UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 1, 2016

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 or organization)	**(I.R.S. Employer Identification No.)**

1001 North Central Avenue, Suite 800
Phoenix, Arizona 85004

(Address of principal executive offices, including zip code)

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

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

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

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

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

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

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

As of November 4, 2016, 8,992,468 shares of Registrant's Common Stock, $.01 par value, were outstanding.

CAVCO INDUSTRIES, INC.
FORM 10-Q
October 1, 2016

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

CAVCO INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	October 1, 2016	April 2, 2016
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 115,011	$ 97,766
Restricted cash, current	12,615	10,218
Accounts receivable, net	32,622	29,113
Short-term investments	10,798	10,140
Current portion of consumer loans receivable, net	29,977	21,918
Current portion of commercial loans receivable, net	4,693	3,557
Inventories	92,584	94,813
Prepaid expenses and other current assets	23,737	22,196
Deferred income taxes, current	8,799	8,998
Total current assets	330,836	298,719
Restricted cash	723	1,082
Investments	29,250	28,948
Consumer loans receivable, net	62,699	67,640
Commercial loans receivable, net	16,322	21,985
Property, plant and equipment, net	56,478	55,072
Goodwill and other intangibles, net	80,205	80,389
Total assets	$ 576,513	$ 553,835
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 22,732	$ 18,513
Accrued liabilities	104,321	100,314
Current portion of securitized financings and other	6,365	6,262
Total current liabilities	133,418	125,089
Securitized financings and other	51,641	54,909
Deferred income taxes	20,482	20,611
Stockholders' equity:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; No shares issued or outstanding	—	—
Common stock, $.01 par value; 40,000,000 shares authorized; Outstanding 8,990,813 and 8,927,989 shares, respectively	90	89
Additional paid-in capital	243,799	241,662
Retained earnings	124,970	110,186
Accumulated other comprehensive income	2,113	1,289
Total stockholders' equity	370,972	353,226
Total liabilities and stockholders' equity	$ 576,513	$ 553,835

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Net revenue	$ 188,348	$ 191,964	$ 373,489	$ 353,632
Cost of sales	149,241	152,409	301,130	282,243
Gross profit	39,107	39,555	72,359	71,389
Selling, general and administrative expenses	25,429	26,571	50,116	49,230
Income from operations	13,678	12,984	22,243	22,159
Interest expense	(1,132)	(965)	(2,293)	(1,980)
Other income, net	552	471	1,578	943
Income before income taxes	13,098	12,490	21,528	21,122
Income tax expense	(3,757)	(4,420)	(6,744)	(7,667)
Net income	$ 9,341	$ 8,070	$ 14,784	$ 13,455
Comprehensive income:				
Net income	$ 9,341	$ 8,070	$ 14,784	$ 13,455
Unrealized gain (loss) on available-for-sale securities, net of tax	879	(296)	824	(705)
Comprehensive income	$ 10,220	$ 7,774	$ 15,608	$ 12,750
Net income per share:				
Basic	$ 1.04	$ 0.91	$ 1.65	$ 1.52
Diluted	$ 1.03	$ 0.89	$ 1.63	$ 1.49
Weighted average shares outstanding:				
Basic	8,980,303	8,878,075	8,958,784	8,870,862
Diluted	9,100,833	9,032,652	9,092,653	9,026,224

See accompanying Notes to Consolidated Financial Statements

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

	Six Months Ended	
	October 1, 2016	September 26, 2015
OPERATING ACTIVITIES		
Net income	$ 14,784	$ 13,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,852	1,878
Provision for credit losses	259	348
Deferred income taxes	(415)	(577)
Stock-based compensation expense	1,357	1,117
Non-cash interest income, net	(589)	(1,068)
Incremental tax benefits from option exercises	(2,287)	(352)
(Loss) Gain on sale of property, plant and equipment including assets held for sale, net	(34)	50
Gain on sale of loans and investments, net	(3,685)	(3,175)
Changes in operating assets and liabilities:		
Restricted cash	(2,050)	482
Accounts receivable	(3,510)	1,850
Consumer loans receivable originated	(53,960)	(53,912)
Principal payments on consumer loans receivable	6,480	5,275
Proceeds from sales of consumer loans	47,405	56,269
Inventories	2,229	1,568
Prepaid expenses and other current assets	(702)	(344)
Commercial loans receivable	4,529	(5,731)
Accounts payable and accrued liabilities	10,716	12,685
Net cash provided by operating activities	22,379	29,818
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(3,105)	(1,112)
Purchase of certain assets and liabilities of Fairmont Homes and Chariot Eagle	—	(28,121)
Proceeds from sale of property, plant and equipment including assets held for sale	65	34
Purchases of investments	(4,753)	(7,410)
Proceeds from sale of investments	5,472	5,212
Net cash used in investing activities	(2,321)	(31,397)
FINANCING ACTIVITIES		
(Payments) Proceeds from exercise of stock options	(1,506)	741
Incremental tax benefits from exercise of stock options	2,287	352
Proceeds from secured financings and other	541	865
Payments on securitized financings	(4,135)	(4,113)
Net cash used in financing activities	(2,813)	(2,155)
Net increase (decrease) in cash and cash equivalents	17,245	(3,734)
Cash and cash equivalents at beginning of the period	97,766	96,597
Cash and cash equivalents at end of the period	$ 115,011	$ 92,863
Supplemental disclosures of cash flow information:		
Cash paid during the year for income taxes	$ 7,750	$ 5,459
Cash paid during the year for interest	$ 1,783	$ 1,926

See accompanying Notes to Consolidated Financial Statements

CAVCO INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

In the opinion of management, these statements include all of the normal recurring adjustments necessary to fairly state the Company's Consolidated Financial Statements. Certain prior period amounts have been reclassified to conform to current period classification. The Company has evaluated subsequent events after the balance sheet date through the date of the filing of this report with the SEC; there were no disclosable subsequent events. These Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended April 2, 2016, filed with the SEC on June 21, 2016.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying Notes. Actual results could differ from those estimates. The Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year. The Company operates on a 52-53 week fiscal year ending on the Saturday nearest to March 31 of each year. Each fiscal quarter consists of 13 weeks, with an occasional fourth quarter extending to 14 weeks, if necessary, for the fiscal year to end on the Saturday nearest to March 31. The Company's current fiscal year will end on April 1, 2017.

The Company operates principally in two segments: (1) factory-built housing, which includes wholesale and retail systems-built housing operations, and (2) financial services, which includes manufactured housing consumer finance and insurance. The Company designs and builds a wide variety of affordable modular homes, manufactured homes and park model RVs in 19 factories located throughout the United States, which are sold to a network of independent retailers, through the Company's 45 Company-owned retail stores and to community owners and developers. Our financial services group is comprised of a mortgage subsidiary, CountryPlace Acceptance Corp. ("CountryPlace"), and an insurance subsidiary, Standard Casualty Co. ("Standard Casualty"). CountryPlace is an approved Federal National Mortgage Association ("FNMA" or "Fannie Mae") and Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") seller/servicer, and a Government National Mortgage Association ("GNMA" or "Ginnie Mae") mortgage backed securities issuer which offers conforming mortgages, non-conforming mortgages and chattel loans to purchasers of factory-built and site-built homes. Standard Casualty provides property and casualty insurance to owners of manufactured homes.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of the new revenue standard. Accordingly, the updated standard is effective for us beginning with the first quarter of the Company's fiscal year 2019, with early application permitted in fiscal year 2018. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently evaluating the effect ASU 2014-09 will have on the Company's Consolidated Financial Statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation- Stock Compensation (Topic 718)* ("ASU 2016-09"). ASU 2016-09 will be effective beginning with the first quarter of the Company's fiscal year 2018, with early adoption permitted. The amendment simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company is currently evaluating the effect ASU 2016-09 will have on the Company's Consolidated Financial Statements and disclosures.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). ASU 2015-17 will be effective beginning with the Company's fiscal year 2019 annual report and interim periods thereafter, with early adoption permitted. In this update, entities are required to present all deferred tax liabilities and assets as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The standard can be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. As this standard impacts presentation only, the adoption of ASU 2015-17 is not expected to have an impact on the Company's financial condition, results of operations or cash flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 will be effective beginning with the first quarter of the Company's fiscal year 2019. The amendments require certain equity investments to be measured at fair value, with changes in the fair value recognized through net income. The Company is currently evaluating the effect ASU 2016-01 will have on the Company's Consolidated Financial Statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 will be effective beginning with the first quarter of the Company's fiscal year 2020, with early adoption permitted. The amendments require the recognition of lease assets and lease liabilities on the balance sheet for most leases, but recognize expenses in the income statement in a manner similar to current accounting treatment. In addition, disclosures of key information about leasing arrangements are required. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the effect ASU 2016-02 will have on the Company's Consolidated Financial Statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, which requires a new forward-looking impairment model based on expected losses rather than incurred losses. The guidance also requires increased disclosures. ASU 2016-01 will be effective beginning with the first quarter of the Company's fiscal year 2021. The Company is currently evaluating the effect ASU 2016-13 will have on the Company's Consolidated Financial Statements and disclosures.

From time to time, new accounting pronouncements are issued by the FASB and other regulatory bodies that are adopted by the Company as of the specified effective dates. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's Consolidated Financial Statements upon adoption.

For a description of other significant accounting policies used by the Company in the preparation of its Consolidated Financial Statements, please refer to Note 1 of the Notes to Consolidated Financial Statements in the Form 10-K.

2. Restricted Cash

Restricted cash consists of the following (in thousands):

	October 1, 2016	April 2, 2016
Cash related to CountryPlace customer payments to be remitted to third parties	$ 10,604	$ 8,419
Cash related to CountryPlace customer payments on securitized loans to be remitted to bondholders	1,736	1,747
Cash related to workers' compensation insurance held in trust	353	728
Other restricted cash	645	406
	$ 13,338	$ 11,300

Corresponding amounts are recorded in accounts payable and accrued liabilities for customer payments, deposits and other restricted cash.

3. Investments

Investments consist of the following (in thousands):

	October 1, 2016	April 2, 2016
Available-for-sale investment securities	$ 25,201	$ 24,247
Non-marketable equity investments	14,847	14,841
	$ 40,048	$ 39,088

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

	October 1, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	$ 650	$ —	$ —	$ 650
Residential mortgage-backed securities	6,431	15	(47)	6,399
State and political subdivision debt securities	7,382	257	(75)	7,564
Corporate debt securities	1,157	6	(3)	1,160
Marketable equity securities	5,168	3,451	(191)	8,428
Certificates of deposit	1,000	—	—	1,000
	$ 21,788	$ 3,729	$ (316)	$ 25,201

	April 2, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	$ 1,002	$ —	$ (3)	$ 999
Residential mortgage-backed securities	5,866	13	(60)	5,819
State and political subdivision debt securities	7,231	239	(49)	7,421
Corporate debt securities	1,166	4	(6)	1,164
Marketable equity securities	5,882	2,374	(412)	7,844
Certificates of deposit	1,000	—	—	1,000
	$ 22,147	$ 2,630	$ (530)	$ 24,247

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):

	October 1, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed securities	$ 2,999	$ (15)	$ 661	$ (32)	$ 3,660	$ (47)
State and political subdivision debt securities	1,340	(21)	1,966	(54)	3,306	(75)
Corporate debt securities	246	(3)	—	—	246	(3)
Marketable equity securities	1,030	(113)	209	(78)	1,239	(191)
	$ 5,615	$ (152)	$ 2,836	$ (164)	$ 8,451	$ (316)

	April 2, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and government debt securities	$ —	$ —	$ 699	$ (3)	$ 699	$ (3)
Residential mortgage-backed securities	3,436	(27)	898	(33)	4,334	(60)
State and political subdivision debt securities	1,865	(29)	1,257	(20)	3,122	(49)
Corporate debt securities	763	(6)	—	—	763	(6)
Marketable equity securities	1,780	(324)	152	(88)	1,932	(412)
	$ 7,844	$ (386)	$ 3,006	$ (144)	$ 10,850	$ (530)

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 October 1, 2016.

As of October 1, 2016, the Company's investments in marketable equity securities consist of investments in common stock of industrial and other companies ($8.4 million of the total fair value and $191,000 of the total unrealized losses).

As of April 2, 2016, the Company's investments in marketable equity securities consisted of investments in common stock of industrial and other companies ($7.7 million of the total fair value and $409,000 of the total unrealized losses) and bank trust, insurance and public utility companies ($100,000 of the total fair value and $3,000 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 differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	October 1, 2016	
	Amortized Cost	Fair Value
Due in less than one year	$ 1,364	$ 1,370
Due after one year through five years	3,907	3,906
Due after five years through ten years	3,895	3,836
Due after ten years	6,454	6,661
	$ 15,620	$ 15,773

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 October 1, 2016 were approximately $208,000 and $661,000, respectively. Gross losses realized were approximately $108,000 and $257,000 for the three and six months ended October 1, 2016, respectively. Gross gains realized on the sales of investment securities for the three and six months ended September 26, 2015 were approximately $51,000 and $231,000, respectively. Gross losses realized were approximately $66,000 and $112,000 for the three and six months ended September 26, 2015.

4. Inventories

Inventories consist of the following (in thousands):

	October 1, 2016	April 2, 2016
Raw materials	$ 30,919	$ 28,764
Work in process	12,113	10,755
Finished goods and other	49,552	55,294
	$ 92,584	$ 94,813

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 accordance with Accounting Standards Codification ("ASC") 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). Consumer loans receivable held for sale are carried at the lower of cost or market and construction advances are carried at the amount advanced less a valuation allowance. The following table summarizes consumer loans receivable (in thousands):

	October 1, 2016	April 2, 2016
Loans held for investment (acquired on Palm Harbor Acquisition Date)	$ 64,115	$ 68,951
Loans held for investment (originated after Palm Harbor Acquisition Date)	7,087	6,120
Loans held for sale	15,468	8,765
Construction advances	7,055	6,566
Consumer loans receivable	93,725	90,402
Deferred financing fees and other, net	(1,049)	(844)
Consumer loans receivable, net	$ 92,676	$ 89,558

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

	October 1, 2016	April 2, 2016
	(in thousands)	
Consumer loans receivable held for investment – contractual amount	$ 154,434	$ 166,793
Purchase discount		
Accretable	(62,209)	(69,053)
Non-accretable	(27,773)	(28,536)
Less consumer loans receivable reclassified as other assets	(337)	(253)
Total acquired consumer loans receivable held for investment, net	$ 64,115	$ 68,951

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected by CountryPlace. As of the balance sheet date, the Company evaluates whether the present value of expected cash flows, determined using the effective interest rate, has decreased from the value at acquisition and, if so, recognizes an allowance for loan loss. The present value of any subsequent increase in the loan pool's actual cash flows expected to be collected is used first to reverse any existing allowance for loan loss. Any remaining increase in cash flows expected to be collected adjusts the amount of accretable yield recognized on a prospective basis over the loan pool's remaining life. The weighted averages of assumptions used in the calculation of expected cash flows to be collected are as follows:

	October 1, 2016	April 2, 2016
Prepayment rate	13.7%	13.0%
Default rate	1.0%	1.0%

Assuming there was a 1% unfavorable variation from the expected level, for each key assumption, the expected cash flows for the life of the portfolio, as of October 1, 2016, would decrease by approximately $2.1 million and $5.3 million for the expected prepayment rate and expected default rate, respectively.

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

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Balance at the beginning of the period	$ 66,284	$ 70,261	$ 69,053	$ 73,202
Accretion	(2,449)	(2,685)	(4,964)	(5,436)
Reclassifications from non-accretable discount	(1,626)	2,874	(1,880)	2,684
Balance at the end of the period	$ 62,209	$ 70,450	$ 62,209	$ 70,450

The consumer loans held for investment have the following characteristics:

	October 1, 2016	April 2, 2016
Weighted average contractual interest rate	8.97%	9.05%
Weighted average effective interest rate	9.43%	9.39%
Weighted average months to maturity	167	170

The Company's consumer loans receivable balance consists of fixed-rate, fixed-term and fully-amortizing single-family home loans. These loans are either secured by a manufactured home, excluding the land upon which the home is located (chattel property loans and retail installment sale contracts), or by a combination of the home and the land upon which the home is located (real property mortgage loans). The real property mortgage loans are primarily for manufactured homes. Combined land and home loans are further disaggregated by the type of loan documentation: those conforming to the requirements of Government-Sponsored Enterprises ("GSEs"), and those that are non-conforming. In most instances, CountryPlace's loans are secured by a first-lien position and are provided for the consumer purchase of a home. In rare instances, CountryPlace may provide other types of loans in second-lien or unsecured positions. Accordingly, CountryPlace classifies its loans receivable as follows: chattel loans, conforming mortgages, non-conforming mortgages and other loans.

In measuring credit quality within each segment and class, CountryPlace uses commercially available credit scores (such as 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 for each class by portfolio segment and credit quality indicator as of the time of origination (in thousands):

October 1, 2016	Consumer Loans Held for Investment					
	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Asset Class						
Credit Quality Indicator (FICO® score)						
Chattel loans						
0-619	$ 736	$ 473	$ 315	$ —	$ 39	$ 1,563
620-719	12,468	8,453	3,860	—	156	24,937
720+	13,403	8,514	2,348	—	1,657	25,922
Other	52	—	438	—	—	490
Subtotal	26,659	17,440	6,961	—	1,852	52,912
Conforming mortgages						
0-619	—	—	162	29	368	559
620-719	—	—	2,208	4,149	9,983	16,340
720+	—	—	233	2,877	2,975	6,085
Other	—	—	—	—	290	290
Subtotal	—	—	2,603	7,055	13,616	23,274
Non-conforming mortgages						
0-619	86	568	1,350	—	—	2,004
620-719	1,326	5,074	3,594	—	—	9,994
720+	1,613	3,081	530	—	—	5,224
Other	—	—	304	—	—	304
Subtotal	3,025	8,723	5,778	—	—	17,526
Other loans						
Subtotal	—	—	13	—	—	13
	$ 29,684	$ 26,163	$ 15,355	$ 7,055	$ 15,468	$ 93,725

	April 2, 2016					
	Consumer Loans Held for Investment					
	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Asset Class						
Credit Quality Indicator (FICO® score)						
Chattel loans						
0-619	$ 776	$ 543	$ 336	$ —	$ —	$ 1,655
620-719	13,139	9,100	3,683	—	96	26,018
720+	14,751	9,409	2,324	—	215	26,699
Other	55	—	447	—	—	502
Subtotal	28,721	19,052	6,790	—	311	54,874
Conforming mortgages						
0-619	—	—	164	95	171	430
620-719	—	—	1,428	3,355	5,847	10,630
720+	—	—	320	3,116	2,436	5,872
Subtotal	—	—	1,912	6,566	8,454	16,932
Non-conforming mortgages						
0-619	88	585	1,392	—	—	2,065
620-719	1,365	5,290	3,664	—	—	10,319
720+	1,684	3,382	826	—	—	5,892
Other	—	—	307	—	—	307
Subtotal	3,137	9,257	6,189	—	—	18,583
Other loans						
Subtotal	—	—	13	—	—	13
	$ 31,858	$ 28,309	$ 14,904	$ 6,566	$ 8,765	$ 90,402

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. Forty-two percent of the outstanding principal balance of consumer loans receivable portfolio is concentrated in Texas and 10% is concentrated in Florida. Other than Texas and Florida, no other state had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of October 1, 2016.

Collateral for repossessed loans is acquired through foreclosure or similar proceedings and is recorded at the estimated fair value of the home, less the costs to sell. At repossession, the fair value of the collateral is computed based on the historical recovery rates of previously charged-off loans; the loan is charged off and the loss is charged to the allowance for loan losses. On a monthly basis, the fair value of the collateral is adjusted to the lower of the amount recorded at repossession or the estimated sales price less estimated costs to sell, based on current information. Repossessed homes totaled approximately $543,000 and $707,000 as of October 1, 2016 and April 2, 2016, respectively, and are included in prepaid and other assets in the consolidated balance sheet. Foreclosure or similar proceedings in progress totaled approximately $1.2 million and $340,000 as of October 1, 2016 and April 2, 2016, respectively.

6. Commercial Loans Receivable and Allowance for Loan Loss

The Company's commercial loans receivable balance consists of two classes: (i) direct financing arrangements for the home product needs of our independent retailers, communities and developers; and (ii) amounts loaned by the Company under participation financing programs.

Under the terms of the direct programs, the Company provides funds for the independent retailers, communities and developers' financed home purchases. The notes are secured by the home as collateral and, in some instances, other security depending on the circumstances. The other terms of direct arrangements vary depending on the needs of the borrower and the opportunity for the Company.

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

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

	October 1, 2016	April 2, 2016
Direct loans receivable	$ 20,002	$ 24,392
Participation loans receivable	1,139	1,278
Allowance for loan loss	(126)	(128)
	$ 21,015	$ 25,542

The commercial loans receivable balance has the following characteristics:

	October 1, 2016	April 2, 2016
Weighted average contractual interest rate	6.7%	6.9%
Weighted average months to maturity	7	9

The Company evaluates the potential for loss from its participation loan programs based on the independent lender's overall financial stability, as well as historical experience, and has determined that an applicable allowance for loan loss was not needed at either October 1, 2016 or April 2, 2016.

With respect to direct programs with communities and developers, borrower activity is monitored on a regular basis and contractual arrangements are in place to provide adequate loss mitigation in the event of a default. For direct programs with independent retailers, the risk of loss is spread over numerous borrowers. Borrower activity is 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 $126,000 and $110,000 at October 1, 2016 and September 26, 2015, 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 programs (in thousands):

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Balance at beginning of period	$ 135	$ 82	$ 128	$ 73
Provision for inventory finance credit losses	(9)	28	(2)	37
Loans charged off, net of recoveries	—	—	—	—
Balance at end of period	$ 126	$ 110	$ 126	$ 110

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

	Direct Commercial Loans		Participation Commercial Loans	
	October 1, 2016	April 2, 2016	October 1, 2016	April 2, 2016
Inventory finance notes receivable:				
Collectively evaluated for impairment	$ 12,566	$ 12,761	$ —	$ —
Individually evaluated for impairment	7,436	11,631	1,139	1,278
	$ 20,002	$ 24,392	$ 1,139	$ 1,278
Allowance for loan loss:				
Collectively evaluated for impairment	$ (126)	$ (128)	$ —	$ —
Individually evaluated for impairment	—	—	—	—
	$ (126)	$ (128)	$ —	$ —

Loans are subject to regular review and are given management's attention whenever a problem situation appears to be developing. Loans with indicators of potential performance problems are placed on watch list status and are subject to additional monitoring and scrutiny. Nonperforming status includes loans accounted for on a non-accrual basis and accruing loans with principal payments past due 90 days or more. The Company's policy is to place loans on nonaccrual status when interest is past due and remains unpaid 90 days or more or when there is a clear indication that the borrower has the inability or unwillingness to meet payments as they become due. The Company will resume accrual of interest once these factors have been remedied. At October 1, 2016, there are no commercial loans that are 90 days or more past due that are still accruing interest. Payments received on nonaccrual loans are recorded on a cash basis, first to interest and then to principal. At October 1, 2016, the Company was not aware of any potential problem loans that would have a material effect on the commercial receivables balance. Charge-offs occur when it becomes probable that outstanding amounts will not be recovered.

The following table disaggregates the Company's inventory finance receivables by class and credit quality indicator (in thousands):

	Direct Commercial Loans		Participation Commercial Loans	
	October 1, 2016	April 2, 2016	October 1, 2016	April 2, 2016
Risk profile based on payment activity:				
Performing	$ 20,002	$ 24,392	$ 1,139	$ 1,278
Watch list	—	—	—	—
Nonperforming	—	—	—	—
	$ 20,002	$ 24,392	$ 1,139	$ 1,278

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

	October 1, 2016	April 2, 2016
Indiana	18.1%	7.1%
Arizona	15.4%	13.3%
Texas	12.8%	33.2%
Oregon	12.1%	5.4%

The risks created by these concentrations have been considered in the determination of the adequacy of the allowance for loan losses. The Company did not have concentrations in excess of 10% of the principal balance of the commercial loans receivables in any other states as of October 1, 2016 or April 2, 2016, respectively.

As of October 1, 2016, the Company did not have concentrations in excess of 10.0% of the principal balance of commercial loans receivable with any one borrower. As of April 2, 2016, the company had concentrations with one independent third-party that equaled 32.0% of the principal balance outstanding, all of which was secured.

7. Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of each asset. Estimated useful lives for significant classes of assets are as follows: (i) buildings and improvements, 10 to 39 years, and (ii) machinery and equipment, 3 to 25 years. Repairs and maintenance charges are expensed as incurred. Property, plant and equipment consist of the following (in thousands):

	October 1, 2016	April 2, 2016
Property, plant and equipment, at cost:		
Land	$ 22,716	$ 22,719
Buildings and improvements	33,676	32,230
Machinery and equipment	20,645	19,533
	77,037	74,482
Accumulated depreciation	(20,559)	(19,410)
Property, plant and equipment, net	$ 56,478	$ 55,072

As of April 2, 2016, the Company had land and buildings and improvements under capital lease of $240,000 and $3.0 million, respectively, which are included in the amounts above. On September 20, 2016, the Company purchased the assets under the capital lease, terminating the lease arrangement.

8. Goodwill and Other Intangibles

Intangible assets principally consist of goodwill, trademarks and trade names, state insurance licenses, customer relationships, and other, which includes technology, insurance policies and renewal rights and other. Goodwill, trademarks and trade names and state insurance licenses are indefinite-lived intangible assets and are evaluated for impairment annually and whenever events or circumstances indicate that more likely than not impairment has occurred. During the six months ended October 1, 2016 and September 26, 2015, no impairment expense was recorded. Finite-lived intangibles are amortized over their estimated useful lives on a straight-line basis and are reviewed for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. The value of customer relationships is amortized over 4 to 15 years and other intangibles over 7 to 15 years.

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

	October 1, 2016			April 2, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite lived:						
Goodwill	$ 69,753	$ —	$ 69,753	$ 69,753	$ —	$ 69,753
Trademarks and trade names	7,000	—	7,000	7,000	—	7,000
State insurance licenses	1,100	—	1,100	1,100	—	1,100
Total indefinite-lived intangible assets	77,853	—	77,853	77,853	—	77,853
Finite lived:						
Customer relationships	7,100	(5,436)	1,664	7,100	(5,329)	1,771
Other	1,384	(696)	688	1,384	(619)	765
Total goodwill and other intangible assets	$ 86,337	$ (6,132)	$ 80,205	$ 86,337	$ (5,948)	$ 80,389

Amortization expense recognized on intangible assets was $92,000 and $184,000 during the three and six months ended October 1, 2016, respectively. Amortization expense of $116,000 and $305,000 was recognized during the three and six months ended September 26, 2015, respectively.

9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	October 1, 2016	April 2, 2016
Salaries, wages and benefits	$ 18,326	$ 20,675
Customer deposits	17,400	14,039
Unearned insurance premiums	16,947	15,528
Estimated warranties	14,046	13,371
Accrued volume rebates	5,916	4,647
Company repurchase option on certain loans sold	4,529	3,497
Accrued insurance	4,473	3,969
Insurance loss reserves	3,553	5,990
Deferred margin	3,430	2,823
Accrued taxes	2,058	1,282
Reserve for repurchase commitments	1,790	1,660
Capital lease obligation	—	2,387
Other	11,853	10,446
	$ 104,321	$ 100,314

10. Warranties

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

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Balance at beginning of period	$ 13,718	$ 11,057	$ 13,371	$ 9,953
Purchase accounting additions	—	—	—	1,111
Charged to costs and expenses	6,144	5,970	12,280	10,235
Payments and deductions	(5,816)	(4,222)	(11,605)	(8,494)
Balance at end of period	$ 14,046	$ 12,805	$ 14,046	$ 12,805

11. Debt Obligations

Debt obligations consist of amounts related to loans sold that did not qualify for loan sale accounting treatment. The following table summarizes debt obligations (in thousands):

	October 1, 2016	April 2, 2016
Acquired securitized financings (acquired as part of the Palm Harbor transaction)		
Securitized financing 2005-1	$ 25,641	$ 27,481
Securitized financing 2007-1	27,273	28,859
Other secured financings	5,092	4,831
Total securitized financings and other, net	$ 58,006	$ 61,171

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

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

	October 1, 2016	April 2, 2016
Securitized financings – contractual amount	$ 62,704	$ 68,673
Purchase discount		
Accretable	(9,790)	(12,333)
Non-accretable (1)	—	—
Total acquired securitized financings, net	$ 52,914	$ 56,340

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

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

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

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Balance at the beginning of the period	$ 11,459	$ 10,741	$ 12,333	$ 12,128
Accretion	(938)	(741)	(1,906)	(1,553)
Adjustment to cash flows	(731)	3,993	(637)	3,418
Balance at the end of the period	$ 9,790	$ 13,993	$ 9,790	$ 13,993

On July 12, 2005, prior to the Company's acquisition of Palm Harbor and CountryPlace, CountryPlace completed its initial securitization (2005-1) for approximately $141.0 million of loans, which was funded by issuing bonds totaling approximately $118.4 million. The bonds were issued in four different classes: Class A-1 totaling $36.3 million with a coupon rate of 4.23%; Class A-2 totaling $27.4 million with a coupon rate of 4.42%; Class A-3 totaling $27.3 million with a coupon rate of 4.80%; and Class A-4 totaling $27.4 million with a coupon rate of 5.20%. The bonds mature at varying dates and at issuance had an expected weighted average maturity of 4.66 years. For accounting purposes, this transaction was structured as a securitized borrowing. As of October 1, 2016, the Class A-1 and Class A-2 bonds have been retired.

On March 22, 2007, prior to the Company's acquisition of Palm Harbor and CountryPlace, CountryPlace completed its second securitization (2007-1) for approximately $116.5 million of loans, which was funded by issuing bonds totaling approximately $101.9 million. The bonds were issued in four classes: Class A-1 totaling $28.9 million with a coupon rate of 5.484%; Class A-2 totaling $23.4 million with a coupon rate of 5.232%; Class A-3 totaling $24.5 million with a coupon rate of 5.593%; and Class A-4 totaling $25.1 million with a coupon rate of 5.846%. The bonds mature at varying dates and at issuance had an expected weighted average maturity of 4.86 years. For accounting purposes, this transaction was also structured as a securitized borrowing. As of October 1, 2016, the Class A-1 and Class A-2 bonds have been retired.

CountryPlace's securitized debt is subject to provisions that require certain levels of overcollateralization. Overcollateralization is equal to CountryPlace's equity in the bonds. Failure to satisfy these provisions could cause cash, which would normally be distributed to CountryPlace, to be used for repayment of the principal of the related Class A bonds until the required overcollateralization level is reached. During periods when the overcollateralization is below the specified level, cash collections from the securitized loans in excess of servicing fees payable to CountryPlace and amounts owed to the Class A bondholders, trustee and surety, are applied to reduce the Class A debt until such time the overcollateralization level reaches the specified level. Therefore, failure to meet the overcollateralization requirement could adversely affect the timing of cash flows received by CountryPlace. However, principal payments of the securitized debt, including accelerated amounts, is payable only from cash collections from the securitized loans and no additional sources of repayment are required or permitted. As of October 1, 2016, the 2005-1 and 2007-1 securitized portfolios were within the required overcollateralization level.

12. Reinsurance

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

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

	Three Months Ended			
	October 1, 2016		September 26, 2015	
	Written	Earned	Written	Earned
Direct premiums	$ 3,749	$ 3,992	$ 3,549	$ 3,664
Assumed premiums—nonaffiliate	6,152	5,941	5,476	5,295
Ceded premiums—nonaffiliate	(3,077)	(3,077)	(2,722)	(2,722)
Net premiums	$ 6,824	$ 6,856	$ 6,303	$ 6,237

	Six Months Ended			
	October 1, 2016		September 26, 2015	
	Written	Earned	Written	Earned
Direct premiums	$ 8,135	$ 7,918	$ 7,660	$ 7,257
Assumed premiums—nonaffiliate	13,099	11,573	11,265	10,378
Ceded premiums—nonaffiliate	(6,297)	(6,297)	(5,436)	(5,436)
Net premiums	$ 14,937	$ 13,194	$ 13,489	$ 12,199

Typical insurance policies written or assumed by Standard Casualty have a maximum coverage of $300,000 per claim, of which Standard cedes $200,000 of the risk of loss per reinsurance. Therefore, Standard Casualty maintains risk of loss limited to $100,000 per claim on typical policies. Amounts are recoverable by Standard Casualty through reinsurance for catastrophic losses in excess of $1.0 million per occurrence up to a maximum of $44.0 million in the aggregate.

Purchasing reinsurance contracts protects Standard Casualty from frequency and/or severity of losses incurred on insurance policies issued, such as in the case of a catastrophe that generates a large number of serious claims on multiple policies at the same time.

13. Income Taxes

The Company's deferred tax assets primarily result from financial statement accruals not currently deductible for tax purposes and differences in the acquired basis of certain assets, and its deferred tax liabilities primarily result from tax amortization of goodwill and other intangible assets.

The Company complies with the provisions of ASC 740, *Income Taxes* ("ASC 740"), which clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognizing, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The amount of unrecognized tax benefits recorded by the Company is insignificant and the impact on the effective tax rate if all unrecognized tax benefits were recognized would be insignificant. The Company classifies interest and penalties related to unrecognized tax benefits in tax expense.

Income tax returns are filed in the U.S. federal jurisdiction and in several state jurisdictions. The Company is no longer subject to examination by the IRS for years before fiscal year 2013. In general, the Company is no longer subject to state and local income tax examinations by tax authorities for years before fiscal year 2012. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to the Company's financial position. The total amount of unrecognized tax benefit related to any particular tax position is not anticipated to change significantly within the next 12 months. The provision for income taxes generally represents income taxes paid or payable for the current year plus the change in deferred taxes during the year.

14. Commitments and Contingencies

Repurchase Contingencies. The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for independent retailers of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to retailers in the event of default by the retailer. The risk of loss under these agreements is spread over numerous retailers. The price the Company is obligated to pay generally declines over the period of the agreement (generally 18 to 36 months, calculated from the date of sale to the retailer) and the risk of loss is further reduced by the resale value of the repurchased homes. The maximum amount for which the Company was contingently liable under such agreements approximated $50.5 million at October 1, 2016, without reduction for the resale value of the homes. The Company applies ASC 460, *Guarantees* ("ASC 460"), and ASC 450-20, *Loss Contingencies* ("ASC 450-20"), to account for its liability for repurchase commitments. Under the provisions of ASC 460, the Company records the greater of the estimated value of the non-contingent obligation or a contingent liability for each repurchase arrangement under the provisions of ASC 450-20. The Company recorded an estimated liability of $1.8 million and $1.7 million at October 1, 2016 and April 2, 2016, respectively, related to the commitments pertaining to these agreements.

Letters of Credit. To secure certain reinsurance contracts, Standard Casualty maintains an irrevocable letter of credit of $7.0 million to provide assurance that Standard Casualty will fulfill its reinsurance obligations. This letter of credit is secured by certain of the Company's investments.

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

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

	October 1, 2016	April 2, 2016
Construction loan contract amount	$ 19,371	$ 15,109
Cumulative advances	(7,055)	(6,566)
Remaining construction contingent commitment	$ 12,316	$ 8,543

Representations and Warranties of Mortgages Sold. CountryPlace sells loans to GSEs and whole-loan purchasers. In connection with these activities, CountryPlace provides to the GSEs and whole-loan purchasers representations and warranties related to the loans sold. These representations and warranties generally relate to the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the sale transactions, including compliance with underwriting standards or loan criteria established by the buyer, and CountryPlace's ability to deliver documentation in compliance with applicable laws. Generally, representations and warranties may be enforced at any time over the life of the loan. Upon a breach of a representation, CountryPlace may be required to repurchase the loan or to indemnify a party for incurred losses. Repurchase demands and claims for indemnification payments are reviewed on a loan-by-loan basis to validate if there has been a breach requiring repurchase. CountryPlace manages the risk of repurchase through underwriting and quality assurance practices and by servicing the mortgage loans to investor standards. CountryPlace maintains a reserve for these contingent repurchase and indemnification obligations. This reserve of $899,000 and $785,000 as of October 1, 2016 and April 2, 2016, respectively, included in accrued liabilities, reflects management's estimate of probable loss. CountryPlace considers a variety of assumptions, including borrower performance (both actual and estimated future defaults), historical repurchase demands and loan defect rates to estimate the liability for loan repurchases and indemnifications.

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

As of October 1, 2016, CountryPlace had outstanding IRLCs with a notional amount of $6.0 million and are recorded at fair value in accordance with ASC 815, *Derivatives and Hedging* ("ASC 815"). ASC 815 clarifies that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The estimated fair values of IRLCs are recorded in other assets in the consolidated balance sheets. The fair value of IRLCs is based on the value of the underlying mortgage loan adjusted for: (i) estimated cost to complete and originate the loan and (ii) the estimated percentage of IRLCs that will result in closed mortgage loans. The initial and subsequent changes in the value of IRLCs are a component of gain (loss) on mortgage loans held for sale. During the three and six months ended October 1, 2016, CountryPlace recognized losses of $18,000 and gains of $10,000 on the outstanding IRLCs, respectively. During the three and six months ended September 26, 2015, CountryPlace recognized gains of $13,000 and losses of $5,000 on the outstanding IRLCs, respectively.

Forward Sales Commitments. CountryPlace manages the risk profiles of a portion of its outstanding IRLCs and mortgage loans held for sale by entering into forward sales of mortgage backed securities ("MBS") and whole loan sale commitments. As of October 1, 2016, CountryPlace had $28.4 million in outstanding notional forward sales of MBSs and forward sales commitments. Commitments to forward sales of whole loans are typically in an amount proportionate with the amount of IRLCs expected to close in particular time frames, assuming no change in mortgage interest rates, for the respective loan products intended for whole loan sale.

The estimated fair values of forward sales of MBS and forward sale commitments are based on quoted market values and are recorded within other current assets in the consolidated balance sheets. During the three and six months ended October 1, 2016, CountryPlace recognized gains of $33,000 and losses of $11,000, respectively, on forward sales and whole loan sale commitments. CountryPlace recognized losses of $81,000 and $15,000 on forward sales and whole loan sale commitments during the three and six months ended September 26, 2015, respectively.

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

15. Stockholders' Equity

The following table represents changes in stockholders' equity for the six months ended October 1, 2016 (dollars in thousands):

	Common Stock		Additional	Retained	Accumulated other comprehensive	
	Shares	Amount	paid-in capital	earnings	income	Total
Balance, April 2, 2016	8,927,989	$ 89	$ 241,662	$ 110,186	$ 1,289	$ 353,226
Stock option exercises, including incremental tax benefits	62,824	1	780	—	—	781
Share-based compensation	—	—	1,357	—	—	1,357
Net income	—	—	—	14,784	—	14,784
Unrealized loss on Available-for-sale securities	—	—	—	—	824	824
Balance, October 1, 2016	8,990,813	$ 90	$ 243,799	$ 124,970	$ 2,113	$ 370,972

(1) Other comprehensive income is comprised of unrealized gains and losses on available-for-sale investments. Unrealized gains before tax effect on available-for-sale securities were $1.3 million for the six months ended October 1, 2016.

16. Stock-Based Compensation

The Company maintains stock incentive plans whereby stock option grants or awards of restricted stock may be made to certain officers, directors and key employees. As of October 1, 2016, the plans, which are shareholder approved, permit the award of up to 1,650,000 shares of the Company's common stock, of which 374,732 shares were still available for grant. When options are exercised, new shares of the Company's common stock are issued. Stock options may not be granted below 100% of the fair market value of the Company's common stock at the date of grant and generally expire seven years from the date of grant. Stock options and awards of restricted stock typically vest over a one to five year period as determined by the plan administrator (the Compensation Committee of the Board of Directors, which consists of independent directors). The stock incentive plans provide for accelerated vesting of stock options upon a change in control (as defined in the plans).

Stock-based compensation cost charged against income for the three and six months ended October 1, 2016 was $987,000 and $1.4 million, respectively. The Company recorded stock-based compensation expense of $786,000 and $1.1 million for the three and six months ended September 26, 2015, respectively.

As of October 1, 2016, total unrecognized compensation cost related to stock options was approximately $3.4 million and the related weighted-average period over which it is expected to be recognized is approximately 3.42 years.

The following table summarizes the option activity within the Company's stock-based compensation plans for the six months ended October 1, 2016:

	Number of Shares
Outstanding at April 2, 2016	491,980
Granted	73,350
Exercised	(116,275)
Canceled or expired	(8,500)
Outstanding at October 1, 2016	440,555
Exercisable at October 1, 2016	247,025

17. Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Net income	$ 9,341	$ 8,070	$ 14,784	$ 13,455
Weighted average shares outstanding:				
Basic	8,980,303	8,878,075	8,958,784	8,870,862
Common stock equivalents—treasury stock method	120,530	154,577	133,869	155,362
Diluted	9,100,833	9,032,652	9,092,653	9,026,224
Net income per share:				
Basic	$ 1.04	$ 0.91	$ 1.65	$ 1.52
Diluted	$ 1.03	$ 0.89	$ 1.63	$ 1.49

Anti-dilutive common stock equivalents excluded from the computation of diluted earnings per share for the three and six months ended October 1, 2016 were 4,155 and 7,941, respectively. There were 18,962 and 23,052 anti-dilutive common stock equivalents excluded for the three and six months ended September 26, 2015, respectively.

18. Fair Value Measurements

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

	October 1, 2016		April 2, 2016	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Available-for-sale securities (1)	$ 25,201	$ 25,201	$ 24,247	$ 24,247
Non-marketable equity investments (2)	14,847	14,847	14,841	14,841
Consumer loans receivable (3)	92,676	123,947	89,558	126,077
Interest rate lock commitment derivatives (4)	18	18	8	8
Forward loan sale commitment derivatives (4)	(42)	(42)	(31)	(31)
Commercial loans receivable (5)	21,015	21,123	25,542	25,688
Securitized financings (6)	(58,006)	(56,583)	(61,171)	(60,220)
Mortgage servicing rights (7)	899	899	803	803

(1) The fair value is based on quoted market prices.
(2) The fair value approximates book value based on the non-marketable nature of the investments.
(3) Includes consumer loans receivable held for investment, held for sale and construction advances. The fair value of the loans held for investment is based on the discounted value of the remaining principal and interest cash flows. The fair value of the loans held for sale are estimated based on recent GSE mortgage backed bond prices. The fair value of the construction advances approximates book value and the sales price of these loans is estimated based on construction completed.

(4) The fair values are based on changes in GSE mortgage backed bond prices and, additionally for IRLCs, pull through rates.
(5) The fair value is estimated using market interest rates of comparable loans.
(6) The fair value is estimated using recent public transactions of similar asset-backed securities.
(7) The fair value of the mortgage servicing rights is based on the present value of expected net cash flows related to servicing these loans.

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

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

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

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

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

	October 1, 2016			
	Total	Level 1	Level 2	Level 3
Securities issued by the U.S Treasury and Government (1)	$ 650	$ —	$ 650	$ —
Mortgage-backed securities (1)	6,399	—	6,399	—
Securities issued by states and political subdivisions (1)	7,564	—	7,564	—
Corporate debt securities (1)	1,160	—	1,160	—
Marketable equity securities (1)	8,428	8,428	—	—
Interest rate lock commitment derivatives (2)	18	—	—	18
Forward loan sale commitment derivatives (2)	(42)	—	—	(42)
Mortgage servicing rights (3)	899	—	—	899

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

(2) Gains or losses on derivatives are recognized in current period earnings through cost of sales.
(3) Changes in the fair value of mortgage servicing rights are recognized in the current period earnings through net revenue.

No transfers between Level 1, Level 2 or Level 3 occurred during the six months ended October 1, 2016. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

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

	October 1, 2016			
	Total	Level 1	Level 2	Level 3
Loans held for investment	$ 100,500	$ —	$ —	$ 100,500
Loans held for sale	16,392	—	16,392	—
Loans held—construction advances	7,055	—	—	7,055
Commercial loans receivable	21,123	—	—	21,123
Securitized financings	(56,583)	—	(56,583)	—
Non-marketable equity investments	14,847	—	—	14,847

Financial instruments measured on a nonrecurring basis also include impaired loans (nonaccrual loans) and loans held for sale. No recent sales have been executed in an orderly market of manufactured home loan portfolios with comparable product features, credit characteristics or performance. Impaired loans are measured using Level 3 inputs that are calculated using estimated discounted future cash flows with discount rates considered to reflect current market conditions. Loans held for sale are measured at the lower of cost or fair value using Level 2 inputs that consist of commitments on hand from investors. These loans are held for relatively short periods, typically no more than 45 days. As a result, changes in loan-specific credit risk are not a significant component of the change in fair value. The cost of loans held for sale is lower than the fair value as of October 1, 2016.

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

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

The Company records impairment losses on long-lived assets held for sale when the fair value of such long-lived assets is below their carrying values. The Company records impairment charges on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. No impairment charges were recorded during the six months ended October 1, 2016.

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

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

	October 1, 2016	April 2, 2016
Number of loans serviced with MSRs	3,871	3,728
Weighted average servicing fee (basis points)	30.77	30.43
Capitalized servicing multiple	65.32%	61.65%
Capitalized servicing rate (basis points)	20.10	18.76
Serviced portfolio with MSRs (in thousands)	$ 447,446	$ 428,324
Mortgage servicing rights (in thousands)	$ 899	$ 803

19. Business Segment Information

The Company operates principally in two segments: (1) factory-built housing, which includes wholesale and retail systems-built housing operations and (2) financial services, which includes manufactured housing consumer finance and insurance. The following table details net revenue and income before income taxes by segment (in thousands):

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
Net revenue:				
Factory-built housing	$ 175,481	$ 177,455	$ 347,967	$ 325,001
Financial services	12,867	14,509	25,522	28,631
	$ 188,348	$ 191,964	$ 373,489	$ 353,632
Income before income taxes:				
Factory-built housing	$ 10,329	$ 8,967	$ 21,067	$ 16,971
Financial services	2,769	3,523	461	4,151
	$ 13,098	$ 12,490	$ 21,528	$ 21,122

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

Introduction

The following should be read in conjunction with Cavco Industries, Inc. and its subsidiaries' (collectively, the "Company" or "Cavco") Consolidated Financial Statements and the related Notes that appear in Item 1 of this Report. References to "Note" or "Notes" pertain to the Notes to the Company's Consolidated Financial Statements.

Overview

Headquartered in Phoenix, Arizona, the Company designs and produces factory-built homes primarily distributed through a network of independent and Company-owned retailers. We are the second largest producer of manufactured homes in the United States, based on reported wholesale shipments, marketed under a variety of brand names, including Cavco Homes, Fleetwood Homes, Palm Harbor Homes, Fairmont Homes and Chariot Eagle. The Company is also a leading builder of park model RVs, vacation cabins and systems-built commercial structures, as well as modular homes built primarily under the Nationwide Homes brand. Cavco's mortgage subsidiary, CountryPlace Acceptance Corp. ("CountryPlace"), is an approved Federal National Mortgage Association ("FNMA" or "Fannie Mae") and Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") seller/servicer, and a Government National Mortgage Association ("GNMA" or "Ginnie Mae") mortgage backed securities issuer which offers conforming mortgages, non-conforming mortgages and chattel loans to purchasers of factory-built and site-built homes. Our insurance subsidiary, Standard Casualty Co. ("Standard Casualty"), provides property and casualty insurance primarily to owners of manufactured homes.

Company Growth

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

In 2009, the Company acquired certain manufactured housing assets and liabilities of Fleetwood Enterprises, Inc. ("Fleetwood"). The assets purchased included seven operating production facilities as well as idle factories. During fiscal year 2011, the Company acquired certain manufactured housing assets and liabilities of Palm Harbor Homes, Inc., a Florida corporation. The assets purchased included five operating production facilities as well as idle factories, 49 operating retail locations, a manufactured housing finance company and a homeowners insurance company. These acquisitions expanded the Company’s presence across the United States.

On March 30, 2015, the Company purchased the business and operating assets of Chariot Eagle, a Florida-based manufacturer of park model RVs and manufactured homes. This transaction has grown the Company's offering of park model RV product lines and further strengthened our market position in the Southeastern United States.

On May 1, 2015, Cavco acquired certain assets and liabilities of Fairmont Homes. Fairmont Homes is a builder of manufactured and modular homes and park model RVs, with manufacturing plants in Indiana and Minnesota. This transaction provides additional home production capabilities and increased distribution into new markets in the Midwest, the western Great Plains states and several provinces in Canada.

The Company operates 19 homebuilding facilities located in Millersburg and Woodburn, Oregon; Nampa, Idaho; Riverside, California; Phoenix and Goodyear, Arizona; Austin, Fort Worth, Seguin and Waco, Texas; Montevideo, Minnesota (2); Nappanee, Indiana; Lafayette, Tennessee; Martinsville and Rocky Mount, Virginia; Douglas, Georgia; Plant City and Ocala, Florida. The majority of the homes produced are sold to and distributed by independently owned retailers located primarily throughout the United States and Canada. In addition, our homes are sold through 45 Company-owned U.S. retail locations.

We continually review our product offerings throughout the combined organization and strive to improve product designs, production methods and marketing strategies. The supportive market response to the past and recent acquisitions has been encouraging and we believe that these expansions provide positive long-term strategic benefits for the Company. We plan to focus on developing synergies among all operations, which continue to have significant organic growth potential.

Industry and Company Outlook

According to data reported by the Manufactured Housing Institute ("MHI"), HUD code manufactured home shipments for the first nine months of calendar year 2016 totaled nearly 59,900 units. During calendar year 2015 our industry shipped approximately 71,000 HUD code manufactured homes, an increase of 10.9% over the approximately 64,000 homes shipped in 2014. Shipments were 60,000 in 2013, 55,000 in 2012 and 52,000 in calendar year 2011, the lowest levels since shipment statistics began to be recorded in 1959. Annual home shipments from 2006 to 2015 were less than the annual home shipments for each of the 40 years from 1963 to 2002. For the past 10- and 20-year periods, annual home shipments averaged 70,000 and 158,000, respectively. While industry HUD code manufactured home shipments improved modestly during recent years, the manufactured housing industry and the Company are operating at relatively low production and shipment levels.

Although ongoing economic challenges continue to hinder annual industry and Company home sales, we believe that employment rates and underemployment among potential home buyers who favor affordable housing as well as low consumer confidence levels are improving from low levels reported in recent years. "First-time" and "move-up" buyers of affordable homes are historically among the largest segments of new manufactured home purchasers. Included in this group are lower-income households that were particularly affected by a period of persistently low employment rates and underemployment. Following such challenges, the process of repairing damaged credit among such consumers and efforts to save for a home loan down-payment often require substantial time. Improving consumer confidence in the U.S. economy is evident among manufactured home buyers interested in our products for seasonal or retirement living that have been concerned about financial stability, and appear to be less hesitant to commit to a new home purchase. We believe sales of our products may continue to increase as employment and consumer confidence levels continue to recover.

The two largest manufactured housing consumer demographics, young adults and those who are 55+ years old, are both growing. The U.S. adult population is estimated to expand by approximately 11.8 million between 2016 and 2021. Young adults born from 1976 to 1995, sometimes referred to as Gen Y, represent a large segment of the population. Late-stage Gen Y is approximately 2 million people larger than the next age category born from 1966 to 1975, Gen X, and is considered to be in the peak home-buying years. Gen Y represents prime first-time home buyers who may be attracted by the affordability, diversity of style choices and location flexibility of factory-built homes. The age 55 and older category is reported to be the fastest growing segment of the U.S. population. This group is similarly interested in the value proposition; however, they are also motivated by the energy efficiency and low maintenance requirements of systems-built homes, and by the lifestyle offered by planned communities that are specifically designed for homeowners that fall into this age group.

The housing industry is subject to seasonal fluctuations based on new home buyer purchasing patterns. Further, Cavco's Company-owned retail stores experience decreased home buyer traffic during holidays and popular vacation periods. Still, diversification among Cavco's product lines and operations have served to partially offset the extent of seasonal fluctuations. Demand for our core single-family new home products typically peaks each spring and summer before declining in the winter, consistent with the overall housing industry. Demand patterns for park model and cabin RVs and homes used primarily for retirement seasonal living partially offset the general housing seasonality.

Cavco's mortgage subsidiary experiences minimal seasonal fluctuation in its mortgage origination activities as a result of the time needed for loan application approval processes and subsequent home loan closing activities. The mortgage subsidiary realizes no seasonal impacts from its mortgage servicing operations. Revenue for the home insurance subsidiary is not substantially impacted by seasonality as it recognizes revenue from policy sales ratably over each policy's term year. However, the insurance subsidiary is subject to the effects of inclement weather, including seasonal spring storms in Texas, where most of its policies are underwritten.

Consumer financing for the retail purchase of manufactured homes needs to become generally more available before marked emergence from current low home shipment levels can occur. Restrictive underwriting guidelines, irregular and onerous appraisal requirements, higher interest rates compared to site-built homes, regulatory burdens, a reduced number of institutions lending to manufactured home buyers and limited secondary market availability for manufactured home loans are significant restraints to industry growth. We are working directly with other industry participants to develop manufactured home consumer financing models that may better attract industry financiers interested in furthering or expanding lending opportunities in the industry. We have invested in community-based lending initiatives that provide home-only financing to residents of certain manufactured home communities. We are also working through industry trade associations to encourage favorable legislative and Government-Sponsored Enterprises ("GSE") action to address the mortgage financing needs of potential buyers of affordable homes. Only limited progress has been made in this area and meaningful positive impact in the form of increased home orders has yet to be realized. See "Regulatory Developments" below.

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

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

Further, with respect to the general rise in demand for rental housing, we have realized a larger proportion of orders from developers and community owners for new manufactured homes intended for use as rental housing. The Company is responsive to the unique product and related requirements of these home buyers and values the opportunity to provide homes that are well suited for these purposes.

The backlog of sales orders at October 1, 2016 varied among our 19 factories and in total was approximately $63.2 million, or approximately five weeks of current production levels, compared to $68.4 million at September 26, 2015. Retailers may cancel orders prior to production without penalty. Accordingly, until the production of a particular home has commenced, we do not consider our backlog to be firm orders.

The Company participates in certain commercial loan programs with members of the Company's independent wholesale distribution chain. Under these programs, the Company provides a significant amount of the funds that independent financiers then lend to distributors to finance retail inventories of our products. In addition, the Company has entered into direct commercial loan arrangements with distributors, communities and developers under which the Company provides funds for financing homes (see Note 6 to the Consolidated Financial Statements). The Company's involvement in commercial loans has increased the availability of manufactured home financing to distributors and users of our products. We believe that our participation in wholesale financing is helpful to retailers, communities and developers and allows our homes additional opportunities for exposure to potential home buyers. These initiatives support the Company's ongoing efforts to expand our distribution base in all of our markets with existing and new customers. However, the initiatives expose the Company to risks associated with the creditworthiness of certain customers and business partners, including independent retailers, developers, communities and inventory financing partners.

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

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

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

We were named the 2016 Manufacturer of the Year by the members of MHI, the factory-built home industry's national trade organization, for the seventh consecutive year. We also received several product and interior design awards from MHI.

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

Regulatory Developments

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act" or the "Act") was passed into law. The Dodd-Frank Act is a sweeping piece of legislation and the financial services industry continues to assess its implications and implement necessary changes in procedures and business practices. The Act established the Consumer Financial Protection Bureau ("CFPB") to regulate consumer financial products and services. Although Congress detailed significant changes, and many new rules have been implemented, the full impact will not be known for years as the development of additional rules continue, and Congress considers amending part of the Act. Enforcement actions are in the early stages and the effects of possible litigation related to the regulations remains unknown.

In 2014, certain CFPB mortgage finance rules required under the Dodd-Frank Act became effective. The rules apply to consumer credit transactions secured by a dwelling, which include real property mortgages and chattel loans (financed without land) secured by manufactured homes. The rules defined standards for origination of "Qualified Mortgages," established specific requirements for lenders to prove borrowers' ability to repay loans, and outlined the conditions under which Qualified Mortgages are subject to safe harbor limitations on liability to borrowers. The rules also established interest rates and other cost parameters for determining which Qualified Mortgages fall under safe harbor protection. Among other issues, Qualified Mortgages with interest rates and other costs outside the limits are deemed "rebuttable" by borrowers and expose the lender and its assignees (including investors in loans, pools of loans and instruments secured by loans or loan pools) to possible litigation and penalties.

While many manufactured homes are currently financed with agency-conforming mortgages in which the ability to repay is verified, and interest rates and other costs are within the safe harbor limits established under the CFPB, mortgage finance rules, certain loans to finance the purchase of manufactured homes, especially chattel loans and non-conforming land-home loans, may fall outside the safe harbor limits. The rules have caused some lenders to curtail underwriting such loans, and some investors are reluctant to own or participate in owning such loans because of the uncertainty of potential litigation and other costs. If so, some prospective buyers of manufactured homes may be unable to secure the financing necessary to complete purchases. In addition, compliance with the law and ongoing rule implementation has caused lenders to incur additional costs to implement new processes, procedures, controls and infrastructure required to comply with the regulations. Compliance may constrain lenders' ability to profitably price certain loans. Failure to comply with these regulations, changes in these or other regulations, or the imposition of additional regulations, could affect our earnings, limit our access to capital and have a material adverse effect on our business and results of operations.

The CFPB rules amending the Truth in Lending Act ("TILA") and the Real Estate Settlement Procedures Act ("RESPA") expand the types of mortgage loans that are subject to the protections of the Home Ownership and Equity Protections Act of 1994 ("HOEPA"), revise and expand the tests for coverage under HOEPA, and impose additional restrictions on mortgages that are covered by HOEPA. As a result, certain manufactured home loans are now subject to HOEPA limits on interest rates and fees. Loans with rates or fees in excess of the limits are deemed High Cost Mortgages and provide additional protections for borrowers, including with respect to determining the value of the home. Most loans for the purchase of manufactured homes have been written at rates and fees that would not appear to be considered High Cost Mortgages under the new rule. Although some lenders may continue to offer loans that are now deemed High Cost Mortgages, the rate and fee limits appear to have deterred some lenders from offering loans to certain borrowers and may continue to make them reluctant to enter into loans subject to the provisions of HOEPA. As a result, some prospective buyers of manufactured homes may be unable to secure financing necessary to complete manufactured home purchases.

The Dodd-Frank Act amended provisions of TILA to require rules for appraisals on principal residences securing higher-priced mortgage loans ("HPML"). Certain loans secured by manufactured homes, primarily chattel loans, could be considered HPMLs. Among other things, the rule requires creditors to provide copies of appraisal reports to borrowers prior to loan closing. To implement these amendments, the CFPB adopted the HPML Appraisal Rule effective December 30, 2014 and loans secured by new manufactured homes were exempt from the rule until July 18, 2015. While effects of these new requirements are not fully known, some prospective home buyers may be deterred from completing a manufactured home purchase as a result of appraised values.

The Dodd-Frank Act also required integrating disclosures provided by lenders to borrowers under TILA and RESPA. The final rule became effective October 3, 2015. The TILA-RESPA Integrated Disclosure ("TRID") mandated extensive changes to the mortgage loan closing process and necessitated significant changes to mortgage origination systems. Since its implementation, technical ambiguities in the rule have resulted in lender and investor uncertainty regarding acceptable cures and tolerances for disclosure and estimate errors. It is not yet fully known how the GSEs and HUD will view TRID compliance, how they will apply their own interpretations of TRID to their repurchase and claims review processes, or how the market for private-label securitizations may be impacted.

The American Housing Rescue and Foreclosure Prevention Act was enacted in 2008 to provide assistance by way of legislation for the housing industry, including manufactured homes. Among other things, the act provided for increased loan limits for chattel (home-only Title I) loans to $69,678, up 43% from the previous limit of $48,600 set in 1992. New Federal Housing Administration ("FHA") Title I program guidelines became effective on June 1, 2010 and provide Ginnie Mae the ability to securitize manufactured home FHA Title I loans. These guidelines were intended to allow lenders to obtain new capital, which can then be used to fund new loans for our customers. Chattel loans have languished for several years and these changes were meant to broaden chattel financing availability for prospective homeowners. However, we are aware of only a small number of loans currently being securitized under the Ginnie Mae program.

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

If passed by Congress and signed into law, the proposed Preserving Access to Manufactured Housing Act (Senate Bill 682 and House of Representatives Bill 650) would amend some Dodd-Frank Act provisions that affect manufactured housing financing. The bill would revise the triggers by which small-sized manufactured home loans are considered “High-Cost” under HOEPA and clarify the MLO licensing requirements for manufactured home retailers and their employees.

Our sale of insurance products is subject to various state insurance laws and regulations which govern allowable charges and other insurance practices. Standard Casualty's insurance operations are regulated by the state insurance boards where it underwrites its policies. Underwriting, premiums, investments and capital reserves (including dividend payments to stockholders) are subject to the rules and regulations of these state agencies.

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

Results of Operations

Three and six months ended October 1, 2016 compared to September 26, 2015

Net Revenue. The following tables summarize net revenue for the three and six months ended October 1, 2016 and September 26, 2015.

	Three months ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Net revenue:				
Factory-built housing	$ 175,481	$ 177,455	$ (1,974)	(1.1)%
Financial services	12,867	14,509	(1,642)	(11.3)%
	$ 188,348	$ 191,964	$ (3,616)	(1.9)%
Total homes sold	3,242	3,264	(22)	(0.7)%
Net factory-built housing revenue per home sold	$ 54,127	$ 54,367	$ (240)	(0.4)%

	Six Months Ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Net revenue:				
Factory-built housing	$ 347,967	$ 325,001	$ 22,966	7.1 %
Financial services	25,522	28,631	(3,109)	(10.9)%
	$ 373,489	$ 353,632	$ 19,857	5.6 %
Total homes sold	6,637	6,166	471	7.6 %
Net factory-built housing revenue per home sold	$ 52,428	$ 52,709	$ (281)	(0.5)%

The decrease in net revenue from the factory-built housing segment for the three months ended October 1, 2016 compared to the same period last year was primarily from slightly lower home sales during the quarter while the increase for the six months ended October 1, 2016 was from higher home sales volume versus the comparable period. The current six month period contains one additional month of Fairmont Homes operations versus the same period of the prior year, as Fairmont Homes was purchased by the Company on May 1, 2015.

Net factory-built housing revenue per home sold is a volatile metric dependent upon several factors. A primary factor is the price disparity between sales of homes to independent retailers, builders, communities and developers ("Wholesale") and sales of homes to consumers by Company-owned retail centers ("Retail"). Wholesale sales prices are primarily comprised of the home and the cost to ship the home from a homebuilding facility to the home-site. Retail home prices include these items and retail markup, as well as items that are largely subject to home buyer discretion, including, but not limited to, installation, utilities, site improvements, landscaping and additional services. Changes to the proportion of home sales among these distribution channels between reporting periods impacts the overall net revenue per home sold. Further, fluctuations in net factory-built housing revenue per home sold are the result of changes in product mix, which results from home buyer tastes and preferences as they select home types/models, as well as optional home upgrades when purchasing the home. These selections vary regularly based on consumer interests, local housing preferences and economic circumstances. Our product prices are also periodically adjusted for the cost and availability of raw materials included in and labor used to produce each home. For these reasons, we have experienced, and expect to continue to experience, volatility in overall net factory-built housing revenue per home sold.

Financial services segment revenue decreased primarily from changes made to the recognition of certain ceded insurance commissions that took effect this fiscal year, reduced home loan sales volume and lower interest income earned on securitized loan portfolios that continue to amortize.

Gross Profit. The following tables summarize gross profit for the three and six months ended October 1, 2016 and September 26, 2015.

	Three months ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Gross profit:				
Factory-built housing	$ 31,453	$ 31,490	$ (37)	(0.1)%
Financial services	7,654	8,065	(411)	(5.1)%
	$ 39,107	$ 39,555	$ (448)	(1.1)%
Gross profit as % of Net revenue:	20.8%	20.6%	N/A	0.2 %

	Six months ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Gross profit:				
Factory-built housing	$ 62,112	$ 57,854	$ 4,258	7.4 %
Financial services	10,247	13,535	(3,288)	(24.3)%
	$ 72,359	$ 71,389	$ 970	1.4 %
Gross profit as % of Net revenue:	19.4%	20.2%	N/A	(0.8)%

Factory-built housing gross profit for the three months ended October 1, 2016 was down slightly with home sales volume while increasing for the six months ended October 1, 2016, consistent with higher home sales volume.

Financial services gross profit for the three months ended October 1, 2016 decreased as a result of reduced home loan sales volume and lower interest income earned on securitized loan portfolios that continue to amortize. For the six months ended October 1, 2016 versus the six months ended September 26, 2015, financial services gross profit declined mainly from higher insurance claim losses, partially offset by gross profit earned on higher loan servicing volume. While claims activity typically spikes in April and May each year, a prime season for storm activity in the area, the severity of the hail, wind and flood damage to insured homes was considerably greater in the first quarter of fiscal 2017 than during the same period last year. Losses from these events were somewhat mitigated by reinsurance contracts.

Selling, General and Administrative Expenses. The following tables summarize selling, general and administrative expenses for the three and six months ended October 1, 2016 and September 26, 2015.

	Three months ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Selling, general and administrative expenses:				
Factory-built housing	$ 21,597	$ 22,929	$ (1,332)	(5.8)%
Financial services	3,832	3,642	190	5.2 %
	$ 25,429	$ 26,571	$ (1,142)	(4.3)%
Selling, general and administrative expenses as % of Net revenue:	13.5%	13.8%	N/A	(0.3)%

	Six months ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Selling, general and administrative expenses:				
Factory-built housing	$ 42,472	$ 41,729	$ 743	1.8 %
Financial services	7,644	7,501	143	1.9 %
	$ 50,116	$ 49,230	$ 886	1.8 %
Selling, general and administrative expenses as % of Net revenue:	13.4%	13.9%	N/A	(0.5)%

Selling, general and administrative expenses related to factory-built housing decreased for the three months ended October 1, 2016 primarily from lower salary and incentive compensation expense partially from lower home sales volume. These expenses increased during the six months ended October 1, 2016 primarily from increased incentive compensation and marketing expenses from improved home sales overall. The six months ended September 26, 2015 amount included a $1.1 million reduction in incentive compensation expense from the Company's CEO repayment of performance bonuses that were determined to be in excess of plan limits.

Selling, general and administrative expenses for financial services remained relatively flat from operating consistency.

As a percentage of net revenue, selling, general and administrative expenses decreased modestly from increased operating leverage.

Interest Expense. The following tables summarize interest expense for the three and six months ended October 1, 2016 and September 26, 2015.

	Three months ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Interest expense	$ 1,132	$ 965	$ 167	17.3%

	Six months ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Interest expense	$ 2,293	$ 1,980	$ 313	15.8%

Interest expense consists primarily of debt service on the CountyPlace securitized financings of manufactured home loans and interest related to the capital lease treatment for a lease of manufacturing facilities and land entered into as part of the Fairmont acquisition during the first quarter of fiscal year 2016. The increase for the three and six months ended October 1, 2016 is related to capital lease related interest and changes to the purchase discount market-based valuation adjustment on securitized financings, partially offset by the continued principal reductions of those financings.

Other Income, net. The following tables summarize other income, net for the three and six months ended October 1, 2016 and September 26, 2015.

	Three Months Ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Other income, net	$ 552	$ 471	$ 81	17.2%

	Six Months Ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Other income, net	$ 1,578	$ 943	$ 635	67.3%

Other income, net, is attributable to interest income earned on commercial loans receivable in the factory-built housing segment and also represents gains and losses on corporate investments and property, plant and equipment, including assets held for sale or sold. Other income, net increased for the three and six months ended October 1, 2016 compared to the same prior year periods mainly from realized gains on corporate investments.

Income Before Income Taxes. The following tables summarize income before income taxes for the three and six months ended October 1, 2016 and September 26, 2015.

	Three months ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Income before income taxes:				
Factory-built housing	$ 10,329	$ 8,967	$ 1,362	15.2 %
Financial services	2,769	3,523	(754)	(21.4)%
	$ 13,098	$ 12,490	$ 608	4.9 %

	Six Months Ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Income before income taxes:				
Factory-built housing	$ 21,067	$ 16,971	$ 4,096	24.1 %
Financial services	461	4,151	(3,690)	(88.9)%
	$ 21,528	$ 21,122	$ 406	1.9 %

Income taxes. The following tables summarize Income taxes for the three and six months ended October 1, 2016 and September 26, 2015.

	Three Months Ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Income taxes	$ 3,757	$ 4,420	$ (663)	(15.0)%

	Six Months Ended			
	October 1, 2016	September 26, 2015	$ Change	% Change
	(Dollars in thousands)			
Income taxes	$ 6,744	$ 7,667	$ (923)	(12.0)%

The effective income tax rate for the second fiscal quarter was 28.7%, which benefited from certain manufacturing specific deductions and tax credits, including $755,000 of research and development tax credits that became realizable by the Company during the quarter. For the prior year second fiscal quarter, the effective tax rate was 35.4%. For the six months ended October 1, 2016 and September 26, 2015, the effective tax rate was 31.3% and 36.3%, respectively.

Liquidity and Capital Resources

We believe that cash and cash equivalents at October 1, 2016, together with cash flow from operations, will be sufficient to fund our operations and provide for growth for the next 12 months and into the foreseeable future. We maintain cash in various deposit accounts, the balances of which are in excess of federally insured limits. We expect to continue to evaluate potential acquisitions of, or strategic investments in, businesses that are complementary to our Company. Such transactions may require the use of cash and have other impacts on the Company's liquidity and capital resources in the event of such a transaction. Recent acquisitions of Fairmont Homes and Chariot Eagle did not have a significant impact on our liquidity or capital resources. Because of the Company’s sufficient cash position, the Company has not sought external sources of liquidity, such as a credit facility; however, depending on our operating results and strategic opportunities, we may need to seek additional or alternative sources of financing. There can be no assurance that such financing would be available on satisfactory terms, if at all. If this financing were not available, it could be necessary for us to reevaluate our long-term operating plans to make more efficient use of our existing capital resources. The exact nature of any changes to our plans that would be considered depends on various factors, such as conditions in the factory-built housing industry and general economic conditions outside of our control.

Projected cash provided by operations in the coming year is largely dependent on sales volume and other activities. Operating activities provided $22.4 million of cash during the six months ended October 1, 2016, compared to providing cash of $29.8 million during the same period last year. Cash provided by operating activities during the current period was primarily the result of cash generated by operating income before non-cash charges, higher accounts payable and accrued liabilities, including customer deposits and volume rebate accruals, as well as payments received from commercial loans receivables. Cash provided by operating activities during the prior period was primarily the result of cash generated by operating income before non-cash charges, higher accounts payable and accrued liabilities, including factory rebates, partially offset by increases in commercial loans receivable from further expansion of our distribution-based lending programs.

Consumer loan originations were $54.0 million for the six months ended October 1, 2016, relatively flat with the comparable period. Proceeds from the sale of consumer loans provided $47.4 million in cash, compared to $56.3 million in the previous year, a net decrease of $8.9 million, which relates to the timing of loan origination and related loan sales.

With respect to consumer lending for the purchase of manufactured housing, states may classify manufactured homes for both legal and tax purposes as personal property rather than real estate. As a result, financing for the purchase of manufactured homes is characterized by shorter loan maturities and higher interest rates. Unfavorable changes in these factors and the current adverse trend in the availability and terms of financing in the industry may have material negative effects on our results of operations and financial condition. See Item IA, "Risk Factors."

Cavco has entered into programs to provide some of the capital used by inventory lenders to finance wholesale home purchases by retailers. In addition, the Company has entered into direct commercial loan arrangements with distributors, communities and developers under which the Company provides funds for financing homes and has invested in community-based lending initiatives that provide home-only financing to new residents of certain manufactured home communities (see Note 6 to the Consolidated Financial Statements).

Investing activities used $2.3 million of cash during the six months ended October 1, 2016, compared to $31.4 million during the same period last year. In the current year, cash was used for the purchases of property, plant and equipment as well as investments by our insurance subsidiary for its investment portfolio, offset by that subsidiary's investment sales. In the prior period, cash of $28.1 million was used for the purchase of certain assets and liabilities of Fairmont Homes and Chariot Eagle as well as for purchases of investments by our insurance subsidiary for its investment portfolio, offset by that subsidiary's investment sales.

Financing activities used $2.8 million in cash during the six months ended October 1, 2016 primarily from payment on securitized financings, offset by loan sales accounted for as other secured financings and stock option exercises. Financing activities used $2.2 million in cash during the six months ended September 26, 2015, largely from cash used to repay securitized financings, offset by loan sales accounted for as other secured financings and stock option exercises.

CountryPlace's securitized debt is subject to provisions that require certain levels of overcollateralization. Overcollateralization is equal to CountryPlace's equity in the bonds. Failure to satisfy these provisions could cause cash, which would normally be distributed to CountryPlace, to be used for repayment of the principal of the related Class A bonds until the required overcollateralization level is reached. During periods when the overcollateralization is below the specified level, cash collections from the securitized loans in excess of servicing fees payable to CountryPlace and amounts owed to the Class A bondholders, trustee and surety, are applied to reduce the Class A debt until such time the overcollateralization level reaches the specified level. Therefore, failure to meet the overcollateralization requirement could adversely affect the timing of cash flows received by CountryPlace. However, principal payments of the securitized debt, including accelerated amounts, is payable only from cash collections from the securitized loans and no additional sources of repayment are required or permitted. As of October 1, 2016, the 2005-1 and 2007-1 securitized portfolios were within the required overcollateralization level.

Critical Accounting Policies

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of the new revenue standard. Accordingly, the updated standard is effective for us beginning with the first quarter of the Company's fiscal year 2019, with early application permitted in fiscal year 2018. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently evaluating the effect ASU 2014-09 will have on the Company's Consolidated Financial Statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation- Stock Compensation (Topic 718)* ("ASU 2016-09"). ASU 2016-09 will be effective beginning with the first quarter of the Company's fiscal year 2018, with early adoption permitted. The amendment simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company is currently evaluating the effect ASU 2016-09 will have on the Company's Consolidated Financial Statements and disclosures.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"). ASU 2015-17 will be effective beginning with the Company's fiscal year 2019 annual report, and interim periods thereafter, with early adoption permitted. In this update, entities are required to present all deferred tax liabilities and assets as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The standard can be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. As this standard impacts presentation only, the adoption of ASU 2015-17 is not expected to have an impact on the Company's financial condition, results of operations or cash flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 will be effective beginning with the first quarter of the Company's fiscal year 2019. The amendments require certain equity investments to be measured at fair value with changes in the fair value recognized through net income. The Company is currently evaluating the effect ASU 2016-01 will have on the Company's Consolidated Financial Statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 will be effective beginning with the first quarter of the Company's fiscal year 2020, with early adoption permitted. The amendments require the recognition of lease assets and lease liabilities on the balance sheet for most leases, but recognize expenses in the income statement in a manner similar to current accounting treatment. In addition, disclosures of key information about leasing arrangements are required. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the effect ASU 2016-02 will have on the Company's Consolidated Financial Statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, which sets forth a new forward-looking impairment model based on expected losses rather than incurred losses. The guidance also requires increased disclosures. ASU 2016-01 will be effective beginning with the first quarter of the Company's fiscal year 2021. The Company is currently evaluating the effect ASU 2016-13 will have on the Company's Consolidated Financial Statements and disclosures.

From time to time, new accounting pronouncements are issued by the FASB and other regulatory bodies that are adopted by the Company as of the specified effective dates. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's Consolidated Financial Statements upon adoption.

Forward-looking Statements

Statements in this Report on Form 10-Q, including those set forth in this section, may be considered "forward looking statements" within the meaning of Section 21E of the Securities Act of 1934. These forward-looking statements are often identified by words such as "estimate," "predict," "hope," "may," "believe," "anticipate," "plan," "expect," "require," "intend," "assume," and similar words. Forward-looking statements contained in this Report on Form 10-Q speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. We do not intend to publicly update or revise any forward-looking statement contained in this Report on Form 10-Q or in any document incorporated herein by reference to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

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

- We operate in an industry that is currently experiencing a prolonged and significant downturn;
- We may not be able to successfully integrate past acquisitions, including the recent acquisitions of Fairmont Homes and Chariot Eagle and any future acquisitions to attain the anticipated benefits. Past acquisitions may adversely impact the Company's liquidity;
- Our involvement in vertically integrated lines of business, including manufactured housing consumer finance, commercial finance and insurance, exposes the Company to certain risks;
- Tightened credit standards, curtailed lending activity by home-only lenders and increased government lending regulations have contributed to a constrained consumer financing market;
- The availability of wholesale financing for industry retailers is limited due to a reduced number of floor plan lenders and reduced lending limits;

- Our participation in certain financing programs for the purchase of our products by industry distributors and consumers may expose us to additional risk of credit loss, which could adversely impact the Company's liquidity and results of operations;
- Our results of operations could be adversely affected by significant warranty and construction defect claims on factory-built housing;
- We have contingent repurchase obligations related to wholesale financing provided to industry retailers;
- Our operating results could be affected by market forces and declining housing demand;
- We have incurred net losses in certain prior periods and there can be no assurance that we will generate income in the future;
- A write-off of all or part of our goodwill could adversely affect our operating results and net worth;
- The cyclical and seasonal nature of the manufactured housing industry causes our revenues and operating results to fluctuate, and we expect this cyclicality and seasonality to continue in the future;
- Our liquidity and ability to raise capital may be limited;
- The manufactured housing industry is highly competitive, and increased competition may result in lower revenue;
- If we are unable to establish or maintain relationships with independent distributors who sell our homes, our revenue could decline;
- Our business and operations are concentrated in certain geographic regions, which could be impacted by market declines;
- Our results of operations can be adversely affected by labor shortages and the pricing and availability of raw materials;
- If the manufactured housing industry is not able to secure favorable local zoning ordinances, our revenue could decline and our business could be adversely affected;
- The loss of any of our executive officers could reduce our ability to execute our business strategy and could have a material adverse effect on our business and results of operations;
- Certain provisions of our organizational documents could delay or make more difficult a change in control of our Company;
- Volatility of stock price;
- Deterioration in economic conditions and turmoil in financial markets could reduce our earnings and financial condition;
- The cost of operations could be adversely impacted by increased costs of healthcare benefits provided to employees;
- A prolonged delay by Congress and the President to approve budgets or continuing appropriation resolutions to facilitate the operations of the federal government could delay the completion of home sales and/or cause cancellations, and thereby negatively impact our deliveries and revenues;
- Information technology failures or data security breaches could harm our business; and
- We are subject to extensive regulation affecting the production and sale of manufactured housing, which could adversely affect our profitability.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

CountryPlace is exposed to market risk related to the accessibility and terms of long-term financing of its loans. In the past, CountryPlace accessed the asset-backed securities market to provide term financing of its chattel and non-conforming mortgage originations. At present, independent asset-backed and mortgage-backed securitization markets are not readily accessible to CountryPlace and other manufactured housing lenders. Accordingly, CountryPlace has not continued to securitize its loan originations as a means to obtain long-term funding.

We are also exposed to market risks related to our fixed rate consumer and commercial loan notes receivables, as well as our securitized financings balances. For fixed rate instruments, changes in interest rates do not change future earnings and cash flows. However, changes in interest rates could affect the fair value of these instruments. Assuming the level of these instruments as of October 1, 2016, is held constant, a 1% unfavorable change in average interest rates would adversely impact the fair value of these instruments, as follows (in thousands):

	Change in Fair Value
Consumer loans receivable	$ 5,260
Commercial loans receivable	$ 134
Securitized financings	$ 798

In originating loans for sale, CountryPlace issues IRLCs to prospective borrowers and third-party originators. These IRLCs represent an agreement to extend credit to a loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to loan closing or sale. These IRLCs bind CountryPlace to fund the approved loan at the specified rate regardless of whether interest rates or market prices for similar loans have changed between the commitment date and the closing date. As such, outstanding IRLCs are subject to interest rate risk and related loan sale price risk during the period from the date of the IRLC through the earlier of the loan sale date or IRLC expiration date. The loan commitments generally range between 30 and 180 days; however, borrowers are not obligated to close the related loans. As a result, CountryPlace is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs. As of October 1, 2016, CountryPlace had outstanding IRLCs with a notional amount of $6.0 million and are recorded at fair value in accordance with ASC 815. The estimated fair values of IRLCs are based on quoted market values and are recorded in other assets in the consolidated balance sheets. The fair value of IRLCs is based on the value of the underlying mortgage loan adjusted for: (i) estimated cost to complete and originate the loan and (ii) the estimated percentage for IRLCs that will result in closed mortgage loans. The initial and subsequent changes in the value of IRLCs are a component of current income. Assuming CountryPlace's level of IRLCs as of October 1, 2016 is held constant, a 1% increase in average interest rates would decrease the fair value of CountryPlace's obligations by approximately $209,000.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended October 1, 2016, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding reportable legal proceedings is contained in Part I, Item 3, *Legal Proceedings*, in our Form 10-K. The following describes legal proceedings, if any, that became reportable during the period ended October 1, 2016, and, if applicable, amends and restates descriptions of previously reported legal proceedings in which there have been material developments during such quarter.

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

Item 1A. Risk Factors

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

Item 6. Exhibits

See Exhibit Index.

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

SIGNATURES

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

Cavco Industries, Inc.
Registrant

Signature	Title	Date
/s/ Joseph H. Stegmayer Joseph H. Stegmayer	Chairman, President and Chief Executive Officer (Principal Executive Officer)	November 9, 2016
/s/ Daniel L. Urness Daniel L. Urness	Executive Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	November 9, 2016

EXHIBIT INDEX

Exhibit No.	Exhibit
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Rule 13a-14(a)/15d-14(a)
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Rule 13a-14(a)/15d-14(a)
32	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials contained in this Quarterly Report on Form 10-Q for the period ended October 1, 2016 were formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements

Exhibit 31.1

Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Joseph H. Stegmayer, certify that:

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

Dated: November 9, 2016

By: /s/ Joseph H. Stegmayer

Joseph H. Stegmayer

Chairman, President and
Chief Executive Officer

Exhibit 31.2

Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Daniel L. Urness, certify that:

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

Dated: November 9, 2016

By: /s/ Daniel L. Urness

Daniel L. Urness

Executive Vice President,
Treasurer, and Chief Financial
Officer

Exhibit 32

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

In connection with the Quarterly Report of Cavco Industries, Inc. (the “Registrant”) on Form 10-Q for the period ending October 1, 2016 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Joseph H. Stegmayer and Daniel L. Urness, Chief Executive Officer and Chief Financial Officer, respectively, of the Registrant, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

November 9, 2016

/s/ Joseph H. Stegmayer

Joseph H. Stegmayer
Chairman, President and
Chief Executive Officer

/s/ Daniel L. Urness

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