidence levels. Since the second quarter of fiscal year 2007, the Company's incoming order rates have dramatically slowed, creating lower financial results and negative year to year financial statement comparisons. The Company operated with a minimal backlog throughout fiscal year 2009 and the backlog of orders remained low at \$1.6 million as of June 30, 2009.

Faced with illiquid capital markets in late calendar year 2008, each of the manufactured housing sector's remaining inventory finance lenders initiated radical changes, including one company's announcement to cease their lending activities entirely. The continued participation of the