CAVCO INDUSTRIES INC
Form 10-Q
November 07, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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 No.)**
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 x 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 x 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 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	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of November 6, 2012, there were 6,967,954 shares of the registrant s common stock, $.01 par value, issued and outstanding.

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CAVCO INDUSTRIES, INC.

FORM 10-Q

September 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CAVCO INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	September 30, 2012 (Unaudited)	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 46,790	$ 41,094
Restricted cash, current	7,382	6,331
Accounts receivable, net	14,652	14,871
Short-term investments	6,622	5,377
Current portion of consumer loans receivable, net	19,375	20,705
Inventories	60,033	62,246
Assets held for sale	3,903	3,903
Prepaid expenses and other current assets	8,113	7,848
Deferred income taxes, current	6,245	6,657
Total current assets	173,115	169,032
Restricted cash	453	453
Investments	9,121	8,825
Consumer loans receivable, net	96,938	98,594
Inventory finance notes receivable, net	27,312	24,681
Property, plant and equipment, net	49,140	50,064
Goodwill and other intangibles, net	80,124	80,915
Deferred income taxes	4,011	4,770
Total assets	$ 440,214	$ 437,334
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 12,895	$ 11,732
Accrued liabilities	61,395	58,495
Construction lending lines	1,041	4,550
Current portion of securitized financings	10,179	10,728
Total current liabilities	85,510	85,505
Securitized financings	76,543	80,747
Deferred income taxes	16,081	16,198
Redeemable noncontrolling interest	88,757	86,541
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 6,967,954 and 6,890,796 shares, respectively	70	69
Additional paid-in capital	134,423	131,589
Retained earnings	38,741	36,627
Accumulated other comprehensive income	89	58
Total stockholders equity	173,323	168,343
Total liabilities, redeemable noncontrolling interest and stockholders equity	$ 440,214	$ 437,334

See accompanying Notes to Consolidated Financial Statements

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CAVCO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Net sales	$ 110,084	$ 130,008	$ 228,865	$ 228,989
Cost of sales	84,377	101,780	179,103	184,601
Gross profit	25,707	28,228	49,762	44,388
Selling, general and administrative expenses	20,118	21,588	40,093	38,578
Income from operations	5,589	6,640	9,669	5,810
Interest expense	(1,570)	(1,916)	(3,253)	(3,377)
Other income	388	255	783	615
Gain on bargain purchase				22,009
Income before income taxes	4,407	4,979	7,199	25,057
Income tax expense	(1,726)	(1,807)	(2,900)	(1,197)
Net income	2,681	3,172	4,299	23,860
Less: net income attributable to redeemable noncontrolling interest	1,427	1,487	2,185	11,953
Net income attributable to Cavco common stockholders	$ 1,254	$ 1,685	$ 2,114	$ 11,907
Comprehensive income:				
Net income	$ 2,681	$ 3,172	$ 4,299	$ 23,860
Unrealized gain (loss) on available-for-sale securities, net of tax	88	(218)	62	(282)
Comprehensive income	2,769	2,954	4,361	23,578
Comprehensive income attributable to redeemable noncontrolling interest	1,471	1,378	2,216	11,812
Comprehensive income attributable to Cavco common stockholders	$ 1,298	$ 1,576	$ 2,145	$ 11,766
Net income per share attributable to Cavco common stockholders:				
Basic	$ 0.18	$ 0.24	$ 0.30	$ 1.73
Diluted	$ 0.18	$ 0.24	$ 0.30	$ 1.72
Weighted average shares outstanding:				
Basic	6,967,954	6,890,122	6,945,815	6,864,427
Diluted	7,041,755	6,937,807	7,006,322	6,921,458

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, 2012	Six Months Ended September 30, 2011
OPERATING ACTIVITIES		
Net income	$ 4,299	$ 23,860
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,058	2,751
Provision for credit losses	267	43
Deferred income taxes	1,024	(906)
Share-based compensation expense	636	456
Non-cash interest income	(740)	(968)
Non-cash interest expense	352	329
Loss (gain) on sale of property, plant and equipment including assets held for sale	23	(53)
Gain on bargain purchase		(22,009)
Gain on sale of loans	(3,829)	(2,816)
Gain on sale of investments	(42)	(21)
Changes in operating assets and liabilities:		
Restricted cash	(1,051)	(1,160)
Accounts receivable	195	(3,549)
Consumer loans originated	(54,069)	(36,198)
Principal payments on consumer loans receivable	5,749	5,129
Proceeds from sales of consumer loans	55,556	36,981
Inventories	2,213	(583)
Prepaid expenses and other current assets	(265)	(1,306)
Inventory finance notes receivable	(2,555)	(1,725)
Accounts payable and accrued liabilities	4,063	13,320
Net cash provided by operating activities	13,884	11,575
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(386)	(1,839)
Proceeds from sale of property, plant and equipment including assets held for sale	20	1,044
Purchase of Palm Harbor assets and certain liabilities, net of cash acquired		(67,639)
Purchases of investments	(3,017)	(2,053)
Proceeds from sale of investments	1,505	1,986
Investment in debtor-in-possession note receivable		(6,238)
Proceeds from payoff of debtor-in-possession note receivable		45,301
Net cash used in investing activities	(1,878)	(29,438)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	2,199	1,448
Net (repayment) proceeds of construction lending line	(3,509)	554
Payments on Virgo debt		(19,456)
Payments on securitized financings	(5,000)	(5,977)

Net cash used in financing activities	(6,310)	(23,431)
Net increase (decrease) in cash and cash equivalents	5,696	(41,294)
Cash and cash equivalents at beginning of period	41,094	76,513
Cash and cash equivalents at end of period	$ 46,790	$ 35,219
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$ 3,135	$ 1,229
Cash paid during the period for interest	$ 3,221	$ 3,371

See accompanying Notes to Consolidated Financial Statements

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CAVCO INDUSTRIES, INC.

Notes to Consolidated Financial Statements

September 30, 2012

(Unaudited)

1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of Cavco Industries, Inc., and its subsidiaries (collectively, the Company or Cavco), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, these statements include all of the normal recurring adjustments necessary to fairly state the Company s Consolidated Financial Statements. Certain prior period amounts have been reclassified to conform to current period classification. The Company has evaluated subsequent events after the balance sheet date of September 30, 2012 through the date of the filing of this report with the SEC; there were no disclosable subsequent events. These Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended March 31, 2012 filed with the SEC on June 12, 2012 (the Form 10-K).

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying Notes. Actual results could differ from those estimates. The Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year.

The Company operates principally in two segments: (1) factory-built housing, which includes manufactured housing, modular housing and retail operations, and (2) financial services, which includes consumer finance and insurance.

Through our Fleetwood Homes, Inc. (Fleetwood) subsidiary, jointly owned by the Company and its investment partners, Third Avenue Value Fund and an affiliate (collectively, Third Avenue), certain manufactured housing assets and liabilities were acquired on August 17, 2009 (the Fleetwood Acquisition Date). Third Avenue Management is an investment advisor to Third Avenue Value Fund and is a related party to the Company, as described further in Note 20 to the Consolidated Financial Statements.

Financial information for Fleetwood is included in the Consolidated Financial Statements and the related Notes in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 810, *Consolidation* (ASC 810). Management has determined that, under GAAP, although Fleetwood is only fifty-percent owned by the Company, Cavco has a controlling interest and is required to fully consolidate the results of Fleetwood. The primary factors that contributed to this determination were Cavco s management and board control of Fleetwood wherein members of Cavco s management hold all of the seats on the board of directors of Fleetwood. In addition, as part of a management services agreement among Cavco, Fleetwood and Third Avenue, Cavco provides all executive-level management services to Fleetwood including, among other things, general management oversight, marketing and customer relations, accounting and cash management. Third Avenue s financial interest in Fleetwood is considered a redeemable noncontrolling interest, and is designated as such in the Consolidated Financial Statements (see Note 19).

During fiscal year 2012, Fleetwood, through its wholly-owned subsidiary, Palm Harbor Homes, Inc., a Delaware corporation (Palm Harbor or Palm Harbor Delaware), purchased substantially all of the assets and assumed specified liabilities of Palm Harbor Homes, Inc., a Florida corporation, and certain of its subsidiaries, (collectively, Palm Harbor Florida) pursuant to an auction process under Section 363 of the U.S. Bankruptcy Code. The effective date of the transaction was April 23, 2011 (the Palm Harbor Acquisition Date), except for Palm Harbor s acquisition of the stock of Standard Casualty Co. The aggregate gross purchase price was $83.9 million, exclusive of transaction costs, specified liabilities assumed and post-closing adjustments (these adjustments have been recorded). Approximately $45.3 million of the purchase price was used to retire the Debtor-In-Possession (DIP) loan previously made by Fleetwood to Palm Harbor Florida. The purchase price was funded by Fleetwood s cash on hand, along with equal contributions of $36.0 million each 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 (the SCC Acquisition Date), Palm Harbor Delaware completed the purchase of the insurance subsidiary.

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Palm Harbor Delaware 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, as of the Palm Harbor Acquisition Date, Palm Harbor Delaware purchased all of the outstanding shares of CountryPlace Acceptance Corp., CountryPlace Mortgage, Ltd. and their wholly-owned finance subsidiaries (collectively, CountryPlace). Palm Harbor Delaware also acquired all of the outstanding shares of Standard Casualty Co., Standard Insurance Agency, Inc. and its subsidiary (collectively, Standard). Further, Palm Harbor Delaware assumed certain liabilities of Palm Harbor Florida, including primarily debt facilities of the finance subsidiaries. The results of Palm Harbor s operations and the results of Standard s operations since the Palm Harbor Acquisition Date and SCC Acquisition Date, respectively, have been included in the Consolidated Financial Statements and the related Notes in accordance with the provisions of ASC 810.

Standard is domiciled in Texas and is primarily a specialty writer of manufactured home physical damage insurance. Standard holds insurance licenses in multiple states; however, a significant portion of its writing occurs in Texas. In addition to writing direct policies, Standard assumes and cedes reinsurance in the ordinary course of business (see Note 12).

CountryPlace originates single-family residential mortgages and services, for itself and others, conforming mortgages, non-conforming land-home mortgages and manufactured homes chattel loans. CountryPlace is authorized by the U.S. Department of Housing and Urban Development (HUD) to directly endorse Federal Housing Administration (FHA) Title I and Title II mortgage insurance, is approved by the Government National Mortgage Association (GNMA or Ginnie Mae) to issue GNMA-insured mortgage-backed securities, and is authorized to sell mortgages to, and service mortgages for, the Federal National Mortgage Association (FNMA or Fannie Mae). A conforming mortgage or loan is one that conforms to the guidelines of a Government-Sponsored Enterprise (GSE), such as Fannie Mae, or a government agency, such as FHA; a non-conforming mortgage or loan does not conform to these guidelines (see Note 5).

Recent Accounting Pronouncements. In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The amendments in this update are effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011. In this update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The adoption of ASU 2011-05 affected the Company s presentation of comprehensive income within the Consolidated Financial Statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* The amendments in this update are effective for public companies for fiscal years beginning after December 15, 2011. In this update, an entity has the option to first assess qualitative factors to determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it is required to perform the first step of the two-step impairment test. However, if an entity concludes otherwise, then performing the two-step impairment test is unnecessary. As of the beginning of the current fiscal year, the Company has adopted all of the aforementioned provisions of ASU 2011-08.

In July 2012, the FASB issued ASU 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment.* The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. In this update, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is more likely than not that the indefinite-lived intangible asset is impaired, then the entity is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. However, if an entity concludes otherwise, then no further action is required. The Company will consider this guidance as it completes its annual impairment evaluation.

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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2. Restricted Cash

Restricted cash consists of the following (in thousands):

	September 30, 2012	March 31, 2012
Cash related to CountryPlace customer payments to be remitted to third parties	$ 4,871	$ 3,643
Cash related to CountryPlace customers principal and interest payments on securitized loans to be remitted to bondholders	2,114	2,128
Cash related to retail homebuyer deposits held in trust	397	560
Other restricted cash	453	453
	$ 7,835	$ 6,784

3. Investments

The following table summarizes the Company s available-for-sale investment securities, gross unrealized gains and losses and fair value, aggregated by investment category (in thousands):

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	$ 1,355	$ 12	$	$ 1,367
Mortgage-backed securities	5,248	23	(86)	5,185
States and political subdivisions	1,430	30		1,460
Corporate debt securities	3,581	59		3,640
Marketable equity securities	3,860	334	(103)	4,091
	$ 15,474	$ 458	$ (189)	$ 15,743

	March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	$ 1,371	$ 11	$ (1)	$ 1,381
Mortgage-backed securities	3,946	17	(48)	3,915
States and political subdivisions	1,186	26		1,212
Corporate debt securities	3,640	37	(1)	3,676
Marketable equity securities	3,883	218	(83)	4,018
	$ 14,026	$ 309	$ (133)	$ 14,202

The following tables show the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	September 30, 2012		
	Less than 12 Months	12 Months or Longer	Total

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$ 1,891	$ (86)	$	$	$ 1,891	$ (86)
Marketable equity securities	540	(22)	391	(81)	931	(103)
	$ 2,431	$ (108)	$ 391	$ (81)	$ 2,822	$ (189)

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	March 31, 2012					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and government agencies	$ 249	$ (1)	$	$	$ 249	$ (1)
Mortgage-backed securities	2,509	(48)			2,509	(48)
Corporate debt securities	384	(1)			384	(1)
Marketable equity securities	1,194	(83)			1,194	(83)
	$ 4,336	$ (133)	$	$	$ 4,336	$ (133)

Based on the Company s ability and intent to hold the investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider any investments to be other-than-temporarily impaired at September 30, 2012.

The Company s investments in marketable equity securities consist of investments in common stock of industrial and other companies ($2.6 million of the total fair value and $91,000 of the total unrealized losses) and bank trust, insurance, and public utility companies ($1.5 million of the total fair value and $12,000 of the total unrealized losses).

The amortized cost and fair value of the Company s investments in debt securities, by contractual maturity, are shown in the table below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2012		March 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$ 2,522	$ 2,531	$ 1,355	$ 1,359
Due after one year through five years	4,685	4,792	5,498	5,573
Due after five years through ten years	257	257	260	270
Due after ten years	4,150	4,072	3,030	2,982
	$ 11,614	$ 11,652	$ 10,143	$ 10,184

Realized gains and losses from the sale of securities are determined using the specific identification method. Gross gains realized on the sales of investment securities for the three and six months ended September 30, 2012 were approximately $25,000 and $56,000, respectively. Gross losses realized were approximately $13,000 and $14,000 for the three and six months ended September 30, 2012, respectively.

4. Inventories

Inventories consist of the following (in thousands):

	September 30, 2012	March 31, 2012
Raw materials	$ 18,939	$ 18,570
Work in process	5,979	6,270
Finished goods and other	35,115	37,406
	$ 60,033	$ 62,246

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5. Consumer Loans Receivable

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

	September 30, 2012	March 31, 2012
Loans held for investment (acquired on Palm Harbor Acquisition Date)	$ 105,565	$ 110,629
Loans held for investment (originated after Palm Harbor Acquisition Date)	627	511
Loans held for sale	5,033	4,534
Loans held construction advances on non-conforming mortgages	5,381	3,865
Consumer loans receivable	116,606	119,539
Deferred financing fees and other, net	(293)	(240)
Consumer loans receivable, net	$ 116,313	$ 119,299

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

	September 30, 2012	March 31, 2012
	(in thousands)	
Consumer loans receivable held for investment contractual amount	$ 281,612	$ 293,818
Purchase Discount		
Accretable	(102,314)	(106,949)
Non-accretable	(73,275)	(75,928)
Less consumer loans receivable reclassified as other assets	(458)	(312)
Total acquired consumer loans receivable held for investment, net	$ 105,565	$ 110,629

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected by CountryPlace. At the balance sheet date, the Company evaluates whether the present value of expected cash flows, determined using the effective interest rate, has decreased and, if so, recognizes an allowance for loan loss subsequent to the Palm Harbor Acquisition Date. The present value of any subsequent increase in the loan pool s actual cash flows expected to be collected is used first to reverse any existing allowance for loan loss. Any remaining increase in cash flows expected to be collected adjusts the amount of accretable yield recognized on a prospective basis over the loan pool s remaining life.

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
Balance at the beginning of the period	$ 103,385	$ 115,471	$ 106,949	$
Additions				118,335
Reclassifications from nonaccretable discount	2,460		2,460	
Accretion	(3,531)	(4,090)	(7,095)	(6,954)
Balance at the end of the period	$ 102,314	$ 111,381	$ 102,314	$ 111,381

CountryPlace s consumer loans receivable 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 GSEs, and those that are non-conforming. In most instances, CountryPlace s loans are secured by a first-lien position and are provided for the consumer purchase of a home. In rare instances CountryPlace may provide other types of loans in second-lien or unsecured positions. Accordingly, CountryPlace classifies its loans receivable as follows: chattel loans, conforming mortgages, non-conforming mortgages, and other loans.

In measuring credit quality within each segment and class, CountryPlace uses commercially available credit scores (FICO). At the time of each loan s origination, CountryPlace obtains credit scores from each of the three primary credit bureaus, if available. To evaluate credit quality of individual loans, CountryPlace uses the mid-point of the available credit scores or, if only two scores are available, the Company uses the lower of the two. CountryPlace does not update credit bureau scores after the time of origination.

The following table disaggregates CountryPlace s gross consumer loans receivable as of September 30, 2012, for each class by portfolio segment and credit quality indicator as of the time of origination (in thousands):

	Consumer Loans Held for Investment					
	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Asset Class						
Credit Quality Indicator						
Chattel loans						
0-619	$ 1,354	$ 880	$ 905	$	$	$ 3,139
620-719	20,177	13,634	1,110			34,921
720+	23,023	15,527	698			39,248
Subtotal	44,554	30,041	2,713			77,308
Conforming mortgages						
0-619			309	189		498
620-719			1,563	3,431	3,584	8,578
720+			11	1,761	1,449	3,221
Subtotal			1,883	5,381	5,033	12,297
Non-conforming mortgages						
0-619	97	850	2,622			3,569
620-719	2,119	7,515	5,125			14,759
720+	2,179	4,935	1,541			8,655

Subtotal	4,395	13,300	9,288			26,983
Other loans						
Subtotal			18			18
	$ 48,949	$ 43,341	$ 13,902	$ 5,381	$ 5,033	$ 116,606

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Loan contracts secured by collateral that is geographically concentrated could experience higher rates of delinquencies, default and foreclosure losses than loan contracts secured by collateral that is more geographically dispersed. Consumer loans receivable are located in the key states shown below with the corresponding percentage of loans aged 61 days or more:

September 30, 2012			
		Aging 61 days or more	
State	Portfolio concentration	Percent of state s loan balance	Percent of total loan balance
Texas	42.2%	0.86%	0.36%
Florida	7.2%	2.92%	0.21%
New Mexico	6.7%	1.87%	0.12%
Arizona	5.9%	2.89%	0.17%
Alabama	5.5%	1.45%	0.08%
California	2.1%	3.33%	0.07%
All others	30.4%	4.23%	1.29%
	100.0%		2.30%

The states of Florida, Arizona and California have experienced economic weakness resulting from the decline in real estate values. The risks created by these concentrations have been considered by management in the determination of the accretable yield and the adequacy of any allowance for loan losses. Other than Texas, no other state had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of September 30, 2012.

6. Inventory Finance Receivables and Allowance for Loan Loss

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

Under the terms of the participation programs, the Company provides loans to independent floorplan lenders, representing a significant portion of the funds that such financiers then lend to retailers to finance their inventory purchases of our products. The participation inventory finance receivables are unsecured general obligations of the independent floorplan lenders.

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

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

	September 30, 2012	March 31, 2012
Direct inventory finance receivables	$ 19,997	$ 18,367
Participation inventory finance receivables	7,454	6,529
Allowance for loan loss	(139)	(215)
	$ 27,312	$ 24,681

The Company evaluates the potential for loss from its participation inventory finance programs based on the independent lender s overall financial stability and has determined that an applicable allowance for loan loss was not needed at either September 30, 2012 or March 31, 2012.

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With respect to the direct inventory finance notes receivable, the risk of loss is spread over numerous borrowers. Borrower inventory levels and activity are monitored in conjunction with third-party service providers, where applicable, to estimate the potential for loss on the related notes receivable, considering potential exposures including repossession costs, remarketing expenses, impairment of value and the risk of collateral loss. The Company has historically been able to resell repossessed unused homes, thereby mitigating loss experience. If a default occurs and collateral is lost, the Company is exposed to loss of the full value of the home loan. If the Company determines that it is probable that a borrower will default, a specific reserve is determined and recorded within the estimated allowance for loan loss. The Company recorded an allowance for loan loss of $139,000 and $215,000 at September 30, 2012 and March 31, 2012, respectively. The following table represents changes in the estimated allowance for loan losses, including related additions and deductions to the allowance for loan loss applicable to the direct inventory finance receivables (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Balance at beginning of period	$ 196	$ 173	$ 215	$ 169
Provision for credit losses	(57)	12	(76)	16
Balance at end of period	$ 139	$ 185	$ 139	$ 185

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

	Direct Inventory Finance		Participation Inventory Finance	
	September 30, 2012	March 31, 2012	September 30, 2012	March 31, 2012
Inventory finance notes receivable:				
Collectively evaluated for impairment	$ 13,854	$ 13,916	$	$