CAVCO INDUSTRIES INC.
Form 10-Q
February 05, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 29, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 000-08822

Cavco Industries, Inc.
(Exact name of registrant as specified in its charter)

Delaware	56-2405642
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3636 North Central Avenue, Suite 1200
Phoenix, Arizona 85012
(Address of principal executive offices, including zip code)
602-256-6263
(Registrant's telephone number, including area code)

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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨	Smaller reporting company	¨

Emerging Growth Company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of February 1, 2019, 9,098,320 shares of Registrant's Common Stock, $.01 par value, were outstanding.

CAVCO INDUSTRIES, INC.
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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements
CAVCO INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	December 29, 2018 (Unaudited)	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 192,869	$ 186,766
Restricted cash, current	11,284	11,228
Accounts receivable, net	35,903	35,043
Short-term investments	10,558	11,866
Current portion of consumer loans receivable, net	32,863	31,096
Current portion of commercial loans receivable, net	10,755	5,481
Inventories	115,409	109,152
Prepaid expenses and other current assets	40,096	27,961
Total current assets	449,737	418,593
Restricted cash	454	1,264
Investments	33,125	33,573
Consumer loans receivable, net	58,447	63,855
Commercial loans receivable, net	26,284	11,120
Property, plant and equipment, net	66,378	63,355
Goodwill and other intangibles, net	82,776	83,020
Total assets	$ 717,201	$ 674,780
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 20,284	$ 23,785
Accrued liabilities	126,228	126,500
Current portion of securitized financings and other	39,596	26,044
Total current liabilities	186,108	176,329
Securitized financings and other	15,020	33,768
Deferred income taxes	7,001	7,577
Stockholders' equity:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; No shares issued or outstanding	—	—
Common stock, $.01 par value; 40,000,000 shares authorized; Outstanding 9,098,320 and 9,044,858 shares, respectively	91	90
Additional paid-in capital	249,018	246,197
Retained earnings	260,107	209,381
Accumulated other comprehensive income (loss)	(144)	1,438
Total stockholders' equity	509,072	457,106
Total liabilities and stockholders' equity	$ 717,201	$ 674,780

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
Net revenue	$233,700	$ 221,383	$721,633	$ 628,706
Cost of sales	184,679	171,527	571,720	502,330
Gross profit	49,021	49,856	149,913	126,376
Selling, general and administrative expenses	30,833	26,045	90,081	78,503
Income from operations	18,188	23,811	59,832	47,873
Interest expense	(923)	(1,236)	(2,836)	(3,305)
Other income, net	(318)	1,094	3,604	3,251
Income before income taxes	16,947	23,669	60,600	47,819
Income tax expense	(3,563)	(2,242)	(11,949)	(8,457)
Net income	$13,384	$ 21,427	$48,651	$ 39,362
Comprehensive income:				
Net income	$13,384	$ 21,427	$48,651	$ 39,362
Reclassification adjustment for net losses (gains) realized in income	14	8	38	(451)
Applicable income taxes	(3)	(3)	(8)	158
Net change in unrealized position of investments	62	494	11	1,936
Applicable income taxes	(13)	(184)	(2)	(724)
Comprehensive income	$13,444	$ 21,742	$48,690	$ 40,281
Net income per share:				
Basic	$1.47	$ 2.37	$5.36	$ 4.36
Diluted	$1.44	$ 2.33	$5.24	$ 4.28
Weighted average shares outstanding:				
Basic	9,097,993	9,030,100	9,075,156	9,019,311
Diluted	9,270,220	9,214,898	9,282,178	9,186,042

See accompanying Notes to Consolidated Financial Statements

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

	Nine Months Ended December 29, 2018	December 30, 2017
OPERATING ACTIVITIES		
Net income	$ 48,651	$ 39,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,468	2,975
Provision for credit losses	500	484
Deferred income taxes	(732)	(4,617)
Stock-based compensation expense	2,936	1,918
Non-cash interest income, net	(660)	(693)
Gain on sale of property, plant and equipment, net	(39)	(55)
Gain on investments and sale of loans, net	(5,200)	(7,335)
Changes in operating assets and liabilities:		
Accounts receivable	(863)	(10,687)
Consumer loans receivable originated	(98,692)	(96,766)
Proceeds from sales of consumer loans	96,679	91,157
Principal payments on consumer loans receivable	9,681	10,182
Inventories	(6,257)	(10,090)
Prepaid expenses and other current assets	(9,248)	(1,418)
Commercial loans receivable	(20,556)	(964)
Accounts payable and accrued liabilities	(3,310)	355
Net cash provided by operating activities	16,358	13,808
INVESTING ACTIVITIES		

Purchases of property, plant and equipment	(6,318)	(3,025)
Payments for Lexington Homes, net	—	(1,638)
Proceeds from sale of property, plant and equipment	110	436
Purchases of investments	(5,497)	(9,736)
Proceeds from sale of investments	6,530	7,401
Net cash used in investing activities	(5,175)	(6,562)
FINANCING ACTIVITIES		
Payments from exercise of stock options	(114)	(1,104)
Proceeds from secured financings and other	392	5,103
Payments on securitized financings	(6,112)	(6,389)
Net cash used in financing activities	(5,834)	(2,390)
Net increase in cash, cash equivalents and restricted cash	5,349	4,856
Cash, cash equivalents and restricted cash at beginning of the period	199,258	144,839
Cash, cash equivalents and restricted cash at end of the period	$ 204,607	$ 149,695
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 15,845	$ 12,195
Cash paid for interest	$ 1,912	$ 2,221
Assets acquired under capital lease	$ —	$ 1,749

See accompanying Notes to Consolidated Financial Statements

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CAVCO INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Basis of Presentation
The accompanying unaudited Consolidated Financial Statements of Cavco Industries, Inc., and its subsidiaries (collectively, the "Company" or "Cavco"), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for Quarterly Reports on Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations.
In the opinion of management, these statements include all of the normal recurring adjustments necessary to fairly state the Company's Consolidated Financial Statements. Certain prior period amounts have been reclassified to conform to current period classification. The Company has evaluated subsequent events after the balance sheet date through the date of the filing of this report with the SEC; and except for the events set forth in Note 22 of the Consolidated Financial Statements Notes ("Notes") of the Company's Quarterly Report on Form 10-Q for the period ended December 29, 2018 ("Form 10-Q"), there were no disclosable subsequent events. These Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes included in the Company's 2018 Annual Report on Form 10-K for the year ended March 31, 2018, filed with the SEC on May 30, 2018 ("Form 10-K").
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying Notes. Actual results could differ from those estimates. The Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year. The Company operates on a 52-53 week fiscal year ending on the Saturday nearest to March 31 of each year. Each fiscal quarter consists of 13 weeks, with an occasional fourth quarter extending to 14 weeks, if necessary, for the fiscal year to end on the Saturday nearest to March 31. The Company's current fiscal year will end on March 30, 2019.
The Company operates principally in two segments: (1) factory-built housing, which includes wholesale and retail systems-built housing operations, and (2) financial services, which includes manufactured housing consumer finance and insurance. The Company designs and builds a wide variety of affordable manufactured homes, modular homes and park model RVs in 20 factories located throughout the United States, which are sold to a network of independent retailers, through the Company's 38 Company-owned retail stores and to community owners and developers. Our financial services group is comprised of a mortgage subsidiary, CountryPlace Acceptance Corp. ("CountryPlace"), and an insurance subsidiary, Standard Casualty Co. ("Standard Casualty"). CountryPlace is an approved Federal National Mortgage Association ("FNMA" or "Fannie Mae") and Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") seller/servicer, and a Government National Mortgage Association ("GNMA" or "Ginnie Mae") mortgage-backed securities issuer which offers conforming mortgages, non-conforming mortgages and home-only loans to purchasers of factory-built homes. Standard Casualty provides property and casualty insurance to owners of manufactured homes.

Adoption of New Accounting Standards.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASC 606"), which requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted ASC 606 using the modified retrospective method for contracts that were not completed as of April 1, 2018, and recorded a reduction of $600,000 to accrued liabilities and a corresponding increase to retained earnings related to gross margin on home sales that were previously deferred for the cumulative effect of the adoption. Prior periods were not restated. There were no significant changes to processes or internal controls as a result of the adoption of ASC 606. See Note 2 for additional information.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). The Company adopted ASU 2016-01 on April 1, 2018 using the modified retrospective transition method. Upon adoption, we reclassified $1.6 million in gains, net of tax, related to available-for-sale equity investment securities from accumulated other comprehensive income to retained earnings as a cumulative-effect adjustment. Under the new guidance, these securities will continue to be measured at fair value; however, the changes in unrealized net holding gains and losses will be reported in earnings instead of recording these amounts in Accumulated other comprehensive income on the Consolidated Balance Sheet. Comparative information continues to be reported under the accounting standards in effect for the period. The effect of the change for the three and nine months ended December 29, 2018 was a decrease in income before income taxes of $2.9 million and $1.5 million, respectively, which impacts either Net revenue or Other income, net on the Consolidated Statements of Comprehensive Income, depending on the nature of the investment.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force) ("ASU 2016-18"), which requires restricted cash to be included with cash and cash equivalents when reconciling beginning and ending cash on the statement of cash flows. The Company adopted ASU 2016-18 on April 1, 2018 using the retrospective transition method. The comparative information in our Consolidated Statements of Cash Flows has been adjusted accordingly. The impact from adoption of this guidance was not material to our Consolidated Statements of Cash Flows. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the accompanying Consolidated Balance Sheets to the combined amounts shown on the Consolidated Statements of Cash Flows (in thousands):

	December 29, 2018	December 30, 2017
Cash and cash equivalents	$ 192,869	$ 138,974
Restricted cash, current	11,284	9,993
Restricted cash	454	728
	$ 204,607	$ 149,695

Accounting Standards Issued But Not Yet Adopted.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 will be effective beginning with the first quarter of the Company's fiscal year 2020, with early adoption permitted. The amendments require balance sheet recognition of leased assets and lease liabilities for most leases, and recognition of expenses in the income statement in a manner similar to current accounting treatment. In addition, disclosures of key information about leasing arrangements are required. The Company will utilize the FASB's optional transition method, which allows leases to be recognized and measured at the date of adoption. The Company does not plan to early adopt the guidance and is currently evaluating the effect ASU 2016-02 will have on the Company's Consolidated Financial Statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments to base measurement on expected losses through a forward-looking model rather than a model based on incurred losses. The guidance also requires increased disclosures. ASU 2016-13 will be effective beginning with the first quarter of the Company's fiscal year 2021 and is to be applied using a modified retrospective transition method with early adoption permitted. The Company does not plan to early adopt the guidance and is currently evaluating the effect ASU 2016-13 will have on the Company's Consolidated Financial Statements and disclosures.

In March 2017, the FASB issued ASU 2017-08, Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities ("ASU 2017-08"), which requires the premium on callable debt securities to be amortized to the earliest call date as opposed to the contractual life of the security. ASU 2017-08 will be effective beginning with the first quarter of the Company's fiscal year 2020. The Company is currently evaluating the effect ASU 2017-08 will have on the Company's Consolidated Financial Statements and disclosures.

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

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

2. Revenue from Contracts with Customers

As discussed in Note 1, the Company adopted ASC 606 on April 1, 2018. Our revenue recognition practices under ASC 606 do not differ materially from prior practices. Under ASC 606, revenues are recognized when a good or service is transferred to a customer. A good or service is transferred when, or as, the customer obtains control of that good or service. Revenues are based on the consideration we expect to receive in connection with our promises to deliver goods and services to our customers.

Factory-Built Housing Revenue Recognition - Wholesale. Revenue from homes sold to independent retailers is generally recognized when the home is shipped, at which time title passes to the independent retailer and collectability is reasonably assured. Homes sold to independent retailers are generally either paid upon shipment or floor plan financed by the independent retailer through standard industry financing arrangements, which can include repurchase agreements. Manufacturing sales financed under repurchase agreements are reduced by a provision for estimated repurchase obligations (see Note 16).

Prior to the adoption of ASC 606, revenue from homes sold under commercial loan programs involving funds provided by the Company were either deferred until such time that payment for the related commercial loan was received by the Company or recognized when the home was shipped and title transferred, depending on the nature of the program and borrower. Upon adoption of ASC 606, we generally recognize home sales revenue upon shipment and transfer of title, as it is probable that substantially all of the consideration in exchange for the goods or services transferred to the customer will be collected. One consideration under the guidance requires the evaluation of the financing component of the related loan program. If it is determined that the interest rate charged under the loan program is less than the market rate, the Company will reduce the transaction price by an amount for deferred interest. In these cases, interest income will be accrued and recognized over the life of the loan using the effective interest method. A significant amount of the Company's loan programs are offered at market rates.

Factory-Built Housing Revenue Recognition - Retail. Sales by Company-owned retail locations are generally recognized when the customer has entered into a legally binding sales contract, the home is delivered and permanently located at the customer's site, accepted by the customer, title has transferred and funding is probable.

Site Improvements on Retail Sales. Under previous guidance, the Company recorded the sales of subcontracted ancillary services, such as preparation of the home site or other exterior enhancements, net of associated costs. Such services are provided as a convenience to the customer. As the Company is involved in the selection of subcontractors, under ASC 606, we have concluded that it is appropriate to recognize the sale of these ancillary services on a gross basis. The revenues associated with these programs for the three months ended December 29, 2018 and December 30, 2017 were $5.9 million and $5.5 million, respectively. The revenues associated with these programs for the nine months ended December 29, 2018 and December 30, 2017 were $18.7 million and $15.6 million, respectively.

Additional Items. Expected consideration, and therefore revenue, reflects reductions for returns, allowances, and other incentives, some of which may be contingent on future events. Additionally, we have a volume rebate program under which certain sales to retailers, builders and 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 revenue.

In customer contracts for retail sales of manufactured homes, consideration includes certain state and local excise taxes billed to customers when those taxes are levied directly upon us by the taxing authorities. Expected consideration excludes sales and other taxes collected on behalf of taxing authorities. The Company elects to treat consideration for shipping performed as a fulfillment activity. Therefore, revenue includes consideration for shipping and other fulfillment activities performed prior to the customer obtaining control of the goods.

Practical Expedients and Exemptions. The Company generally expenses sales commissions when incurred because the amortization period would be one year or less. These costs are recorded within selling, general and administrative expenses. In addition, the Company does not disclose the value of unsatisfied performance obligations for contracts with an expected length of one year or less.

Financial Services Revenue Recognition. Financial services revenue is generally not within the scope of ASC 606, with the exception of insurance agency commissions received from third-party insurance companies. The Company recognizes such revenue upon execution of the insurance policy, where the Company has no future or ongoing obligation.

Disaggregation of Revenue. The following table summarizes customer contract revenues disaggregated by reportable segment and the source of the revenue for the three and nine months ended December 29, 2018 (in thousands). All revenue from customers is recognized at a point in time, either when the customer takes delivery or when a third-party insurance contract is executed, as more fully discussed above. Other items included in our consolidated revenues are primarily related to financial services, including manufactured housing consumer finance and insurance, which are not within the scope of ASC 606. See Form 10-K for revenue recognition policies related to these items.

	December 29, 2018	
	Three Months Ended	Nine Months Ended
Factory-built housing		
U.S. Housing and Urban Development code homes	$174,068	$545,071
Modular homes	25,698	72,046
Park model RVs	10,037	27,743
Other (1)	10,539	35,338
Net revenue from factory-built housing	220,342	680,198
Financial services		
Insurance agency commissions received from third-party insurance companies	704	1,979
Other	12,654	39,456
Net revenue from financial services	13,358	41,435
Total Net revenue	$233,700	$721,633

(1) Other factory-built housing revenue from ancillary products and services including used homes, freight and other services.

Impacts on Consolidated Financial Statements. The impact to our Consolidated Financial Statements as a result of ASC 606 implementation are as follows (in thousands):

	December 29, 2018		
Consolidated Balance Sheet	As Reported	Adjustments	Balance without ASC 606 Adoption
Accrued liabilities	$126,228	$ 2,488	$128,716
Total current liabilities	186,108	2,488	188,596
Deferred income taxes	7,001	(668)	6,333
Retained earnings	260,107	(1,820)	258,287
Total stockholders' equity	509,072	(1,820)	507,252

	Three Months Ended December 29, 2018		
Consolidated Statement of Comprehensive Income	As Reported	Adjustments	Balance without ASC 606 Adoption
Net revenue	$233,700	$ (8,149)	$225,551
Cost of sales	184,679	(7,647)	177,032
Gross profit	49,021	(502)	48,519
Selling, general and administrative expenses	30,833	(28)	30,805
Income from operations	18,188	(474)	17,714
Income before income taxes	16,947	(474)	16,473
Income tax expense	(3,563)	112	(3,451)
Net income	13,384	(362)	13,022

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Consolidated Statement of Comprehensive Income	Nine Months Ended December 29, 2018 As Reported	Adjustments	Balance without ASC 606 Adoption
Net revenue	$721,633	$ (30,978)	$690,655
Cost of sales	571,720	(28,727)	542,993
Gross profit	149,913	(2,251)	147,662
Selling, general and administrative expenses	90,081	(472)	89,609
Income from operations	59,832	(1,779)	58,053
Income before income taxes	60,600	(1,779)	58,821
Income tax expense	(11,949)	413	(11,536)
Net income	48,651	(1,366)	47,285

3. Restricted Cash

Restricted cash consists of the following (in thousands):

	December 29, 2018	March 31, 2018
Cash related to CountryPlace customer payments to be remitted to third parties	$ 9,198	$ 9,180
Cash related to CountryPlace customer payments on securitized loans to be remitted to bondholders	1,090	1,311
Other restricted cash	1,450	2,001
	$ 11,738	$ 12,492

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

4. Investments

Investments consist of the following (in thousands):

	December 29, 2018	March 31, 2018
Available-for-sale debt securities	$ 14,445	$ 16,181
Marketable equity securities	9,572	10,405
Non-marketable equity investments	19,666	18,853
	$ 43,683	$ 45,439

The Company's investments in marketable equity securities consist of common stock holdings of industrial and other companies.

Non-marketable equity investments includes $15.0 million as of December 29, 2018 and March 31, 2018, of contributions to equity-method investments in community-based initiatives that buy and sell our homes and provide home-only financing to residents of certain manufactured home communities. Other non-marketable investments include investments in other distribution operations.

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

	December 29, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	$300	$ —	$ (5)	$295
Residential mortgage-backed securities	7,417	6	(155)	7,268
State and political subdivision debt securities	5,270	99	(79)	5,290
Corporate debt securities	1,641	—	(49)	1,592
	$14,628	$ 105	$ (288)	$14,445

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	$300	$ —	$ (7)	$293
Residential mortgage-backed securities	7,654	—	(155)	7,499
State and political subdivision debt securities	6,377	109	(149)	6,337
Corporate debt securities	2,081	1	(30)	2,052
	$16,412	$ 110	$ (341)	$16,181

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

	December 29, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and government debt securities	$—	$ —	$ 295	$ (5)	$295	$ (5)
Residential mortgage-backed securities	402	(6)	5,414	(149)	5,816	(155)
State and political subdivision debt securities	—	—	3,379	(79)	3,379	(79)
Corporate debt securities	524	(28)	1,068	(21)	1,592	(49)
	$926	$ (34)	$ 10,156	$ (254)	$11,082	$ (288)

	March 31, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and government debt securities	$293	$ (7)	$ —	$ —	$293	$ (7)
Residential mortgage-backed securities	3,185	(52)	3,909	(103)	7,094	(155)
State and political subdivision debt securities	2,224	(40)	2,180	(109)	4,404	(149)
Corporate debt securities	1,384	(12)	367	(18)	1,751	(30)
	$7,086	$ (111)	$ 6,456	$ (230)	$13,542	$ (341)

Based on the Company's ability and intent to hold the investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider any investments to be other-than-temporarily impaired at December 29, 2018.

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

	December 29, 2018	
	Amortized Cost	Fair Value
Due in less than one year	$695	$682
Due after one year through five years	3,722	3,610
Due after five years through ten years	—	—
Due after ten years	2,794	2,885
Mortgage-backed securities	7,417	7,268
	$14,628	$14,445

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The Company recognizes investment gains and losses on debt securities when we sell or otherwise dispose of securities on a specific identification method. There were no gross gains or losses realized during the three and nine months ended December 29, 2018. There were no gross gains realized during the three and nine months ended December 30, 2017. Gross losses realized were $18,000 and $28,000 for three and nine months ended December 30, 2017, respectively.

Beginning in fiscal year 2019, we recognize unrealized gains and losses on marketable equity securities from changes in market prices during the period as a component of earnings in the Consolidated Statements of Comprehensive Income. See Note 1 for further discussion. Net investment gains and losses for the three and nine months ended December 29, 2018 and December 30, 2017 are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
Marketable equity securities:				
Net losses on securities held	$(2,996)	$ —	$(1,698)	$ —
Net gains (losses) on securities sold	11	—	(42)	—
Gross realized gains	—	147	—	882
Gross realized losses	—	(23)	—	(135)
Total net (loss) gain on marketable equity securities	$(2,985)	$ 124	$(1,740)	$ 747

5. Inventories

Inventories consist of the following (in thousands):

	December 29, 2018	March 31, 2018
Raw materials	$ 35,693	$ 36,124
Work in process	11,860	13,670
Finished goods and other	67,856	59,358
	$ 115,409	$ 109,152

6. Consumer Loans Receivable

The following table summarizes consumer loans receivable (in thousands):

	December 29, 2018	March 31, 2018
Loans held for investment (at Acquisition Date)	$ 46,177	$ 51,798
Loans held for investment (originated after Acquisition Date)	21,315	21,183
Loans held for sale	14,192	12,830
Construction advances	11,844	11,088
Consumer loans receivable	93,528	96,899
Deferred financing fees and other, net	(1,832)	(1,551)
Allowance for loan losses	(386)	(397)
	$ 91,310	$ 94,951

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The allowance for loan losses is developed at the loan level and allocated to specific individual loans or to impaired loans. A range of probable losses is calculated after giving consideration to, among other things, the loan characteristics, and historical loss experience. The Company then makes a determination of the best estimate within the range of loan losses. The allowance for loan losses reflects the Company's judgment of the probable loss exposure on its loans held for investment portfolio.

As of the date of the Palm Harbor acquisition ("Acquisition Date"), the Company determined the excess of the loan pool's scheduled contractual principal and interest payments over all cash flows expected as an amount that includes interest that cannot be accreted into interest income (the non-accretable difference). The cash flow expected to be collected in excess of the carrying value of the acquired loans includes interest that is accreted into interest income over the remaining life of the loans (referred to as accretable yield). Interest income on consumer loans receivable is recognized as Net revenue.

	December 29, 2018	March 31, 2018
	(in thousands)	
Consumer loans receivable held for investment – contractual amount	$105,677	$120,096
Purchase discount		
Accretable	(38,657)	(44,481)
Non-accretable	(20,672)	(23,711)
Less consumer loans receivable reclassified as other assets	(171)	(106)
Total acquired consumer loans receivable held for investment, net	$46,177	$51,798

Over the life of the acquired loans, the Company estimates cash flows expected to be collected to determine if an allowance for loan loss related to loans acquired subsequent to the Acquisition Date is required. The weighted averages of assumptions used in the calculation of expected cash flows to be collected were as follows:

	December 29, 2018	March 31, 2018
Prepayment rate	16.8 %	16.0 %
Default rate	1.1 %	1.2 %

Assuming there was a 1% unfavorable variation from the expected level, for each key assumption, the expected cash flows for the life of the portfolio, as of December 29, 2018, would decrease by approximately $1.0 million and $2.9 million for the expected prepayment rate and expected default rate, respectively.

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

	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
Balance at the beginning of the period	$40,937	$ 51,180	$44,481	$ 56,686
Accretion	(1,904)	(2,068)	(5,771)	(6,441)
Reclassifications to non-accretable discount	(376)	(844)	(53)	(1,977)
Balance at the end of the period	$38,657	$ 48,268	$38,657	$ 48,268

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Consumer loans held for investment had the following characteristics:

	December 29, 2018	March 31, 2018
Weighted average contractual interest rate	8.49 %	8.57 %
Weighted average effective interest rate	9.19 %	9.34 %
Weighted average months to maturity	163	168

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

	December 29, 2018					
	Consumer Loans Held for Investment					
	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Asset Class						
Credit Quality Indicator (FICO® score)						
Chattel loans						
0-619	$414	$ 255	$ 290	$ —	$ —	$959
620-719	8,775	6,374	9,207	—	281	24,637
720+	9,493	5,607	10,180	—	726	26,006
Other	48	—	403	—	—	451
Subtotal	18,730	12,236	20,080	—	1,007	52,053
Conforming mortgages						
0-619	—	—	153	63	—	216
620-719	—	—	2,260	8,387	8,015	18,662
720+	—	—	660	3,394	4,974	9,028
Other	—	—	—	—	196	196
Subtotal	—	—	3,073	11,844	13,185	28,102
Non-conforming mortgages						
0-619	79	350	1,006	—	—	1,435
620-719	1,035	4,057	2,835	—	—	7,927
720+	1,251	2,160	373	—	—	3,784
Other	—	—	217	—	—	217
Subtotal	2,365	6,567	4,431	—	—	13,363
Other loans	—	—	10	—	—	10
	$21,095	$ 18,803	$ 27,594	$ 11,844	$ 14,192	$93,528

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	March 31, 2018 Consumer Loans Held for Investment					
	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Asset Class						
Credit Quality Indicator (FICO® score)						
Chattel loans						
0-619	$465	$ 354	$ 330	$ —	$ —	$1,149
620-719	10,102	7,107				