

CAVCO INDUSTRIES INC

Form 10-K

May 21, 2009

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

(Mark One)

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

**For the fiscal year ended March 31, 2009
OR**

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

For the transition period from _____ to _____

**Commission File Number 000-08822
Cavco Industries, Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware
(State or Other Jurisdiction of Incorporation or
Organization)**

**56-2405642
(I.R.S. Employer Identification No.)**

**1001 North Central Avenue, Suite 800
Phoenix, Arizona
(Address of Principal Executive Offices)**

**85004
(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name on each Exchange on which registered

Common Stock, par value \$0.01

The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 checkmark 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

The aggregate market value of voting and non-voting common equity held by non-affiliates as of September 30, 2008 (based on the closing price on the NASDAQ Stock Market, LLC on September 30, 2008) was \$22,583,000. Shares of Common Stock held by each officer, director and holder of 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of May 8, 2009, 6,506,843 shares of Registrant's Common Stock, \$.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Cavco Industries, Inc.'s definitive Proxy Statement relating to its 2009 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

CAVCO INDUSTRIES, INC.
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FOR THE FISCAL YEAR ENDED MARCH 31, 2009
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PART I

ITEM 1. BUSINESS

General

Cavco Industries, Inc., a Delaware corporation, was formed on June 30, 2003 as a successor corporation to previous Cavco entities operating since 1965. Cavco is the largest producer of manufactured homes in Arizona, based on data from Statistical Surveys, Inc., and a leading producer of park model homes and vacation cabins in the United States, having made wholesale shipments of 2,603 manufactured housing units during our fiscal year ended March 31, 2009. We are also the 9th largest producer of HUD code manufactured homes in the United States, based on 2007 total home production data published by Manufactured Home Merchandiser, an industry trade publication. Our business encompasses manufacturing operations and wholesale and retail marketing. The terms Cavco, us, we, our, the Company, and any other similar terms refer to Cavco Industries, Inc. and its subsidiaries, unless otherwise indicated in this Form 10-K.

Our factory-built homes are produced under various trade names and in a variety of floor plans and price ranges. We produce homes constructed to the building standards promulgated by the U.S. Department of Housing and Urban Development, or HUD, and by the International and Universal Building Codes as well as park model homes and vacation cabins. Our HUD code homes generally range in size from approximately 500 to 3,300 square feet and typically include two to five bedrooms, a living room, dining room, kitchen and two or more full bathrooms. Most of these are multi-section homes, although we also produce single-section homes. Our park model homes are less than 400 square feet in size and are purchased primarily for use as second homes, vacation homes or for retirement living and are placed in planned communities or recreational home parks. We also produce vacation cabins and commercial structures for a variety of purposes, including offices and showrooms.

We operate three manufacturing plants in the Phoenix, Arizona area and one in Seguin, Texas. Our factories range in size from 79,000 to 250,000 square feet. During May 2009, the Company initiated a plan to move its park model and vacation cabin manufacturing operations from its Specialty plant to a second production line at its Litchfield facility. This move will provide greater capabilities for the production of park models, cabins, and other specialty buildings, create improved overall operational efficiencies at the Litchfield factory, as well as reduce overhead expenses. For additional information, see Note 11 to our Consolidated Financial Statements. We construct our homes using an assembly-line process in which each section or floor is assembled in stages. Our assembly-line process is designed to be flexible enough to accommodate significant customization as requested by our customers.

We sell manufactured homes through both a network of independent retailers and through Company-owned retail outlets. As of March 31, 2009, our products were offered for sale through approximately 322 independent retail outlets in 23 states and Canada. A majority of these independent retail outlets are located in Arizona, California, Texas, New Mexico, Colorado, Utah and Nevada. As of March 31, 2009, we had a total of 6 Company-owned retail outlets, located in Arizona, New Mexico and Texas. We expect to close less than half of our remaining retail outlets during the next 12 months because they have under-performed in recent years. We do not anticipate that retail outlet closures will materially affect the operations of our manufacturing segment as these outlets do not sell a significant amount of products manufactured by us. See Management's Discussion and Analysis of Financial Condition and Results of Operations Industry and Company Outlook.

Despite a protracted downturn in the manufactured housing industry, we generated income from continuing operations before income taxes of \$0.3 million, \$9.1 million and \$17.4 million for fiscal years 2009, 2008 and 2007, respectively. We believe that our ability to maintain annual profitability from our continuing operations during the current industry downturn is attributable in significant part to efficient production, a high value product line, focused sales efforts, stringent cost control and a strong balance sheet.

Industry Overview

General. Manufactured housing provides an alternative in urban, suburban and rural areas to other forms of new low-cost housing, such as site-built housing and condominiums, and to existing housing such as pre-owned homes and apartments. According to statistics published by the Institute for Building Technology and Safety (IBTS), and the United States Department of Commerce, Bureau of the Census, for the year ended December 31, 2008, manufactured housing wholesale shipments of HUD code homes accounted for an estimated 12% of all new single-family housing

starts and 15% of all new single-family homes sold.

Industry wholesale shipments of HUD code homes totaled approximately 82,000 homes in 2008 versus 96,000 homes in 2007 according to data reported by the Manufactured Housing Institute (MHI).

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We believe the segment of the housing market in which manufactured housing is most competitive includes consumers with household incomes under \$40,000. This segment has a high representation of young single persons and young married couples, as well as seniors and retired persons. The comparatively low cost of fully-equipped manufactured housing attracts these consumers. Persons in rural areas, where fewer housing alternatives exist, and those who presently live in manufactured homes also make up a significant portion of the demand for new manufactured housing.

Protracted Industry Downturn. Since mid-1999, the manufactured housing industry has experienced a prolonged and significant downturn. This downturn has resulted in part from the fact that, beginning in 1999, consumer lenders in the sector began to tighten underwriting standards and curtail credit availability in response to higher than anticipated rates of loan defaults and significant losses upon the repossession and resale of the manufactured homes securing defaulted loans. In more recent years, the industry's downturn was exacerbated by the aggressive financing methods utilized by developers and marketers of standard site-built homes which had the effect of diverting potential manufactured housing customers to more expensive site-built homes, the global credit crisis, and general deterioration of economic conditions. These factors have resulted in declining wholesale shipments and excess manufacturing and retail locations.

As a result of the foregoing factors, based on industry data as of the end of 2008, an estimated 68% of all industry retail locations have closed since the end of 1999 and the number of active industry manufacturing facilities has dropped by 153 plants over the same period, representing a 47% reduction. These industry conditions have adversely affected the results of operations of all of the major producers of manufactured homes, including our Company. The principal regional markets we have targeted have also experienced a pronounced downturn. By the end of 2008, the number of manufactured housing units shipped in Arizona had declined approximately 76% from the peak in 1999. Likewise, severe declines were experienced in New Mexico and Texas, where the number of manufactured housing units shipped declined approximately 83% and 76%, respectively, by the end of 2008 from their respective peak levels in 1996 and 1998. More recently, the California manufactured housing market has suffered a significant downturn, as the number of manufactured housing units shipped has decreased 74% at the end of 2008 compared to 2005. U.S. wholesale shipments and retail sales of manufactured homes could continue to experience adverse conditions for the remainder of calendar year 2009 due to some or all of the factors described above. We expect industry sales volumes to be adversely affected until, among other factors, consumer and wholesale financing is more readily available.

Business Strategies

Our marketing strategy is to offer a line of manufactured homes that appeal to a wide range of homebuyers. Our principal focus is the mainstream market, which involves the sale of high-value homes to entry-level and move-up buyers. We also market to special niches such as sub-division developers, senior living community operations and vacation homebuyers.

Our production strategy is to develop and maintain the resources necessary to build to varied and unique customer specifications in an efficient factory production environment. This enables us to attract retailers and consumers who want the flexibility to build homes to meet their specific needs, but still seek the value created by building a home on a factory production line.

Our competitive strategy is to build homes of superior quality, offer innovative designs and floor plans, demonstrate exceptional value, and provide the engineering and technical resources to enable custom home building and to be responsive and efficient in servicing the customer after the sale. We strive to maintain a competitive advantage by reacting quickly to changes in the marketplace and to the specific needs of our retailers and consumers.

Products

Most of our homes are constructed in accordance with the National Manufactured Home Construction and Safety Standards promulgated by HUD. Approximately 62% of the homes we produced in fiscal year 2009 were HUD code homes. The remaining homes we build are primarily park model homes, which are constructed to standards approved by the American National Standards Institute, a private, non-profit organization that administers and coordinates a voluntary standardization and conformity program. We also produce modular homes, vacation cabins and commercial structures built to state and local standards.

We produce a broad range of HUD code homes under various trade names and brand names and in a variety of floor plans and price ranges. Substantially all of these homes are ranch-style homes. Our HUD code homes generally range in size from approximately 500 to 3,300 square feet. In fiscal year 2009, we produced and sold 2,603 homes, of which 1,265 were multi-section. Included in single-section production are park model homes, which are less than 400 square feet in size and are purchased primarily for use as second homes, vacation homes or retirement living and are placed in planned communities or recreational home parks.

Each home contains a living room, dining area, kitchen, one to five bedrooms and one or more bathrooms, and is equipped with central heating and hot water systems, kitchen appliances, carpeting and window treatments. Feature upgrades include fireplaces, central air conditioning, tile roofs, high ceilings, skylights, hardwood floors and cabinetry, granite countertops, and energy conservation items. We also offer a variety of structural and decorative customizations to meet the home buyer's specifications.

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During fiscal year 2009, our average wholesale home price for a HUD code home was approximately \$41,000, excluding delivery. Many of the homes we produce are sold in transactions covering both the home and the land on which it is placed. Retail sales prices of our homes, without land, generally range from \$22,000 to more than \$136,000, depending upon size, floor plan, features and options.

The homes we manufacture are sold under a variety of registered trademarks, including Cavco, Cavco Homes, Sunbuilt, Villager, Sun Villa, Cedar Court, Westcourt, Winrock, Catalina, Cavco Gold Key Guarantee, Desert Rose, Sunburst, Cavco Cabins, AAA Homes, Litchfield Limited, Vantage, SmartBuilt and Cavco Center.

Our manufactured homes are constructed and equipped at our manufacturing facilities. The finished home is then transported by independent trucking companies either to a retail sales center, planned community, housing development or the customer's site. Retailers or other independent installers are responsible for placing the home on site and, in most instances, arranging for connections to utilities and providing installation and finish-out services. Although our manufactured homes are designed to be transportable, only a small percentage are ever moved from their original site after installation.

Manufacturing Operations

Our homes are constructed in plant facilities using an assembly-line process employing from 130 to 170 employees at each facility. Most of our homes are constructed in one or more sections (also known as floors or modules) on a permanently affixed steel support chassis. Each section or floor is assembled in stages beginning with the construction of the chassis, followed by the addition of other constructed and purchased components, and ending with a final quality control inspection. The efficiency of the assembly-line process and the benefits of constructing homes in a controlled factory environment enable us to produce quality homes in less time and at a lower cost per square foot than building homes on individual sites.

During fiscal year 2009, we operated three manufacturing facilities in the Phoenix, Arizona area and one in Seguin, Texas. These manufacturing facilities range from approximately 79,000 to 250,000 square feet of floor space. The production schedules for our manufacturing facilities are based on wholesale and retail orders received from buyers, which fluctuate from week to week. In general, however, our facilities are structured to operate on a one shift per day, five days per week basis, and we currently manufacture a typical home in approximately seven production days.

During the fiscal quarter ended March 31, 2009, our rate of production was approximately 14 sections per day. Manufactured housing is a regional business and the primary geographic market for a typical manufacturing facility is within a 350-mile radius. Each of our Arizona manufacturing facilities serves between 65 to 120 retailers along with a large number of one time vacation cabin purchasers. Because we produce homes to fill existing wholesale and retail orders, our manufacturing plants generally do not carry finished goods inventories, except for homes awaiting delivery.

The following table sets forth the total number of homes wholesaled from our factories and the number of manufacturing facilities which produced those homes for the fiscal years indicated:

	Year Ended March 31,		
	2009	2008	2007
Homes sold:			
Single-section	1,338	1,583	1,528
Multi-section	1,265	1,718	2,084
Total homes sold	2,603	3,301	3,612
Operating manufacturing facilities at end of period	4	4	4

The principal materials used in the production of our manufactured homes include wood, wood products, aluminum, steel, gypsum wallboard, tires, fiberglass insulation, carpet, vinyl, fasteners, appliances, electrical items, windows and

doors. We buy the majority of these materials from third-party manufacturers and distributors located in California, Texas and Arizona. The inability to obtain any materials used in the production of our homes, whether resulting from material shortages, destruction of supplier facilities or other events affecting production of component parts, may affect our ability to meet or maintain production requirements.

During fiscal 2009, the Company experienced generally flat pricing for materials purchased for the manufacture of homes. Prices of commodities such as aluminum, copper, and steel rose modestly. In addition materials such as carpets and vinyl products were negatively impacted by fluctuating petroleum costs, which also adversely affects delivery of all raw materials purchased by the Company.

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Our backlog of orders as of March 31, 2009 was negligible. Retailers may cancel orders prior to production without penalty. After production of a particular home has commenced, the order becomes noncancelable and the retailer is obligated to take delivery of the home. Accordingly, until production of a particular home has commenced, we do not consider our order backlog to be firm orders. Because of the seasonality of the housing market, the level of our order backlog historically declines during the winter months.

Sales and Distribution

The following table sets forth the number of homes sold by us through independent and Company-owned distribution channels during the last three fiscal years, as well as the number of independent retail outlets and Company-owned retail centers at the end of the applicable period. The distribution channels are outlined as follows:

	Year Ended March 31,		
	2009	2008	2007
Homes sold through:			
Independent retail outlets	2,486	3,143	3,467
Company-owned retail centers	117	158	145
Total homes sold	2,603	3,301	3,612
Number of independent retail outlets at the end of the period	322	364	345
Number of Company-owned retail centers at the end of the period	6	7	7

Independent Retailers. As of March 31, 2009, we had a network of 322 independent retail outlets, of which there were 108 in Arizona, 50 in Texas, 48 in California, 35 in New Mexico, 16 in Colorado, 14 in Utah, 11 in Washington, 9 in Nevada, 8 in Oklahoma, 4 in Idaho, 2 in Canada, Alaska, Maryland, Oregon, and Wisconsin and 1 in each of Illinois, Indiana, Louisiana, Michigan, Minnesota, Montana, Nebraska, Tennessee and Wyoming. As is common in the industry, our independent retailers typically sell manufactured homes produced by other manufacturers in addition to those we produce. Some independent retailers operate multiple sales outlets. Factory Direct Housing, Inc. (FDH) represents a group of independent retailers that affiliate to obtain improved access to inventory financing. Most FDH retailers existed as entirely independent retailers prior to their affiliation with FDH. FDH accounted for approximately 4.6%, 6.4% and 11.0% of net sales in fiscal years 2009, 2008, and 2007, respectively. No other independent retailer accounted for 10% or more of our manufacturing sales in each of the respective years in the three-year period ended March 31, 2009.

We continually seek to increase our wholesale shipments by growing sales at our existing independent retailers and by finding new independent retailers to sell our homes. We provide comprehensive sales training to retail sales associates and bring them to our manufacturing facilities for product training and to view new product designs as they are developed. These training seminars facilitate the sale of our homes by increasing the skill and knowledge of the retail sales consultants. In addition, we display our products in trade shows and support our retailers through the distribution of floor plan literature, brochures, decor boards and point of sale promotional material.

Independent retailers frequently finance a portion of their home purchases through wholesale floor plan financing arrangements. In most cases, we receive a deposit or a commitment from the retailer's lender for each home ordered. We then manufacture the home and ship it at the retailer's expense. Payment is due from the lender upon the acceptance by the retailer of the product. For a description of wholesale floor plan financing arrangements used by independent retailers and our obligations in connection with these arrangements, see Financing Wholesale Financing below.

Company-Owned Retail Sales Centers. As of March 31, 2009, we had a total of 6 Company-owned retail centers, located in Arizona, New Mexico and Texas. Over the next 12 months, we plan to close certain Company-owned retail centers as these retail outlets have underperformed in recent years. Each of our Company-owned retail sales centers

has a sales office, which is generally a factory-built structure, and a variety of model homes of various sizes, floor plans, features and prices. Customers may purchase a home from an inventory of homes maintained at the location, including a model home, or may order a home that will be built at a manufacturing facility. Our Company-owned sales centers are generally located on a main road or highway for high visibility. Model homes may be displayed in a residential setting with sidewalks and landscaping. Each sales center usually employs a manager and three or four salespersons. As of March 31, 2009, Company-owned sales centers had an average inventory of 8 new homes per location. This number of homes in inventory includes homes delivered to a consumer home site but not yet recorded as a sale. We internally finance our inventories and currently have no outstanding debt. Our Company-owned retail centers employ salespersons who are compensated through a combination of salary and commission. Retail centers do not have administrative staff, as we perform most administrative functions at our corporate headquarters.

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Warranties. We provide a limited warranty to original retail purchasers of our homes. We warrant structural components for 12 months. Nonstructural components of a cosmetic nature are warranted for 120 days, except in specific cases where state laws require longer warranty terms. Our warranty does not extend to installation and setup of the home, which is generally arranged by the retailer. Appliances, carpeting, roofing and certain other components are warranted by their original manufacturer for various lengths of time. Refer to our discussion of the Magnuson-Moss Warranty Federal Trade Commission Improvement Act under Government Regulation beginning on page 7.

Financing

Wholesale Financing. During fiscal year 2009, approximately 38% of our wholesale sales to independent retailers were purchased through wholesale floor plan financing arrangements. Under a typical floor plan financing arrangement, an independent financial institution specializing in this line of business provides the retailer with a loan for the purchase price of the home and maintains a security interest in the home as collateral. The financial institution customarily requires us, as the manufacturer of the home, to enter into a separate repurchase agreement with the financial institution under which we are obligated, upon default by the retailer and under certain other circumstances, to repurchase the financed home at declining prices over the term of the repurchase agreement (which in most cases is 18 to 24 months). The price at which we may be obligated to repurchase a home under these agreements is based upon our original invoice price plus certain administrative and shipping expenses. Our obligation under these repurchase agreements ceases upon the purchase of the home by the retail customer. The maximum amount of our contingent obligations under such repurchase agreements was approximately \$18.7 million as of March 31, 2009, without reduction for the resale value of the homes.

As a result of the current credit crisis, during the third quarter of fiscal year 2009, each of the manufactured home national inventory finance companies (floor plan lenders) substantially curtailed their lending activities, and one announced its intention to exit the business. Some of our retailers have arranged or are in process of arranging to replace their floor plan financing with other sources of capital. To further support floor plan availability for our retailers, Cavco has begun to provide some of the capital used by inventory lenders to finance wholesale home purchases by retailers.

Consumer Financing. Conventional lenders provide two basic types of consumer financing in the manufactured housing industry:

- chattel (or home-only) loans for purchasers of a home with no real estate involved; and
- real estate loans for purchasers of the home and the land on which the home is placed.

During recent years, a number of home-only lenders have exited the market. The remaining lenders have tightened their credit standards and increased their interest rates, which has reduced the volume of new loans. In January 2002, Texas House Bill 1869 was enacted, amending the Texas Manufactured Housing Standards Act, to establish financing and acquisition procedures for retailers and consumers of manufactured homes and to provide for notification to consumers of their responsibilities before purchasing a manufactured home. The bill required, among other things, that all manufactured homes that are acquired with third-party financing in Texas, other than those placed in manufactured home rental communities or on a lot that is not titled in the name of the consumer under a deed or contract for sale, be financed with conventional financing covering both the land and home. While this legislation was subsequently repealed in September 2003, chattel financing in Texas was significantly curtailed and has not recovered.

Beginning in the late 1990s, the number of manufactured housing purchases financed with real estate loans has increased significantly. There are two types of mortgage loans: (i) conforming; and (ii) non-conforming. Conforming loans conform to requirements imposed by the Federal Housing Administration (FHA), Veteran's Affairs (VA), Freddie Mac, and Fannie Mae. Generally, conforming loans require foundations installed in accordance with specified Federal requirements and the borrower must meet certain established criteria. Non-conforming loans are financed by a major bank or lending institution, which may not require a specific foundation type and may have more flexible criteria for the borrower.

The American Housing Rescue and Foreclosure Prevention Act (the Act) was enacted in 2008 to provide assistance by way of legislation for the housing industry, including the manufactured housing industry. Among other things, the Act

provides for increased loan limits for chattel (home-only) loans to \$69,678, up 43% from the previous limit of \$48,600 set in 1992. Chattel loans have languished in recent years and the increased loan limit is meant to broaden opportunities for prospective homeowners.

The American Recovery and Reinvestment Act of 2009 includes an \$8,000 tax credit for a limited period to homebuyers who have not owned a home in the previous 3 years, and is subject to other conditions. In addition to federal programs, California and certain other states have begun to adopt incentives to promote the purchase of new homes in their states. These and other regulatory changes may provide some stimulus going forward; however, given consumer sentiment about the state of the economy, we are cautious in developing expectations of any positive results from the new legislation.

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Competition

The manufactured housing industry is highly competitive at both the manufacturing and retail levels, with competition based upon several factors, including price, product features, reputation for service and quality, depth of field inventory, promotion, merchandising and the terms of retail customer financing. We compete with other producers of manufactured homes, as well as companies offering for sale homes repossessed from wholesalers or consumers. In addition, manufactured homes compete with new and existing site-built homes, as well as apartments, townhouses and condominiums.

In addition to us, there are a number of other manufacturers competing for a significant share of the manufactured housing market in the Arizona, California, New Mexico and Texas areas, including Palm Harbor Homes, Inc., Fleetwood Enterprises, Inc., Clayton Homes, Inc., Champion Enterprises, Inc. and Skyline Corporation. Based on retail sales in calendar year 2008, we believe that our business accounted for an approximate 38% share of the Arizona market area, an approximate 8% share of the California market area, an approximate 8% share of the New Mexico market area, an approximate 5% share of the Texas market area, and smaller shares of market areas in the other states in which we do business. We do not view any of our competitors as being dominant in the industry as a whole or the principal markets in which we compete, although certain of our competitors possess substantially greater financial, manufacturing, distribution and marketing resources.

Government Regulation

Our manufactured homes are subject to a number of federal, state and local laws, codes and regulations. Construction of manufactured housing is governed by the National Manufactured Housing Construction and Safety Standards Act of 1974, as amended, or the Home Construction Act. In 1976, HUD issued regulations under the Home Construction Act establishing comprehensive national construction standards. The HUD regulations, known collectively as the Federal Manufactured Home Construction and Safety Standards, cover all aspects of manufactured home construction, including structural integrity, fire safety, wind loads, thermal protection and ventilation. Such regulations preempt conflicting state and local regulations on such matters, and are subject to periodic change. Our manufacturing facilities, and the plans and specifications of the HUD code manufactured homes they produce, have been approved by a HUD-certified inspection agency. Further, an independent HUD-certified third-party inspector regularly reviews our manufactured homes for compliance with the HUD regulations during construction. Failure to comply with applicable HUD regulations could expose us to a wide variety of sanctions, including mandated closings of our manufacturing facilities. We believe our manufactured homes are in substantial compliance with all present HUD requirements. Our park model homes are not subject to HUD regulations, but we believe that our park model homes meet all present standards of the American National Standards Institute.

Manufactured and site-built homes are all typically built with wood products that contain formaldehyde resins. HUD regulates the allowable concentrations of formaldehyde in certain products used in manufactured homes and requires manufacturers to warn purchasers as to formaldehyde-associated risks. The Environmental Protection Agency, or EPA, and other governmental agencies have in the past evaluated the effects of formaldehyde. We use materials in our manufactured homes that meet HUD standards for formaldehyde emissions and believe we comply with HUD and other applicable government regulations in this regard.

The transportation of manufactured homes on highways is subject to regulation by various federal, state and local authorities. Such regulations may prescribe size and road use limitations and impose lower than normal speed limits and various other requirements.

We have leased space for our manufacturing facility in Goodyear, Arizona since 1993. The leased premises is part of what is referred to as the Phoenix-Goodyear Airport (South) Superfund Site (PGAS), which was designated as a National Priorities List, or NPL, site under the authority of the Comprehensive Environmental Response, Compensation, and Liability Act in 1983. The reason for the site's NPL designation was because of extensive soil and groundwater contamination (trichloroethylene or TCE, chromium and cadmium) that resulted from historic manufacturing at the Goodyear Tire and Rubber Company and the United States Department of Defense. Pursuant to a consent decree entered into with the United States Environmental Protection Agency (EPA), the Goodyear Tire and Rubber Company, is responsible for taking certain remedial actions at the PGAS site. In September 2005, the EPA completed its five-year review of the PGAS site and reported that the contaminant

concentrations in groundwater at the site have been reduced, and treated groundwater from the treatment systems has met cleanup goals throughout that period of operation. Nonetheless, the groundwater still contains contaminant levels above specified cleanup goals as the remediation progresses. The EPA's five-year review identified several issues regarding the ongoing effectiveness of the remedy and several new issues regarding possible presence of trace metals, vapor intrusion, institutional controls, ecological risks, and migration, all of which the EPA is addressing.

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Our lease specifically refers to the consent decree with the EPA and provides that as between our Landlord (now JRC Goodyear, LLC) and us, the Landlord will be responsible for any liabilities resulting from the existing contamination at the site and that the Landlord will indemnify, defend, and hold us, our directors, our officers, our employees, our agents, and our successors, harmless for such liabilities. During the sixteen years that we have conducted manufacturing operations at the Goodyear, Arizona facility, we have never received any inquiry or notice from the EPA or the Arizona Department of Environmental Quality suggesting that we may be liable for any costs associated with the remediation of the PGAS site. We do not have any underground storage tanks at our Goodyear, Arizona facility.

Our manufactured homes are subject to local zoning and housing regulations. In certain cities and counties in areas where our homes are sold, local governmental ordinances and regulations have been enacted which restrict the placement of manufactured homes on privately-owned land or which require the placement of manufactured homes in manufactured home communities. Such ordinances and regulations may adversely affect our ability to sell homes for installation in communities where they are in effect. A number of states have adopted procedures governing the installation of manufactured homes. Utility connections are subject to state and local regulations which must be complied with by the retailer or other person installing the home.

Certain warranties we issue may be subject to the Magnuson-Moss Warranty Federal Trade Commission Improvement Act, which regulates the descriptions of warranties on consumer products. In the case of warranties subject to the Magnuson-Moss Warranty Act, the Company is subject to a number of additional regulatory requirements. For example, warranties that are subject to the Act must be included in a single easy-to-read document that is generally made available prior to purchase. The Act also prohibits certain attempts to disclaim or modify implied warranties and the use of deceptive or misleading terms. A claim for a violation of the Act can be the subject of an action in federal court in which consumers may be able to recover attorneys' fees. The description and substance of our warranties are also subject to a variety of state laws and regulations. A number of states, including Arizona and New Mexico, require manufactured home producers to post bonds to ensure the satisfaction of consumer warranty claims.

Governmental authorities have the power to enforce compliance with their regulations, and violations may result in the payment of fines, the entry of injunctions or both. Although we believe that our operations are in substantial compliance with the requirements of all applicable laws and regulations, these requirements have generally become more strict in recent years. Accordingly, we are unable to predict the ultimate cost of compliance with all applicable laws and enforcement policies.

Employees

As of March 31, 2009, we had approximately 660 employees. We believe that our relationship with our employees is good.

Available Information

We make available free of charge on or through our internet site, www.cavco.com, the following filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC: the Annual Report on Form 10-K, the Quarterly Reports on Form 10-Q, the Current Reports on Form 8-K and amendments to those Reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

ITEM 1A. RISK FACTORS

Our business involves a number of risks and uncertainties. You should carefully consider the following risks, together with the information provided elsewhere in this Annual Report. The risks described below are not the only ones facing us. Additional risks that are currently unknown to us or that we currently consider to be immaterial may also impair our business or adversely affect our financial condition or results of operations.

We operate in an industry that is currently experiencing a prolonged and significant downturn

Since mid-1999, the manufactured housing industry has experienced a prolonged and significant downturn. This downturn has resulted in part from the fact that, beginning in 1999, consumer lenders in the sector began to tighten underwriting standards and curtail credit availability in response to higher than anticipated rates of loan defaults and significant losses upon the repossession and resale of manufactured homes securing defaulted loans. In more recent years, the industry's downturn was exacerbated by the aggressive financing methods utilized by developers and

marketers of standard site-built homes which had the effect of diverting potential manufactured housing customers to more expensive site-built homes, the global credit crisis, and general deterioration of economic conditions. These factors have resulted in declining wholesale shipments and excess manufacturing and retail locations.

As a result of the foregoing factors, based on industry data as of the end of 2008, an estimated 68% of all industry retail locations have closed since the end of 1999 and the number of active industry manufacturing facilities has dropped by 153 plants over the same period, representing a 47% reduction.

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The availability of consumer financing for the purchase of manufactured homes continues to be constrained, as discussed below. Although it is difficult to predict future industry conditions, the current market environment tends to indicate that a sustained recovery in the manufactured housing industry is unlikely to occur in the near term.

If current industry conditions continue or get materially worse, we may be required to take steps in an attempt to mitigate the effect of unfavorable industry conditions, such as the closure of facilities or consolidation of existing operations. These steps could impair our ability to conduct our business in a manner consistent with past practice and could make it more difficult for us to expand our operations if and when industry conditions improve. Furthermore, some of these steps could lead to fixed asset impairment charges and goodwill impairment charges.

Tightened credit standards and curtailed lending activity by home-only lenders have contributed to a constrained consumer financing market

Consumers who buy our manufactured homes have historically secured retail financing from third-party lenders. The availability, terms and costs of retail financing depend on the lending practices of financial institutions, governmental policies and economic and other conditions, all of which are beyond our control. A consumer seeking to finance the purchase of a manufactured home without land will generally pay a higher interest rate and have a shorter loan maturity than a consumer seeking to finance the purchase of land and the home. In addition, home-only financing is at times more difficult to obtain than financing for site-built homes. Since 1999, home-only lenders have tightened the credit underwriting standards and increased interest rates for loans to purchase manufactured homes, which has reduced lending volumes which has negatively impacted our sales. In addition, most of the national lenders who have historically provided home-only loans have exited this sector of the industry. Conseco Finance was historically one of the largest originators of home-only loans in the manufactured housing industry. In December 2002, Conseco Inc., the parent company of Conseco Finance Corp., filed for bankruptcy protection and ceased its lending activities. In May 2004, JPMorgan Chase Bank N.A., the lender with the largest loan origination volume in the home-only financing market at that time, announced it was ceasing its manufactured housing lending activities. In March 2008, Origen Financial, Inc. (Origen) announced that it was suspending originations of manufactured home loans as a result of unfavorable conditions in the secondary market for its loans. Some of our retailers have utilized Origen to finance consumer loans. Another major lender, 21st Mortgage Corporation, citing unreliable and inadequate sources of funding, announced in January 2009 that it was significantly curtailing its retail lending program. Remaining retail lenders such as Triad Financial, US Bank, and CU Factory Built Lending have tightened their loan underwriting standards. If other lenders do not absorb the volume of loans previously made by these lenders, we could experience retail and manufacturing sales declines.

The availability of wholesale financing for industry retailers is limited due to a reduced number of floor plan lenders and reduced lending limits

Manufactured housing retailers generally finance their inventory purchases with wholesale floor plan financing provided by lending institutions. The availability of wholesale financing is significantly affected by the number of floor plan lenders and their lending limits. During the past seven years, a substantial number of wholesale lenders have exited the industry or curtailed their floor plan operations. Conseco Finance was historically the largest floor plan lender, previously providing about 25% of the industry's wholesale financing. Conseco Finance discontinued approving and funding new floor plan loan requests in April 2002 and filed for bankruptcy protection in December 2002. With Conseco's exit, Deutsche Financial Services was the largest remaining floor plan lender, providing approximately 20% of the industry's wholesale financing. Deutsche Financial Services discontinued approving and funding new floor plan loan requests in November 2002 and proceeded to liquidate its existing floor plan receivables. In recent years, the Company's independent retailers have relied primarily on GE Commercial Distribution Finance, Textron Financial Corporation and 21st Mortgage Corporation, national lending institutions that have specialized in providing wholesale floor plan financing to manufactured housing retailers. As a result of the current credit crisis, during the third quarter of fiscal year 2009, each of these remaining national floor plan lenders substantially curtailed their lending activities, and Textron Financial Corporation announced its intention to exit the business. We are concerned that floor plan financing providers could further reduce their levels of floor plan lending. Reduced availability of floor plan lending may affect the inventory levels of our independent retailers, the number of retail sales center locations and related wholesale demand, and may also have an adverse effect on the availability of

and our access to capital on an ongoing basis.

Our operating results could be affected by geographic concentration and declining housing demand

As a participant in the homebuilding industry, we are subject to market forces beyond our control. These market forces include employment and employment growth, interest rates, land availability and development costs, apartment vacancy levels, and the health of the general economy. Unfavorable changes in any of the above factors or other issues could have an adverse effect on our sales and earnings. In addition, our sales are largely concentrated in Arizona and California, which have experienced significant declines in industry shipments in calendar years 2006, 2007, 2008 and early 2009.

Table of Contents***We have incurred net losses in prior periods and there can be no assurance that we will generate income in the future***

Although we generated income from continuing operations during the past eight fiscal years, we have incurred net losses in prior years. Net losses in these years were attributable in substantial part to the downturn affecting the manufactured housing industry, which is discussed in detail below. The likelihood that we will generate net income in the future must be considered in light of the difficulties facing the manufactured housing industry as a whole, economic conditions, the competitive environment in which we operate and the other risks and uncertainties discussed in this Annual Report. There can be no assurance that we will generate net income in the future.

A write-off of all or part of our goodwill could adversely affect our operating results and net worth

A substantial portion of our total assets at March 31, 2009 consisted of goodwill, all of which is attributable to our manufacturing operations. In particular, goodwill accounted for approximately 38% of our total assets at March 31, 2009. Effective in fiscal year 2002, we adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. As a result, we no longer amortize goodwill. Instead, we review goodwill at least annually to determine whether it has become impaired. If goodwill has become impaired, we charge the impairment as an expense in the period in which the impairment occurred. See Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Note 1 to our Consolidated Financial Statements. Our goodwill could be impaired if developments affecting our manufacturing operations or the markets in which we produce manufactured homes lead us to conclude that the cash flows we expect to derive from our manufacturing operations will be substantially reduced. A write off of all or part of our goodwill could adversely affect our results of operations and financial condition.

The cyclical and seasonal nature of the manufactured housing industry causes our revenues and operating results to fluctuate, and we expect this cyclical nature and seasonality to continue in the future

The manufactured housing industry is highly cyclical and seasonal and is influenced by many national and regional economic and demographic factors including the availability of consumer financing for homebuyers, the availability of wholesale financing for retailers, seasonality of demand, consumer confidence, interest rates, demographic and employment trends, income levels, housing demand, general economic conditions, including inflation and recessions, and the availability of suitable home sites.

As a result of the foregoing economic, demographic and other factors, our revenues and operating results fluctuate, and we expect them to continue to fluctuate in the future. Moreover, we may experience operating losses during cyclical downturns in the manufactured housing market.

Our liquidity and ability to raise capital may be limited

We may need to obtain debt or additional equity financing in the future. The type, timing and terms of the financing selected by us will depend on, among other things, our cash needs, the availability of other financing sources and prevailing conditions in the financial markets. There can be no assurance that any of these sources will be available to us at any time or that they will be available on satisfactory terms.

We have contingent repurchase obligations related to wholesale financing provided to industry retailers

In accordance with customary business practice in the manufactured housing industry, we have entered into repurchase agreements with various financial institutions and other credit sources who provide floor plan financing to industry retailers, which provide that we will be obligated, under certain circumstances, to repurchase homes sold to retailers in the event of a default by a retailer in its obligation to such credit sources. Under these agreements, we have agreed to repurchase homes at declining prices over the term of the agreement (which in most cases is 18 to 24 months). The maximum amount of our contingent obligations under such repurchase agreements was approximately \$18.7 million as of March 31, 2009, without reduction for the resale value of the homes. We may be required to honor contingent repurchase obligations in the future and may incur additional expense as a consequence of these repurchase agreements.

The manufactured housing industry is highly competitive, and competition may increase the adverse effects of industry conditions

The manufactured housing industry is highly competitive. Competition at both the manufacturing and retail levels is based upon several factors, including price, product features, reputation for service and quality, merchandising, terms

of retailer promotional programs and the terms of retail customer financing. Numerous companies produce manufactured homes in our markets. In addition, our homes compete with repossessed homes that are offered for sale in our markets. A number of our manufacturing competitors also have their own retail distribution systems and consumer finance and insurance operations. The ability to offer consumer finance and insurance products may provide some competitors with an advantage. In addition, there are many independent manufactured housing retail locations in most areas where we have retail operations. We believe that where wholesale floor plan financing is available, it is relatively easy for new retailers to enter into our markets as competitors. In addition, our products compete with other forms of low to moderate-cost housing, including new and existing site-built homes, apartments, townhouses and condominiums. If we are unable to compete effectively in this environment, our retail sales and wholesale shipments could be reduced.

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If we are unable to establish or maintain relationships with independent retailers who sell our homes, our sales could decline

During fiscal year 2009, approximately 96% of our wholesale shipments of manufactured homes were made to independent retail locations. As is common in the industry, independent retailers may sell homes produced by competing manufacturers. We may not be able to establish relationships with new independent retailers or maintain good relationships with independent retailers that sell our homes. Even if we do establish and maintain relationships with independent retailers, these retailers are not obligated to sell our homes exclusively, and may choose to sell our competitors' homes instead. The independent retailers with whom we have relationships can cancel these relationships on short notice. In addition, these retailers may not remain financially solvent, as they are subject to industry, economic, demographic and seasonal trends similar to those faced by us. If we do not establish and maintain relationships with solvent independent retailers in one or more of our markets, sales in those markets could decline.

Our results of operations can be adversely affected by labor shortages and the pricing and availability of raw materials

The homebuilding industry has from time to time experienced labor shortages and other labor related issues. A number of factors may adversely affect the labor force available to us and our subcontractors in one or more of our markets including high employment levels, construction market conditions and government regulation which include laws and regulations related to workers' health and safety, wage and hour practices and immigration. An overall labor shortage or a lack of skilled labor could cause significant increases in costs or delays in construction of homes which could have a material adverse effect upon our sales and results of operations.

Our results of operations can be affected by the pricing and availability of raw materials. Although we attempt to increase the sales prices of our homes in response to higher materials costs, such increases typically lag behind the escalation of materials costs. Sudden increases in price and lack of availability of raw materials can be caused by natural disaster or other market forces, as has occurred in recent years. Although we have not experienced any production halts, severe or prolonged shortages of some of our most important building materials, which include wood and wood products, gypsum wallboard, steel, insulation, and other petroleum-based products, have occurred. There can be no assurance that sufficient supplies of these and other raw materials will continue to be available to us.

If the manufactured housing industry is not able to secure favorable local zoning ordinances, our sales could decline and our business could be adversely affected

Manufactured housing communities and individual home placements are subject to local zoning ordinances and other local regulations relating to utility service and construction of roadways. In the past, property owners often have resisted the adoption of zoning ordinances permitting the location of manufactured homes in residential areas, which we believe has restricted the growth of the industry. Manufactured homes may not achieve widespread acceptance and localities may not adopt zoning ordinances permitting the development of manufactured home communities. If the manufactured housing industry is unable to secure favorable local zoning ordinances, our sales could decline and our business, results of operations and financial condition 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

We are dependent to a significant extent upon the efforts of our executive officers, particularly Joseph H. Stegmayer, our Chief Executive Officer, and Daniel L. Urness, our Chief Financial Officer. The loss of the services of one or more of our executive officers could impair our ability to execute our business strategy and have a material adverse effect upon our business, financial condition and results of operations. We currently have no key man life insurance for our executive officers.

Certain provisions of our organizational documents could delay or make more difficult a change in control of our Company

Certain provisions of our restated certificate of incorporation and restated bylaws could delay or make more difficult transactions involving a change of control of our Company, and may have the effect of entrenching our current management or possibly depressing the market price of our common stock. For example, our restated certificate of incorporation and restated bylaws authorize blank series preferred stock, establish a staggered board of directors and impose certain procedural and other requirements for stockholder proposals. Furthermore, the fact that income taxes

could be imposed as a result of ownership changes occurring in conjunction with the distribution may have the effect of delaying or making more difficult certain transactions involving a change of control of our Company.

Table of Contents***Volatility of Stock Price***

The price of our common stock may fluctuate widely, depending upon a number of factors, many of which are beyond our control. These factors include the perceived prospects of our business and the manufactured housing industry as a whole; differences between our actual financial and operating results and those expected by investors and analysts; changes in analysts' recommendations or projections; changes affecting the availability of financing in the wholesale and consumer lending markets; actions or announcements by competitors; changes in the regulatory environment in which we operate; and changes in general economic or market conditions. In addition, stock markets generally experience significant price and volume volatility from time to time which may adversely affect the market price of our common stock for reasons unrelated to our performance.

Deterioration in economic conditions in general and continued turmoil in the credit markets could reduce our earnings and financial condition.

Deterioration in global economic conditions and continued turmoil in the credit markets could have a negative impact on our business. Among other things, unfavorable changes in employment levels, job growth, consumer confidence and income, and interest rates may further reduce demand for our products, which could negatively affect our business, results of operations, and financial condition. Unprecedented contraction in the credit markets and the financial services industry have occurred recently, characterized by the bankruptcy, failure or consolidation of various financial institutions and extraordinary intervention from the Federal government. These factors could have an adverse affect on the availability of financing to our customers, causing our revenues to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own or lease and operate three manufacturing facilities in the Phoenix, Arizona area and one manufacturing plant in Seguin, Texas. During May 2009, the Company initiated a plan to move its park model and vacation cabin manufacturing operations from its Specialty plant to a second production line at its Litchfield facility. This move will provide greater capabilities for the production of park models, cabins, and other specialty buildings, create improved overall operational efficiencies at the Litchfield factory, as well as reduce overhead expenses. Except in the case of the Litchfield plant, we own the land on which these facilities are located. We also own substantially all of the machinery and equipment used at these facilities. We believe that these facilities are adequately maintained and suitable for the purposes for which they are used. We also own approximately 30 acres of land in Phoenix, Arizona, which is the intended site of a future manufacturing facility. The following table sets forth certain information with respect to our active manufacturing facilities:

Location	Date of Commencement of Operations	Owned / Leased	Square Feet
Texas plant Seguin, Texas	2006	Owned	129,000
Litchfield plant Phoenix, Arizona (1)	1993	Leased	250,000
Durango plant Phoenix, Arizona	1978	Owned	79,000
Specialty plant Phoenix, Arizona	1972	Owned	94,000

(1) This lease expires in February 2013.

Our Company-owned retail centers generally range in size from one acre to five acres. Except for our Albuquerque, NM retail center, all of these locations are leased by us. Over the next 12 months, we plan to close less than one-half of our remaining Company-owned retail centers. The following table sets forth our 6 current Company-owned retail centers by location.

Owned / Lease Term

Location	Leased	Expiration
Mesa, AZ (1)	Leased	November 30, 2009
Tucson, AZ (2) (3)	Leased	February 17, 2010
Yuma, AZ (2) (3)	Leased	February 17, 2010
New Braunfels, TX (1) (3)	Leased	September 30, 2009
Porter, TX (1)	Leased	April 30, 2012
Albuquerque, NM	Owned	

(1) The Company has early termination options ranging from 3 to 6 months for these leases.

(2) The Company has purchase options for these leased properties.

(3) The Company has options to renew these leases.

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We also lease approximately 11,000 square feet of office space in Phoenix, Arizona for our corporate headquarters. Our corporate headquarters lease is scheduled to expire in 2012 but is cancelable with six months notice after August 1, 2009.

ITEM 3. LEGAL PROCEEDINGS

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 and warranty, product liability, and personal injury. Although litigation is inherently uncertain, based on past experience and the information currently available, our 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 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT (See Item 10 of Part III of this Report)

The following is an alphabetical listing of our executive officers as of May 8, 2009; as such term is defined under the rules and regulations of the Securities and Exchange Commission. Officers are generally elected by the Board of Directors at its meeting immediately following our annual stockholders' meeting, with each officer serving until a successor has been elected and qualified. There is no family relationship between these officers.

Name	Age	Positions with Cavco or Business Experience
Joseph H. Stegmayer	58	Chairman of the Board, Chief Executive Officer and President since March 2001; President of Centex Manufactured Housing Group, LLC from September 2000 to June 2003; President - Retail Operations and Chief Financial Officer of Champion Enterprises, Inc. from January 1998 to September 2000; President, Vice Chairman and Chairman of the Executive Committee of Clayton Homes, Inc. from 1993 to January 1998
Daniel L. Urness	40	Vice President, Chief Financial Officer, Treasurer since January 2006; Interim Chief Financial Officer from August 2005 to January 2006; Corporate Controller from May 2005 to August 2005; Financial Consultant from June 2002 to May 2005; Controller from May 1999 to June 2002; Manager and staff with Deloitte & Touche, LLP from September 1993 to May 1999

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The Company's common stock is traded on the NASDAQ Global Select Market under the symbol CVCO. The following table sets forth, for each of the periods indicated, the reported high and low closing sale prices per share on the NASDAQ for the Company's common stock.

	Closing Sales Price	
	High	Low
Year ended March 31, 2009		
Fourth Quarter	\$ 26.69	\$ 19.17
Third Quarter	36.15	21.90
Second Quarter	37.59	30.68
First Quarter	40.24	32.73
Year ended March 31, 2008		
Fourth Quarter	\$ 37.62	\$ 28.65
Third Quarter	39.47	28.10
Second Quarter	39.98	33.15
First Quarter	38.64	33.86

As of May 8, 2009, the Company had 973 stockholders of record and approximately 4,490 beneficial holders of its common stock, based upon information in securities position listings by registered clearing agencies upon request of the Company's transfer agent.

We do not expect to pay any dividends on our common stock in the foreseeable future. The payment of dividends to our stockholders is subject to the discretion of our board of directors, and various factors may prevent us from paying dividends. Such factors include our cash requirements and liquidity and the requirements of state corporate and other laws.

Equity Compensation Plan Table

Information concerning equity compensation plans is included in Part III, Item 12, in this Annual Report.

Issuer Purchases of Equity Securities

In January 2008, we announced that our Board of Directors approved a stock repurchase program, authorizing an expenditure of up to \$10 million to repurchase shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions in compliance with applicable securities laws and other legal requirements. The level of purchase activity is subject to market conditions and other investment opportunities. The stock repurchase program does not obligate us to acquire any particular amount of common stock and may be suspended or discontinued at any time. The stock repurchase program will be funded using our available cash and short-term investments. No repurchases have been made under this program to date.

Table of Contents**Performance Graph**

The following graph compares the yearly change in the cumulative total stockholder return on Cavco common stock during the five fiscal years ended March 31, 2009 with the NASDAQ index composite and a peer group composed of companies with businesses in one or more of Cavco's primary lines of business: the production and sale of manufactured homes. The companies comprising the peer group are weighted by their respective market capitalization and include the following: Cavalier Homes, Inc. Champion Enterprises, Inc., Fleetwood Enterprises, Inc., Liberty Homes, Inc. (Class A Common Stock), Nobility Homes, Inc., Palm Harbor Homes, Inc. and Skyline Corporation. The comparison assumes \$100 (with reinvestment of all dividends) was invested on March 31, 2004 in Cavco common stock and in each of the foregoing indices.

CAVCO INDUSTRIES, INC.

	3/31/2004	3/31/2005	3/31/2006	3/31/2007	3/31/2008	3/31/2009
CAVCO INDUSTRIES INC	100	\$ 131	\$ 264	\$ 190	\$ 190	\$ 128
NASDAQ INDEX						
COMPOSITE	100	\$ 100	\$ 118	\$ 123	\$ 115	\$ 76
PEER GROUP	100	\$ 86	\$ 117	\$ 80	\$ 62	\$ 13

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following table presents selected consolidated financial data regarding Cavco Industries, Inc. for the fiscal years indicated. The data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the information presented in Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report.

	Year Ended March 31,				
	2009	2008	2007	2006	2005
	(Dollars in thousands, except per share data)				
Income Statement Data:					
Net sales	\$ 105,362	\$ 141,914	\$ 169,114	\$ 189,503	\$ 157,435
Cost of sales	94,591	121,538	138,813	151,143	127,916
Gross profit	10,771	20,376	30,301	38,360	29,519
Selling, general and administrative expenses	11,213	13,825	15,311	16,367	14,245
(Loss) income from operations	(442)	6,551	14,990	21,993	15,274
Interest income	764	2,539	2,387	1,479	532
Income from continuing operations before income taxes	322	9,090	17,377	23,472	15,806
Income tax benefit (expense)	136	(2,778)	(5,962)	(8,675)	(6,229)
Income from continuing operations	458	6,312	11,415	14,797	9,577
Income from discontinued retail operations			134	252	550
Net income	\$ 458	\$ 6,312	\$ 11,549	\$ 15,049	\$ 10,127
Net income per share (basic):					
Continuing operations	\$ 0.07	\$ 0.98	\$ 1.79	\$ 2.34	\$ 1.52
Discontinued operations			0.02	0.04	0.09
Net income	\$ 0.07	\$ 0.98	\$ 1.81	\$ 2.38	\$ 1.61
Net income per share (diluted):					
Continuing operations	\$ 0.07	\$ 0.95	\$ 1.72	\$ 2.19	\$ 1.46
Discontinued operations			0.02	0.04	0.08
Net income	\$ 0.07	\$ 0.95	\$ 1.74	\$ 2.23	\$ 1.54
Weighted average shares outstanding:					
Basic	6,487,665	6,427,264	6,363,368	6,318,070	6,288,730
Diluted	6,692,932	6,664,111	6,629,580	6,746,356	6,557,819

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	2009	2008	March 31, 2007	2006	2005
	(In thousands, except per share data)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 70,557	\$ 73,610	\$ 12,976	\$ 15,122	\$ 46,457
Short-term investments	4,464		50,900	42,900	
Restricted cash	244	330	339	1,223	1,028
Accounts receivable	6,234	10,093	8,107	11,568	7,545
Inventories	9,333	11,293	13,464	12,733	10,262
Prepaid expenses and other current assets	4,160	1,839	2,273	1,446	1,202
Deferred income taxes	3,434	4,033	3,930	4,040	3,610
Total current assets	98,426	101,198	91,989	89,032	70,104
Property, plant and equipment net	12,859	12,706	12,802	12,344	7,472
Goodwill	67,346	67,346	67,346	67,346	67,346
Total assets	\$ 178,631	\$ 181,250	\$ 172,137	\$ 168,722	\$ 144,922
Total current liabilities	\$ 14,492	\$ 20,152	\$ 21,285	\$ 32,653	\$ 27,522
Deferred income taxes	16,099	14,747	12,760	11,040	9,090
Total stockholders' equity	148,040	146,351	138,092	125,029	108,310
Total liabilities and stockholders' equity	\$ 178,631	\$ 181,250	\$ 172,137	\$ 168,722	\$ 144,922
Other Data:					
Capital expenditures continuing operations	\$ 986	\$ 689	\$ 1,150	\$ 5,795	\$ 575
Depreciation continuing operations	\$ 817	\$ 785	\$ 692	\$ 923	\$ 1,053

The selected financial data set forth above includes the accounts of Cavco and its wholly-owned subsidiary, CRG Holdings, LLC.

On January 6, 2005, our Board of Directors authorized a 2-for-1 split of our common stock in the form of a 100% stock dividend. The dividend was paid on January 31, 2005 to stockholders of record as of January 18, 2005. All information presented in the selected consolidated financial data set forth above is presented as if this stock split had been completed as of the beginning of the applicable period.

The selected financial data set forth above may not be indicative of our future performance.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

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

Overview

CAVCO is the largest producer of manufactured homes in Arizona and the 9th largest producer of HUD code manufactured homes in the United States, based on 2007 total home production data published by Manufactured Home Merchandiser magazine. The Company is also a leading producer of park model homes and vacation cabins in the United States.

Headquartered in Phoenix, Arizona, the Company designs and produces manufactured homes which are sold to a network of retailers located primarily in the Southwestern and South Central United States. As of March 31, 2009, the Company operated three homebuilding facilities located in Arizona and one in Texas. During May 2009, the Company initiated a plan to move its park model and vacation cabin manufacturing operations from its Specialty plant to a second production line at its Litchfield facility. This move will provide greater capabilities for the production of park models, cabins, and other specialty buildings, create improved overall operational efficiencies at the Litchfield factory, as well as reduce overhead expenses. The retail segment of the Company operated six retail sales locations in Arizona, New Mexico and Texas which offer homes produced by the Company to retail customers. Management has plans to close certain of these retail locations and does not anticipate that the closure of any of our retail outlets will materially affect the operations of our manufacturing segment. Homes produced by the Company are also sold through a network of 322 independent retail outlets in 23 states and Canada.

Industry and Company Outlook

The manufactured housing industry is currently operating at levels well below the historic highs reached in the late 1990's. According to the Manufactured Housing Institute, the industry had 82,000 wholesale home shipments in 2008 compared to a peak of 373,000 homes ten years earlier in 1998. Based on industry data as of the end of 2008, an estimated 68% of all industry retail locations have closed since the end of 1999 and the number of active industry manufacturing facilities has dropped by 153 plants over the same period, representing a 47% reduction.

Our principal regional markets have also experienced a pronounced downturn. By the end of 2008, the number of manufactured housing units shipped in Arizona had declined approximately 76% from the peak in 1999. Likewise, severe declines were experienced in New Mexico and Texas, where the number of manufactured housing units shipped declined approximately 83% and 76%, respectively, by the end of 2008 from their respective peak levels in 1996 and 1998. More recently, the California manufactured housing market has suffered a significant downturn, as the number of manufactured housing units shipped had decreased by 74% at the end of 2008 compared to 2005.

One of the major contributing factors to the contraction of the industry has been the lack of availability of retail financing. Until 1999, consumer loans for manufactured homes were readily obtainable from a variety of lenders. At that time, consumer lenders began to tighten underwriting standards and curtail credit availability in response to higher than anticipated rates of loan defaults and significant losses upon the repossession and resale of manufactured homes securing defaulted loans. Certain consumer lenders in the traditional chattel (home-only) lending sector exited the market and interest rates for these home-only loans increased. Although a portion of the home-only loans have been replaced by land/home financing that generally provides more competitive credit terms to the retail buyer of manufactured housing, the effort, time and expense associated with closing land/home transactions is greater.

In addition to the changing environment in retail lending, many of the wholesale lenders providing inventory or "floor plan" financing to retailers have since exited the industry. During 2002, Conseco Finance Corp., formerly the industry's largest inventory and consumer lender, exited the market. Also in 2002, Deutsche Financial Services exited the manufactured housing floor plan lending business. In May 2004, JPMorgan Chase Bank N.A., one of the largest lenders in the home-only financing market at that time, announced it was ceasing its manufactured housing lending activities.

Since 2006, the site-built housing industry has experienced similar events, but to a much greater extent than has previously occurred in the manufactured home industry. The resulting credit restrictions for homebuilders and homebuyers are well documented and have had widespread effects, including further negative influences on the already restrictive manufactured housing lending environment. One of the few remaining national retail lenders specializing in our industry, Origen Financial, Inc., announced in March 2008 that it was suspending originations of manufactured home loans as a result of unfavorable conditions in the secondary market for its loans. Another major lender, 21st Mortgage Corporation, citing unreliable and inadequate sources of funding, announced in January 2009 that it was significantly curtailing its retail lending program. Remaining retail lenders such as Triad Financial, US Bank, and CU Factory Built Lending have tightened their loan underwriting standards.

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Faced with illiquid capital markets in late 2008, each of the manufactured housing sector's remaining inventory finance lenders initiated radical changes, including one company's announcement to cease their lending activities entirely. The continued participation of the others is undergoing modification; with one financier requiring that home manufacturers provide a significant portion of the funds it lends to finance retail inventories of that manufacturer's products. While some manufacturers are unable or have elected not to participate in this lender's program, Cavco's financial capabilities have enabled us to engage in this and other special inventory financing programs for retailers. We anticipate that our involvement in financing inventory purchases of Cavco product will be quite helpful to retailers and will allow our products to have continued exposure to potential purchasers. This initiative will coincide with our efforts to expand our distribution base in all of our markets with existing and new retailers.

While we have been successful in improving market share in our core region in the current year, the market itself is depressed. The Manufactured Housing Institute recently reported that national home shipments for calendar year 2008 were down 15% for the industry as a whole. However, aided by the increased production of our Texas factory, Cavco's comparative change was a decrease of 5%. Isolating these same statistics to both Arizona and California, the Company's key markets, industry-wide home shipments were down 38% in 2008, while Cavco's shipments were down 33%. The Company operated with a minimal backlog throughout fiscal year 2009 and the backlog of orders was negligible as of March 31, 2009.

Excess site-built home inventory has had an adverse impact on the contingency contract process, wherein potential homebuyers must sell their existing site-built home in order to facilitate the purchase of a new manufactured home. In addition, many on-site home builders with high inventory levels are offering sizable incentives to homebuyers, creating added competition for the factory-built housing industry. Also, competition from sales of repossessed site-built homes has negatively impacted retail sales of new manufactured homes.

Continuing reduced order rates have resulted in lower gross margins. Cavco has acted promptly to align its production levels as incoming orders have slowed, but has had limited ability to manage product pricing to maintain historical gross margins. After increasing rapidly since 2005, raw material prices flattened during fiscal 2009, but have not decreased generally.

The availability of consumer financing for the retail purchase of manufactured homes and inventory financing for the wholesale distribution chain need to be increased before marked emergence from the current lows can occur. Meanwhile, we have intensified our efforts to identify niche market opportunities. Company-wide, our products are diverse and tailored to the needs and desires of our customers. 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 to be located. Although times are difficult, we remain optimistic about our long-term prospects because we believe that we are located in attractive geographic markets. We have an excellent and broad line of products and we maintain a conservative cost structure which enables us to build great value into our homes. The Company has worked diligently throughout this period to maintain a strong financial position. Our debt-free balance sheet and solid position in cash and cash equivalents should help us to avoid the liquidity problems faced by many other companies and enable us to act effectively as market opportunities present themselves.

Regulatory Developments

The American Housing Rescue and Foreclosure Prevention Act was enacted in 2008 to provide assistance by way of legislation for the housing industry, including the manufactured housing industry. Among other things, the Act provides for increased loan limits for chattel (home-only) loans to \$69,678, up 43% from the previous limit of \$48,600 set in 1992. Chattel loans have languished in recent years and the increased loan limit is meant to broaden opportunities for prospective homeowners.

The American Recovery and Reinvestment Act of 2009 includes an \$8,000 tax credit for a limited period to homebuyers who have not owned a home in the previous 3 years, and is subject to other conditions. In addition to federal programs, California and certain other states have begun to adopt incentives to promote the purchase of new homes in their states. These and other regulatory changes may provide some stimulus going forward; however, given consumer concern about the state of the economy, we are cautious in developing expectations of any positive results from the new legislation.

Table of Contents**Results of Operations****(Dollars in thousands, except average sales price amounts)**

The following table summarizes certain financial and operating data for fiscal years 2009, 2008 and 2007.

	Year Ended March 31,		
	2009	2008	2007
Statement of Operations Data:			
Net sales			
Manufacturing	\$ 101,373	\$ 134,301	\$ 161,242
Retail	8,807	12,429	14,807
Less: Intercompany	(4,818)	(4,816)	(6,935)
Total net sales	105,362	141,914	169,114
Cost of sales	94,591	121,538	138,813
Gross profit	10,771	20,376	30,301
Selling, general and administrative expenses	11,213	13,825	15,311
(Loss) income from operations	(442)	6,551	14,990
Interest income	764	2,539	2,387
Income from continuing operations before income taxes	322	9,090	17,377
Income tax benefit (expense)	136	(2,778)	(5,962)
Income from continuing operations	458	6,312	11,415
Income from discontinued retail operations			134
Net income	\$ 458	\$ 6,312	\$ 11,549
Other Data:			
Floors sold manufacturing	3,917	5,104	5,884
Homes sold manufacturing	2,603	3,301	3,612
Homes sold retail	117	158	145
Capital expenditures	\$ 986	\$ 689	\$ 1,150
Depreciation	\$ 817	\$ 785	\$ 692

Fiscal Year 2009 Compared to Fiscal Year 2008

Net Sales. Total net sales decreased 25.8% to \$105,362 in fiscal year 2009 from \$141,914 in fiscal year 2008. Manufacturing net sales were lower by 24.5% to \$101,373 in fiscal year 2009 from \$134,301 in fiscal year 2008. The reduction in sales was primarily attributable to a reduced number of homes sold, the result of lower incoming order rates for homes. Total homes sold during fiscal year 2009 dropped 21.1% to 2,603 versus 3,301 last year. The decrease in net sales was also due to a 4.3% decrease in the average sales price per home, down \$1,740 to \$38,945 in fiscal year 2009 from \$40,685 last year.

Retail net sales decreased by \$3,622 to \$8,807 for fiscal year 2009 from \$12,429 last year. This decrease in retail sales was the result of lower average selling prices and a 25.9% decrease in the overall number of homes sold through Company-owned retail locations.

Gross Profit. Gross profit decreased to \$10,771, which was 10.2% of net sales for fiscal year 2009 compared to \$20,376 or 14.4% of net sales last year. The gross profit percentage has been challenged by lower production volume resulting in lower production efficiency and a less favorable product mix.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were lower by 18.9% or \$2,612 to \$11,213 or 10.6% of net sales for fiscal year 2009 versus \$13,825 or 9.7% of net sales last year. The decrease was primarily the result of reduced costs associated with compensation programs tied to profitability and a decrease in costs influenced by lower sales volume.

Interest Income. Interest income represents income earned on unrestricted cash and cash equivalents and short-term investments held at various times throughout the period. For a portion of the Company's short-term investments in the prior year, interest income was earned on a tax-free basis. Our interest income decreased 69.9% to \$764 for fiscal year 2009 as compared to \$2,539 last year. The decrease resulted mainly from the Company's repositioning of investible funds into U.S. Treasury money market funds and short-term bank certificates of deposit away from auction rate certificates on municipal bonds during the prior fiscal year.

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Income Taxes. The income tax benefit recognized during fiscal year 2009 is the result of two discrete items during the year; a change in the estimated blended rate to be applied to our deferred tax assets and liabilities, and a calculated true-up to our fiscal year 2008 tax return filed on December 12, 2008. The effective income tax rate was approximately 31% for fiscal year 2008, which reflects the larger proportion of tax-free interest income noted above, certain state income tax credits, and deductions provided in the American Jobs Creation Act in the prior year.

Discontinued Retail Operations. The Company has plans to dispose of certain of its retail sales centers and these operations are classified as discontinued retail operations (see Note 9).

Fiscal Year 2008 Compared to Fiscal Year 2007

Net Sales. Total net sales decreased 16.1% to \$141,914 in fiscal year 2008 from \$169,114 in fiscal year 2007. Manufacturing net sales were lower by 16.7% to \$134,301 in fiscal year 2008 from \$161,242 in fiscal year 2007. The reduction in sales was primarily attributable to a reduced number of homes sold, the result of lower incoming order rates for homes. Total homes sold during fiscal year 2008 dropped 8.6% to 3,301 versus 3,612 during fiscal year 2007. The decrease in net sales was also due to an 8.9% decrease in the average sales price per home, down \$3,956 to \$40,685 in fiscal year 2008 from \$44,641 in fiscal year 2007.

Retail net sales decreased by \$2,378 to \$12,429 for fiscal year 2008 from \$14,807 for the prior year. This decrease in retail sales was the result of lower average selling prices, offset by a 9.0% increase in the overall number of homes sold.

Gross Profit. Gross profit decreased to \$20,376, which was 14.4% of net sales for fiscal year 2008 compared to \$30,301 or 17.9% of net sales for the prior year. The gross profit percentage in fiscal 2008 was pressured by lower production volume, a less favorable product mix, low margin results from the new Texas plant, and higher raw material costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were lower by 9.7% or \$1,486 to \$13,825 or 9.7% of net sales for fiscal year 2008 versus \$15,311 or 9.1% of net sales for fiscal year 2007. The decrease was primarily the result of reduced costs associated with compensation programs tied to profitability and a decrease in costs influenced by lower sales volume.

Interest Income. Interest income represents income earned on unrestricted cash and cash equivalents and short-term investments. For a portion of the Company's short-term investments, interest income was earned on a tax-free basis. Our interest income increased 6.4% to \$2,539 for fiscal year 2008 as compared to \$2,387 for fiscal year 2007. The increase in interest income in fiscal year 2008 compared to the previous fiscal year resulted from the Company's larger balance of investible funds.

Income Taxes. The effective income tax rate was approximately 31% for fiscal year 2008 and 34% for fiscal year 2007. The lower income tax rate reflects the effects of a larger proportion of tax-free interest income noted above, certain state income tax credits, and deductions provided in the American Jobs Creation Act.

Discontinued Retail Operations. The Company has plans to dispose of certain of its retail sales centers and these operations are classified as discontinued retail operations (see Note 9).

**Liquidity and Capital Resources
(Dollars in thousands)**

We believe that cash and cash equivalents and short-term investments on hand at March 31, 2009, together with cash flow from operations, will be sufficient to fund our operations for the next twelve months and into the foreseeable future. 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 to be provided by manufacturing operations in the coming year is largely dependent on sales volume. Our manufactured homes are sold mainly through independent retailers who have historically relied on third-party lenders to provide floor plan financing for homes purchased. In addition, third-party lenders generally provide consumer financing for manufactured home purchases. Our sales depend in large part on the availability and cost of

financing for manufactured home purchasers and retailers as well as our own retail locations. The availability and cost of such financing is further dependent on the number of financial institutions participating in the industry, the departure of financial institutions from the industry, the financial institutions' lending practices, the strength of the credit markets generally, governmental policies and other conditions, all of which are beyond our control.

The following table summarizes our contingent commitments at March 31, 2009, consisting of contingent repurchase obligations. For additional information related to these contingent obligations, see Notes 4 and 5 to the Consolidated Financial Statements and Critical Accounting Policies below.

	Total	Contingent Payments Due by Period				After 5 Years
		Less than 1 year	1 3 Years	4 5 Years		
Repurchase obligations (1)	\$ 18,707	\$ 13,057	\$ 5,650	\$	\$	

(In thousands)

(1) For a complete description of the contingent repurchase obligation, see Critical Accounting Policies Reserve for Repurchase Commitments below. Although the commitments outstanding at March 31, 2009 have a finite life, these commitments are continually replaced as we continue to sell manufactured homes to retailers under repurchase and other recourse agreements with lending institutions which have provided wholesale floor plan financing to retailers.

Table of Contents**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its Consolidated Financial Statements.

Warranties. We provide the retail home buyer a one-year limited warranty covering defects in material or workmanship in home structure, plumbing and electrical systems. We record a liability for estimated future warranty costs relating to homes sold, based upon our assessment of historical experience factors and industry trends. Factors we use in the estimation of the warranty liability include the estimated amount of homes still under warranty including homes in retailer inventories, homes purchased by consumers still within the twelve-month warranty period, the timing in which work orders are completed, and the historical average costs incurred to service a home. We have a reserve for estimated warranties of \$5.9 million and \$6.6 million at March 31, 2009 and 2008, respectively. Although we maintain reserves for such claims, based on our assessments as described above, which to date have been adequate, there can be no assurance that warranty expense levels will remain at current levels or that such reserves will continue to be adequate. A large number of warranty claims exceeding our current warranty expense levels could have a material adverse effect on our results of operations.

Reserve for Repurchase Commitments. Manufactured housing companies customarily enter into repurchase and other recourse agreements with lending institutions which have provided wholesale floor plan financing to retailers. A significant portion of our sales are made to retailers pursuant to repurchase agreements with lending institutions. These agreements generally provide that we will repurchase our new products from the lending institutions in the event such product is repossessed upon a retailer's default. The risk of loss under repurchase agreements is lessened by certain factors, including the following:

- sales of our manufactured homes are spread over a relatively large number of independent retailers;
- the price that we are obligated to pay under such repurchase agreements declines based on predetermined amounts over the period of the agreement (generally 18 to 24 months); and
- we have historically been able to resell homes repurchased from lenders.

The Company applies FASB Interpretation No. 45, *Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others*, an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34 (FIN 45) and SFAS No. 5, *Accounting for Contingencies* (FAS 5), to account for its liability for repurchase commitments. Under the provisions of FIN 45, issuance of a guarantee results in two different types of obligations: (1) a non-contingent obligation to stand ready to perform under the repurchase commitment (accounted for pursuant to FIN 45) and (2) a contingent obligation to make future payments under the conditions of the repurchase commitment (accounted for pursuant to SFAS No. 5). Management reviews retailers' inventories to estimate the amount of inventory subject to repurchase obligation which is used to calculate (1) the fair value of the non-contingent obligation for repurchase commitments and (2) the contingent liability based on historical information available at the time. During the period in which a home is sold (inception of a repurchase commitment), the Company records the greater of these two calculations as a liability for repurchase commitments and as a reduction to sales.

(1) The Company estimates the fair value of the non-contingent portion of its manufacturer's inventory repurchase commitment under the provisions of FIN 45 when a home is shipped to retailers whose floor plan financing includes a repurchase commitment. The fair value of the inventory repurchase agreement is determined by calculating the net present value of the difference in (a) the interest cost to carry the inventory over the maximum repurchase liability period at the prevailing floor plan note interest rate and (b) the interest cost to carry the inventory over the maximum

repurchase liability period at the interest rate of a similar type loan without a manufacturer's repurchase agreement in force.

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(2) The Company estimates the contingent obligation to make future payments under its manufacturer's inventory repurchase commitment for the same pool of commitments as used in the fair value calculation above and records the greater of the two calculations. This SFAS No. 5 contingent obligation is estimated using historical loss factors, including the frequency of repurchases and the losses experienced by the Company for repurchased inventory. Additionally, subsequent to the inception of the repurchase commitment, the Company evaluates the likelihood that it will be called on to perform under the inventory repurchase commitments. If it becomes probable that a retailer will default and a SFAS No. 5 loss reserve should be recorded, then such contingent liability is recorded equal to the estimated loss on repurchase. Based on identified changes in retailers' financial conditions, the Company evaluates the probability of default for retailers who are identified at an elevated risk of default and applies a probability of default, based on historical default rates. Commensurate with this default probability evaluation, the Company reviews repurchase notifications received from floor plan sources and reviews retailer inventory for expected repurchase notifications based on various communications from the lenders and the retailers as well as for retailers who, the Company believes, are experiencing financial difficulty. The Company's repurchase commitments for the retailers in the category of elevated risk of default are excluded from the pool of commitments used in both of the calculations at (1) and (2) above. Changes in the reserve are recorded as an adjustment to sales.

The maximum amount for which the Company was contingently liable under such agreements approximated \$18.7 million at March 31, 2009, without reduction for the resale value of the homes. The Company had a reserve for repurchase commitments of \$741,000 and \$950,000 at March 31, 2009 and 2008, respectively. The Company incurred a repurchase reserve reduction of \$179,000 during fiscal year 2009 and no repurchase reserve reductions during fiscal years 2008 and 2007, respectively.

Retailer Volume Rebates. The Company's manufacturing operations sponsor volume rebate programs under which certain sales to retailers and builder/developers can qualify for cash rebates generally based on the level of sales attained during a twelve-month period. Volume rebates are accrued at the time of sale and are recorded as a reduction of net sales.

Impairment of Long-Lived Assets. The Company periodically evaluates the carrying value of long-lived assets to be held and used, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the anticipated undiscounted cash flow from such assets is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived assets. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that the fair market values are based primarily on independent appraisals and preliminary or definitive contractual arrangements less costs to dispose.

Income Taxes and Deferred Tax Assets and Liabilities. Deferred tax assets and liabilities are determined based on temporary differences between the financial statement amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company periodically evaluates the deferred tax assets based on the requirements established in SFAS No. 109, *Accounting for Income Taxes*, which requires the recording of a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The determination of the need for or amount of any valuation allowance involves significant management judgment and is based upon the evaluation of both positive and negative evidence, including estimates of anticipated taxable profits in various jurisdictions with which the deferred tax assets are associated. Changes in events or expectations could result in significant adjustments, which could include the recording of a valuation allowance and material changes to the provision for income taxes.

Goodwill. We test goodwill annually for impairment by reporting unit and record an impairment charge if the implied fair value of a reporting unit, including goodwill, is less than its carrying value. We generally utilize either quoted market values or a discounted cash flow methodology to test for impairment of goodwill. The results of discounted cash flow methodology depend upon a number of estimates and assumptions relating to cash flows, discount rates and other matters. Accordingly, such testing is subject to certain uncertainties, which could cause the fair value of goodwill to fluctuate from period to period.

As of March 31, 2009, all of our goodwill is attributable to our manufacturing reporting unit. We performed our annual goodwill impairment analysis as of March 31, 2009. The first step under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangibles*, (SFAS 142) is to compare the fair value of the reporting unit to the carrying value of the reporting unit. If the fair value is less than the carrying value, the second step must be completed, comparing the fair value of goodwill to the carrying value of goodwill. In assessing the fair value of the manufacturing reporting unit, the Company considered both the market and income approaches. Each approach was given equal weight in arriving at the fair value of the reporting unit. Based on this analysis, the fair value of the reporting unit, including goodwill, was deemed to be greater than its carrying value. As such, there was no need to continue to the second step under SFAS 142 and test the goodwill individually.

In the event that we are not able to achieve expected cash flow levels, or other factors indicate that goodwill is impaired, we may need to write off all or part of our goodwill, which would adversely affect our operating results and net worth. See Item 1A, Risk Factors.

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Other Matters

Related Party Transactions. During fiscal year 2008, the Company invested \$7 million in the Gabelli U.S. Treasury Money Market Fund. GAMCO Investors, Inc. beneficially owned approximately 10% of our outstanding common shares and thus meets the definition of a principal owner under SFAS No. 57, *Related Party Disclosures*. The Gabelli U.S. Treasury Money Market Fund and GAMCO Investors, Inc. are either directly or indirectly under common control. Interest earned on our investment and reinvested during the fiscal years ended March 31, 2009 and 2008 were \$97,000 and \$37,000, respectively.

Impact of Inflation. We believe that the general inflation rate over the past several years has not had a significant impact on our sales or profitability, but can give no assurance that this trend will continue in the future. However, sudden increases in specific costs, such as the increases in material costs we have experienced since early 2004, as well as price competition, can affect our ability to increase our selling prices and adversely impact our results of operations. Therefore, we can give no assurance that inflation or the impact of rising material costs will not have a significant impact on our sales or results of operations in the future.

Impact of Accounting Statements. In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure and gives the highest priority to quoted prices in active markets in determining fair value. SFAS 157 requires disclosures about (1) the extent to which companies measure assets and liabilities at fair value, (2) the methods and assumptions used to measure fair value, and (3) the effect of fair value measures on earnings. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FSP FAS 157-2, *Effective Date of FASB Statement No. 157* that delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for the majority of non-financial assets and non-financial liabilities. Therefore, effective April 1, 2008, the Company adopted SFAS 157 for financial assets and liabilities only, which had no effect on our consolidated financial position, results of operations and cash flows. Management is currently evaluating the impact, if any, SFAS 157 will have upon adoption for non-financial assets and liabilities on our results of operations and consolidated financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (SFAS 159), which permits an entity to choose to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items including insurance contracts. Entities electing the