CAVCO INDUSTRIES INC.
Form 10-Q
November 08, 2018

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 September 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 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 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	¨ (Do not check if a smaller reporting company)	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 November 2, 2018, 9,098,159 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)

	September 29, 2018 (Unaudited)	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 195,488	$ 186,766
Restricted cash, current	13,754	11,228
Accounts receivable, net	38,097	35,043
Short-term investments	13,462	11,866
Current portion of consumer loans receivable, net	31,327	31,096
Current portion of commercial loans receivable, net	10,909	5,481
Inventories	111,502	109,152
Prepaid expenses and other current assets	34,169	27,961
Total current assets	448,708	418,593
Restricted cash	453	1,264
Investments	33,149	33,573
Consumer loans receivable, net	62,021	63,855
Commercial loans receivable, net	22,920	11,120
Property, plant and equipment, net	65,108	63,355
Goodwill and other intangibles, net	82,856	83,020
Total assets	$ 715,215	$ 674,780
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 25,676	$ 23,785
Accrued liabilities	130,083	126,500
Current portion of securitized financings and other	40,969	26,044
Total current liabilities	196,728	176,329
Securitized financings and other	15,159	33,768
Deferred income taxes	8,580	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 9,097,359 and 9,044,858 shares, respectively	91	90
Additional paid-in capital	248,138	246,197
Retained earnings	246,723	209,381
Accumulated other comprehensive income (loss)	(204)	1,438
Total stockholders' equity	494,748	457,106
Total liabilities and stockholders' equity	$ 715,215	$ 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		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net revenue	$241,530	$ 200,507	$487,933	$ 407,323
Cost of sales	192,114	165,953	387,041	330,803
Gross profit	49,416	34,554	100,892	76,520
Selling, general and administrative expenses	30,035	26,153	59,248	52,458
Income from operations	19,381	8,401	41,644	24,062
Interest expense	(941)	(1,021)	(1,913)	(2,069)
Other income, net	1,077	1,119	3,922	2,157
Income before income taxes	19,517	8,499	43,653	24,150
Income tax expense	(3,941)	(2,317)	(8,386)	(6,215)
Net income	$15,576	$ 6,182	$35,267	$ 17,935
Comprehensive income:				
Net income	$15,576	$ 6,182	$35,267	$ 17,935
Reclassification adjustment for net losses (gains) realized in income	24	(383)	24	(459)
Applicable income taxes	(5)	134	(5)	161
Net change in unrealized position of investments	(57)	2,275	(51)	1,442
Applicable income taxes	12	(867)	11	(540)
Comprehensive income	$15,550	$ 7,341	$35,246	$ 18,539
Net income per share:				
Basic	$1.72	$ 0.69	$3.89	$ 1.99
Diluted	$1.67	$ 0.67	$3.80	$ 1.96
Weighted average shares outstanding:				
Basic	9,079,679	9,020,834	9,064,007	9,013,917
Diluted	9,304,188	9,181,899	9,287,730	9,171,515

See accompanying Notes to Consolidated Financial Statements

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

	Six Months Ended September 29, 2018			September 30, 2017		
OPERATING ACTIVITIES						
Net income	$	35,267		$	17,935	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	2,274			1,950		
Provision for credit losses	459			676		
Deferred income taxes	863			(1,267		)
Stock-based compensation expense	2,115			1,535		
Non-cash interest income, net	(409		)	(526		)
Gain on sale of property, plant and equipment, net	(51		)	(88		)
Gain on investments and sale of loans, net	(5,457		)	(5,047		)
Changes in operating assets and liabilities:						
Accounts receivable	(3,057		)	(5,512		)
Consumer loans receivable originated	(64,479		)	(66,273		)
Proceeds from sales of consumer loans	62,245			59,243		
Principal payments on consumer loans receivable	6,522			7,540		
Inventories	(2,350		)	(5,733		)
Prepaid expenses and other current assets	(4,703		)	(12,448		)
Commercial loans receivable	(17,321		)	(5,355		)
Accounts payable and accrued liabilities	5,890			22,055		
Net cash provided by operating activities	17,808			8,685		

INVESTING ACTIVITIES				
Purchases of property, plant and equipment	(3,876	)	(1,779	)
Payments for Lexington Homes, net	—		(564	)
Proceeds from sale of property, plant and equipment	64		411	
Purchases of investments	(4,042	)	(5,162	)
Proceeds from sale of investments	4,684		4,925	
Net cash used in investing activities	(3,170	)	(2,169	)
FINANCING ACTIVITIES				
Payments from exercise of stock options	(173	)	(1,583	)
Proceeds from secured financings and other	226		4,963	
Payments on securitized financings	(4,254	)	(4,322	)
Net cash used in financing activities	(4,201	)	(942	)
Net increase in cash, cash equivalents and restricted cash	10,437		5,574	
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	$ 209,695		$ 150,413	
Supplemental disclosures of cash flow information:				
Cash paid for income taxes	$ 12,381		$ 7,861	
Cash paid for interest	$ 1,300		$ 1,508	
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 ("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 the Notes to the Consolidated Financial Statements ("Notes") 16 and 22 and Part II, Item 5, Other Information, of the Company's Quarterly Report on Form 10-Q for the period ended September 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. We 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. Comparative information continues to be reported under the accounting standards in effect for the period. The effect of the change for the three and six months ended September 29, 2018 was a decrease of $276,000 and an increase of $1.4 million to income before income taxes, respectively, which is either included in 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. We 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):

	September 29, 2018	September 30, 2017
Cash and cash equivalents	$ 195,488	$ 136,788
Restricted cash, current	13,754	12,899
Restricted cash	453	726
	$ 209,695	$ 150,413

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. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. 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, we 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 September 29, 2018 and September 30, 2017 were $6.2 million and $5.0 million, respectively. The revenues associated with these programs for the six months ended September 29, 2018 and September 30, 2017 were $12.8 million and $10.1 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. We elect 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. We generally expense 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, we do 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 six months ended September 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.

	September 29, 2018	
	Three Months Ended	Six Months Ended
Factory-built housing		
U.S. Housing and Urban Development code homes	$184,687	$371,003
Modular homes	23,901	46,348
Park model RVs	5,979	17,706
Other (1)	12,527	24,799
Net revenue from factory-built housing	227,094	459,856
Financial services		
Insurance agency commissions received from third-party insurance companies	643	1,275
Other	13,793	26,802
Net revenue from financial services	14,436	28,077
Total Net revenue	$241,530	$487,933

(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):

	September 29, 2018		
Consolidated Balance Sheet	As Reported	Adjustments	Balance without ASC 606 Adoption
Accrued liabilities	$130,083	$ 2,007	$132,090
Total current liabilities	196,728	2,007	198,735
Deferred income taxes	8,580	(549)	8,031
Retained earnings	246,723	(1,458)	245,265
Total stockholders' equity	494,748	(1,458)	493,290

	Three Months Ended September 29, 2018		
Consolidated Statement of Comprehensive Income	As Reported	Adjustments	Balance without ASC 606 Adoption
Net revenue	$241,530	$ (9,160)	$232,370
Cost of sales	192,114	(8,691)	183,423
Gross profit	49,416	(469)	48,947
Selling, general and administrative expenses	30,035	(136)	29,899
Income from operations	19,381	(333)	19,048
Income before income taxes	19,517	(333)	19,184
Income tax expense	(3,941)	76	(3,865)
Net income	15,576	(257)	15,319

Consolidated Statement of Comprehensive Income	Six Months Ended September 29, 2018		
	As Reported	Adjustments	Balance without ASC 606 Adoption
Net revenue	$487,933	$ (22,829)	$465,104
Cost of sales	387,041	(21,080)	365,961
Gross profit	100,892	(1,749)	99,143
Selling, general and administrative expenses	59,248	(444)	58,804
Income from operations	41,644	(1,305)	40,339
Income before income taxes	43,653	(1,305)	42,348
Income tax expense	(8,386)	301	(8,085)
Net income	35,267	(1,004)	34,263

3. Restricted Cash

Restricted cash consists of the following (in thousands):

	September 29, 2018	March 31, 2018
Cash related to CountryPlace customer payments to be remitted to third parties	$ 11,838	$ 9,180
Cash related to CountryPlace customer payments on securitized loans to be remitted to bondholders	979	1,311
Other restricted cash	1,390	2,001
	$ 14,207	$ 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):

	September 29, 2018	March 31, 2018
Available-for-sale debt securities	$ 14,900	$ 16,181
Marketable equity securities	12,409	10,405
Non-marketable equity investments	19,302	18,853
	$ 46,611	$ 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 September 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):

	September 29, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	$300	$ —	$ (10)	$290
Residential mortgage-backed securities	7,714	—	(207)	7,507
State and political subdivision debt securities	5,499	90	(108)	5,481
Corporate debt securities	1,646	1	(25)	1,622
	$15,159	$ 91	$ (350)	$14,900

	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):

	September 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	$290	$ (10)	$ —	$ —	$290	$ (10)
Residential mortgage-backed securities	2,738	(51)	4,764	(156)	7,502	(207)
State and political subdivision debt securities	1,097	(18)	2,478	(90)	3,575	(108)
Corporate debt securities	515	(6)	855	(19)	1,370	(25)
	$4,640	$ (85)	$ 8,097	$ (265)	$12,737	$ (350)

	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 September 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.

	September 29, 2018	
	Amortized Cost	Fair Value
Due in less than one year	$698	$680
Due after one year through five years	3,557	3,465
Due after five years through ten years	375	361
Due after ten years	2,815	2,887
Mortgage-backed securities	7,714	7,507
	$15,159	$14,900

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We recognize 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 six months ended September 29, 2018. There were no gross gains or losses realized for the three months ended September 30, 2017. During the six months ended September 30, 2017, there were no gross gains realized and $10,000 in gross losses realized.

Beginning in fiscal year 2019, we have recognized 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. The net investment gains and losses for the three and six months ended September 29, 2018 and September 30, 2017 are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Marketable equity securities:				
Net (losses) gains on securities held	$(312)	$ —	$1,298	$ —
Net losses on securities sold	(13)	—	(53)	—
Gross realized gains	—	570	—	735
Gross realized losses	—	(51)	—	(112)
Total net (loss) gain on marketable equity securities	$(325)	$ 519	$1,245	$ 623

5. Inventories

Inventories consist of the following (in thousands):

	September 29, 2018	March 31, 2018
Raw materials	$ 36,560	$36,124
Work in process	14,143	13,670
Finished goods and other	60,799	59,358
	$ 111,502	$109,152

6. Consumer Loans Receivable

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

	September 29, 2018	March 31, 2018
Loans held for investment (at Acquisition Date)	$ 47,948	$51,798
Loans held for investment (originated after Acquisition Date)	23,469	21,183
Loans held for sale	13,258	12,830
Construction advances	11,001	11,088
Consumer loans receivable	95,676	96,899
Deferred financing fees and other, net	(1,917)	(1,551)
Allowance for loan losses	(411)	(397)
	$ 93,348	$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.

	September 29, 2018	March 31, 2018
	(in thousands)	
Consumer loans receivable held for investment – contractual amount	$110,136	$120,096
Purchase discount		
Accretable	(40,937)	(44,481)
Non-accretable	(21,138)	(23,711)
Less consumer loans receivable reclassified as other assets	(113)	(106)
Total acquired consumer loans receivable held for investment, net	$47,948	$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:

	September 29, 2018	March 31, 2018
Prepayment rate	16.2 %	16.0 %
Default rate	1.2 %	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 September 29, 2018, would decrease by approximately $1.1 million and $3.2 million for the expected prepayment rate and expected default rate, respectively.

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

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Balance at the beginning of the period	$42,873	$ 54,912	$44,481	$ 56,686
Accretion	(1,968)	(2,163)	(3,867)	(4,373)
Reclassifications from (to) non-accretable discount	32	(1,569)	323	(1,133)
Balance at the end of the period	$40,937	$ 51,180	$40,937	$ 51,180

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Consumer loans held for investment had the following characteristics:

	September 29, 2018		March 31, 2018	
Weighted average contractual interest rate	8.49	%	8.57	%
Weighted average effective interest rate	9.03	%	9.34	%
Weighted average months to maturity	167		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):

	September 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	$427	$ 263	$ 317	$ —	$ —	$1,007
620-719	9,202	6,584	10,228	—	—	26,014
720+	9,850	5,872	11,305	—	133	27,160
Other	48	—	479	—	—	527
Subtotal	19,527	12,719	22,329	—	133	54,708
Conforming mortgages						
0-619	—	—	154	26	—	180
620-719	—	—	2,244	6,291	8,527	17,062
720+	—	—	464	4,684	4,598	9,746
Other	—	—	116	—	—	116
Subtotal	—	—	2,978	11,001	13,125	27,104
Non-conforming mortgages						
0-619	80	356	1,020	—	—	1,456
620-719	1,050	4,111	2,981	—	—	8,142
720+	1,266	2,394	375	—	—	4,035
Other	—	—	221	—	—	221
Subtotal	2,396	6,861	4,597	—	—	13,854
Other loans	—	—	10	—	—	10
	$21,923	$ 19,580	$ 29,914	$ 11,001	$ 13,258	$95,676

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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	8,587	—	245	26,041
720+	10,594	6,410	11,285	—	155	28,444
Other	49	—	403	—	—	452
Subtotal	21,210	13,871	20,605	—	400	56,086
Conforming mortgages						
0-619	—	—	156	141	179	476
620-719	—	—	2,137	6,428	6,479	15,044
720+	—	—	199	4,519	5,663	10,381
Subtotal	—	—	2,608	11,088	12,430	26,126
Non-conforming mortgages						
0-619	82	405	1,047	—	—	1,534
620-719	1,120	4,378	3,093	—	—	8,591
720+	1,348	2,526	395	—	—	4,269
Other	—	—	282	—	—	282
Subtotal	2,550	7,309	4,817	—	—	14,676
Other loans	—	—	11	—	—	11
	$23,760	$ 21,180	$ 28,041	$ 11,088	$ 12,830	$96,899

Loan contracts secured by collateral that is geographically concentrated could experience higher rates of delinquencies, default and foreclosure losses than loan contracts secured by collateral that is more geographically dispersed. As of September 29, 2018, 44.7% of the outstanding principal balance of the consumer loans receivable portfolio is concentrated in Texas and 10.6% is concentrated in Florida. As of March 31, 2018, 44.2% of the outstanding principal balance of the consumer loans receivable portfolio was concentrated in Texas and 11.0% was concentrated in Florida. Other than Texas and Florida, no other state had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of September 29, 2018 or March 31, 2018.

Collateral for repossessed loans is acquired through foreclosure or similar proceedings and is recorded at the estimated fair value of the home, less the costs to sell. At repossession, the fair value of the collateral is computed based on the historical recovery rates of previously charged-off loans; the loan is charged off and the loss is recorded to allowance for loan losses. On a monthly basis, the fair value of the collateral is adjusted to the lower of the amount recorded at repossession or the estimated sales price less estimated costs to sell, based on current information. Repossessed homes totaled approximately $1.9 million and $1.5 million as of September 29, 2018 and March 31, 2018, respectively, and are included in Prepaid expenses and other current assets in the Consolidated Balance Sheet. Foreclosure or similar proceedings in progress totaled approximately $1.4 million and $1.1 million as of September 29, 2018 and March 31, 2018, respectively.

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7. Commercial Loans Receivable and Allowance for Loan Losses

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

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

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

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

	September 29, 2018	March 31, 2018
Direct loans receivable	$ 33,606	$ 16,368
Participation loans receivable	513	275
Allowance for loan losses	(135)	(42)
Deferred financing fees, net	(155)	—
	$ 33,829	$ 16,601

The commercial loans receivable balance had the following characteristics:

	September 29, 2018	March 31, 2018
Weighted average contractual interest rate	5.9 %	4.6 %
Weighted average months to maturity	5	6

The Company evaluates the potential for loss from its participation loan programs based on each independent lender's overall financial stability, as well as historical experience, and has determined that an allowance for loan losses was not needed at September 29, 2018 or March 31, 2018.

With respect to direct programs with communities and developers, borrower activity is monitored on a regular basis and contractual arrangements are in place to provide adequate loss mitigation in the event of a default. For direct programs with independent retailers, the risk of loss is spread over numerous borrowers. Borrower activity is monitored in conjunction with third-party service providers, where applicable, to estimate the potential for loss on the related notes receivable, considering potential exposures, including repossession costs, remarketing expenses, impairment of value and the risk of collateral loss. The Company has historically been able to resell repossessed unused homes, thereby mitigating loss experience. If a default occurs and collateral is lost, the Company is exposed to loss of the full value of the home loan. If the Company determines that it is probable that a borrower will default, a specific reserve is determined and recorded within the estimated allowance for loan losses. The Company recorded an allowance for loan losses of $135,000 and $242,000 at September 29, 2018 and September 30, 2017, respectively.

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The following table represents changes in the estimated allowance for loan losses, including related additions and deductions to the allowance for loan losses applicable to the direct programs (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Balance at beginning of period	$ 113	$ 222	$ 42	$ 210
Provision for inventory finance credit losses	22	20	93	32
Loans charged off, net of recoveries	—	—	—	—
Balance at end of period	$ 135	$ 242	$ 135	$ 242

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

	Direct Commercial Loans		Participation Commercial Loans	
	September 29, 2018	March 31, 2018	September 29, 2018	March 31, 2018
Inventory finance notes receivable:				
Collectively evaluated for impairment	$13,415	$4,193	$ —	$ —
Individually evaluated for impairment	20,191	12,175	513	275
	$33,606	$16,368	$ 513	$ 275
Allowance for loan losses:				
Collectively evaluated for impairment	$(135)	$(42)	$ —	$ —
Individually evaluated for impairment	—	—	—	—
	$(135)	$(42)	$ —	$ —

Loans are subject to regular review and are given management's attention whenever a problem situation appears to be developing. Loans with indicators of potential performance problems are placed on watch list status and are subject to additional monitoring and scrutiny. Nonperforming status includes loans accounted for on a non-accrual basis and accruing loans with principal payments past due 90 days or more. The Company's policy is to place loans on nonaccrual status when interest is past due and remains unpaid 90 days or more or when there is a clear indication that the borrower has the inability or unwillingness to meet payments as they become due. The Company will resume accrual of interest once these factors have been remedied. At September 29, 2018, there are no commercial loans that are 90 days or more past due that are still accruing interest. Payments received on nonaccrual loans are recorded on a cash basis, first to interest and then to principal. At September 29, 2018, the Company was not aware of any potential problem loans that would have a material effect on the commercial loans receivable balance. Charge-offs occur when it becomes probable that outstanding amounts will not be recovered.

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

	Direct Commercial Loans		Participation Commercial Loans	
	September 29, 2018	March 31, 2018	September 29, 2018	March 31, 2018
Risk profile based on payment activity:				
Performing	$33,606	$ 16,368	$ 513	$ 275
Watch list	—	—	—	—
Nonperforming	—	—	—	—
	$33,606	$ 16,368	$ 513	$ 275

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The Company has concentrations of commercial loans receivable related to factory-built homes in excess of 10% located in the following states, measured as a percentage of commercial loans receivables principal balance outstanding:

	September 29, 2018		March 31, 2018	
California	22.1	%	14.4	%
Arizona	13.0	%	16.7	%
Texas	10.7	%	9.0	%
Oregon	10.0	%	14.7	%

The risks created by these concentrations have been considered in the determination of the adequacy of the allowance for loan losses. The Company did not have concentrations in excess of 10% of the principal balance of the commercial loans receivables in any other states as of September 29, 2018 or March 31, 2018.

As of September 29, 2018 and March 31, 2018, the Company had concentrations with one independent third-party that equaled 18.4% and 37.4% of the principal balance outstanding, respectively, all of which was secured.

8. Property, Plant and Equipment

Property, plant and equipment, net, consisted of the following (in thousands):

	September 29, 2018		March 31, 2018	
Property, plant and equipment, at cost:				
Land	$ 24,131		$ 24,001	
Buildings and improvements	41,058		39,613	
Machinery and equipment	25,713		24,154	
	90,902		87,768	
Accumulated depreciation	(25,794	)	(24,413	)
	$ 65,108		$ 63,355	

Depreciation expense was $1.1 million and $2.1 million for the three and six months ended September 29, 2018, respectively. Depreciation expense of $884,000 and $1.8 million was recognized during the three and six months ended September 30, 2017, respectively.

Included in the amounts above are certain assets under capital leases. See Note 9 for additional information.

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9. Capital Leases

On April 3, 2017, in connection with the purchase of Lexington Homes, the Company recorded capital leases on manufacturing facilities and land in Lexington, Mississippi. The following amounts were recorded for the leased assets as of September 29, 2018 and March 31, 2018 (in thousands):

	September 29, 2018	March 31, 2018
Land	$ 699	$ 699
Buildings and improvements	1,050	1,050
	1,749	1,749
Accumulated amortization	(53)	(35)
Leased assets, net	$ 1,696	$ 1,714

Future minimum payments under the leases as of September 29, 2018 were as follows (in thousands):

FY 2019	$68
FY 2020	766
FY 2021	73
FY 2022	73
FY 2023	73
Thereafter	195
Total remaining lease payments	1,248
Less: Amount representing interest	(134)
Present value of future minimum lease payments	$1,114

10. Goodwill and Other Intangibles

Goodwill and other intangibles, net, consisted of the following (in thousands):

	September 29, 2018			March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived:						
Goodwill	$72,920	$ —	$72,920	$72,920	$ —	$72,920
Trademarks and trade names	7,200	—	7,200	7,200	—	7,200
State insurance licenses	1,100	—	1,100	1,100	—	1,100
Total indefinite-lived intangible assets	81,220	—	81,220	81,220	—	81,220
Finite lived:						
Customer relationships	7,100	(5,863)	1,237	7,100	(5,756)	1,344
Other	1,384	(985)	399	1,384	(928)	456
	$89,704	$ (6,848)	$82,856	$89,704	$ (6,684)	$83,020

Amortization expense recognized on intangible assets was $80,000 and $164,000 during the three and six months ended September 29, 2018, respectively. Amortization expense recognized on intangible assets was $92,000 and $184,000 during the three and six months ended September 30, 2017, respectively.

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11. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	September 29, 2018	March 31, 2018
Salaries, wages and benefits	$ 23,916	$ 24,416
Customer deposits	22,277	21,294
Unearned insurance premiums	17,804	17,432
Estimated warranties	16,905	16,638
Accrued volume rebates	10,090	7,778
Insurance loss reserves	6,452	6,157
Company repurchase option on certain loans sold	5,749	5,637
Accrued insurance	5,204	5,320
Accrued taxes	2,629	1,986
Reserve for repurchase commitments	2,303	2,207
Capital lease obligation	1,114	1,155
Other	15,640	16,480
	$ 130,083	$ 126,500

12. Warranties

Activity in the liability for estimated warranties was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Balance at beginning of period	$ 16,670	$ 16,316	$ 16,638	$ 15,479
Purchase accounting additions	—	—	—	838
Charged to costs and expenses	6,713	7,399	12,942	12,622
Payments and deductions	(6,478)	(7,245)	(12,675)	(12,469)
Balance at end of period	$ 16,905	$ 16,470	$ 16,905	$ 16,470

13. Debt Obligations

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

	September 29, 2018	March 31, 2018
Acquired securitized financings (acquired as part of the Palm Harbor transaction)		
Securitized financing 2005-1	$ 19,115	$ 20,524
Securitized financing 2007-1	20,722	22,552
Other secured financings	4,825	4,966
Secured credit facilities	11,466	11,770
	$ 56,128	$ 59,812

Acquired securitized financings were recorded at fair value at the time of acquisition, which resulted in a discount, and subsequently are accounted for in a manner similar to ASC 310-30 to accrete the discount.

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The following table summarizes acquired securitized financings (in thousands):

	September 29, 2018	March 31, 2018
Securitized financings – contractual amount	$ 41,671	$ 46,591
Purchase discount		
Accretable	(1,834)	(3,515)
Non-accretable (1)	—	—
Total acquired securitized financings, net	$ 39,837	$ 43,076

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

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

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

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Balance at the beginning of the period	$ 2,697	$ 6,666	$ 3,515	$ 7,636
Accretion	(774)	(846)	(1,577)	(1,716)
Adjustment to cash flows	(89)	(111)	(104)	(211)
Balance at the end of the period	$ 1,834	$ 5,709	$ 1,834	$ 5,709

Prior to the Acquisition Date, CountryPlace completed its initial securitization (2005-1), which was structured as a securitized borrowing. At the balance sheet dates of September 29, 2018 and March 31, 2018, only Class A-4, originally totaling $27.4 million with a coupon rate of 5.20%, remained outstanding, with a call date in January 2019. Additionally, CountryPlace completed its second securitized borrowing (2007-1), of which only Class A-4 originally totaling $25.1 million with a coupon rate of 5.846% remained outstanding at September 29, 2018 and March 31, 2018, with a call date in July 2019. It is anticipated that the Company will purchase or refinance these outstanding facilities at or prior to their call dates.

CountryPlace's securitized debt is subject to provisions that require certain levels of overcollateralization. Overcollateralization is equal to CountryPlace's equity in the bonds. Failure to satisfy these provisions could cause cash, which would normally be distributed to CountryPlace, to be used for repayment of the principal of the related Class A bonds until the required overcollateralization level is reached. During periods when the overcollateralization is below the specified level, cash collections from the securitized loans in excess of servicing fees payable to CountryPlace and amounts owed to the Class A bondholders, trustee and surety, are applied to reduce the Class A debt until such time overcollateralization reaches the specified level. Therefore, failure to meet the overcollateralization requirement could adversely affect the timing of cash flows received by CountryPlace. However, principal payments of the securitized debt, including accelerated amounts, is payable only from cash collections from the securitized loans and no additional sources of repayment are required or permitted. As of September 29, 2018, the 2005-1 and 2007-1 securitized portfolios were within the required overcollateralization level.

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The Company has entered into secured credit facilities with independent third party banks with draw periods from one to fifteen months and maturity dates of ten years after the expiration of the draw periods. The proceeds are used by the Company to originate and hold consumer home-only loans secured by manufactured homes, which are pledged as collateral to the facilities. Upon completion of the draw down period, the facilities are converted into an amortizing loan based on a 20 or 25 year amortization period with a balloon payment due upon maturity. The maximum advance for loans under this program is 80% of the outstanding collateral principal balance, with the Company providing the remaining funds. As of September 29, 2018, the outstanding balance of the converted loans was $11.5 million at a weighted average interest rate of 4.9%, with $5.0 million available to draw. Amounts drawn bear interest at 5.15%. Once converted, the initial annual interest rate of 5.15% will adjust every 5 years beginning in 2024 to Prime plus 0.40%. The per annum interest rate will never be less than 5.00% or greater than 6.00%.

14. Reinsurance

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

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

	Three Months Ended			
	September 29, 2018		September 30, 2017	
	Written	Earned	Written	Earned
Direct premiums	$3,820	$4,249	$3,628	$4,137
Assumed premiums—nonaffiliate	6,280	6,350	6,210	6,326
Ceded premiums—nonaffiliate	(3,135)	(3,135)	(4,309)	(4,309)
Net premiums	$6,965	$7,464	$5,529	$6,154

	Six Months Ended			
	September 29, 2018		September 30, 2017	
	Written	Earned	Written	Earned
Direct premiums	$8,361	$8,460	$7,994	$8,287
Assumed premiums—nonaffiliate	13,214	12,584	12,470	12,593
Ceded premiums—nonaffiliate	(5,982)	(5,982)	(7,257)	(7,257)
Net premiums	$15,593	$15,062	$13,207	$13,623

Typical insurance policies written or assumed by Standard Casualty have a maximum coverage of $300,000 per claim, of which Standard Casualty cedes $175,000 of the risk of loss per reinsurance. Therefore, Standard Casualty's risk of loss is limited to $125,000 per claim on typical policies. After this limit, amounts are recoverable by Standard Casualty through reinsurance for catastrophic losses in excess of $1.5 million per occurrence, up to a maximum of $43.5 million in the aggregate.

Purchasing reinsurance contracts protects Standard Casualty from frequency and/or severity of losses incurred on insurance policies issued, such as in the case of a catastrophe that generates a large number of serious claims on multiple policies at the same time. Under these agreements, the Company is required to repurchase and reestablish its reinsurance contracts for the remainder of the year to the extent they are utilized.

15. Income Taxes

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

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

Income tax returns are filed in the U.S. federal jurisdiction and in several state jurisdictions. In August 2017, the Company received a notice of examination from the Internal Revenue Service (the "IRS") for the Company's federal income tax return for the fiscal year ended April 2, 2016. In July 2018, the Company received notice from the IRS that its examination was complete and resulted in no changes. In general, the Company is no longer subject to examination by the IRS for years before fiscal year 2015 or state and local income tax examinations by tax authorities for years before fiscal year 2013. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to the Company's financial position. The total amount of unrecognized tax benefit related to any particular tax position is not anticipated to change significantly within the next 12 months. The provision for income taxes generally represents income taxes paid or payable for the current year plus the change in deferred taxes during the year.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code that affect the Company and include, but are not limited to: (1) reducing the U.S. federal corporate tax rate, (2) allowing bonus depreciation for full expensing of qualified property, (3) eliminating the manufacturing deduction and (4) limiting the Company's ability to deduct certain executive compensation. The Tax Act reduces the federal corporate tax rate to 21% for our fiscal year ending March 30, 2019.

In addition, on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") that allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. The Company is currently analyzing the impact of the various provisions of the Tax Act. The ultimate impact may differ from the provisional amounts recorded. The Company expects to complete our analysis within the measurement period in accordance with SAB 118.

16. Commitments and Contingencies

Repurchase Contingencies. The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for independent retailers of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to retailers in the event of default by the retailer. The risk of loss under these agreements is spread over numerous retailers. The price the Company is obligated to pay generally declines over the period of the agreement (generally 18 to 36 months, calculated from the date of sale to the retailer) and the risk of loss is further reduced by the resale value of the repurchased homes. The maximum amount for which the Company was contingently liable under such agreements approximated $71.4 million at September 29, 2018, without reduction for the resale value of the homes. The Company applies ASC 460, Guarantees ("ASC 460"), and ASC 450-20, Loss Contingencies ("ASC 450-20"), to account for its liability for repurchase commitments. Under the provisions of ASC 460, the Company records the greater of the estimated value of the non-contingent obligation or a contingent liability for each repurchase arrangement under the provisions of ASC 450-20. The Company recorded an estimated liability of $2.3 million and $2.2 million at September 29, 2018 and March 31, 2018, respectively, related to the commitments pertaining to these agreements.

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Letters of Credit. To secure certain reinsurance contracts, Standard Casualty maintains an irrevocable letter of credit of $11.0 million to provide assurance that Standard Casualty will fulfill its reinsurance obligations. This letter of credit is secured by certain of the Company's investments. There were no amounts outstanding at either September 29, 2018 or March 31, 2018.

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

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

	September 29, 2018	March 31, 2018
Construction loan contract amount	$ 29,273	$ 27,093
Cumulative advances	(11,001)	(11,088)
Remaining construction contingent commitment	$ 18,272	$ 16,005

Representations and Warranties of Mortgages Sold. CountryPlace sells loans to Government-Sponsored Enterprises ("GSEs") and whole-loan purchasers and finances certain loans with long-term credit facilities secured by the respective loans. In connection with these activities, CountryPlace provides to the GSEs, whole-loan purchasers and lenders, representations and warranties related to the loans sold or financed. These representations and warranties generally relate to the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the sale transactions, including compliance with underwriting standards or loan criteria established by the buyer, and CountryPlace's ability to deliver documentation in compliance with applicable laws. Generally, representations and warranties may be enforced at any time over the life of the loan. Upon a breach of a representation, CountryPlace may be required to repurchase the loan or to indemnify a party for incurred losses. Repurchase demands and claims for indemnification payments are reviewed on a loan-by-loan basis to validate if there has been a breach requiring repurchase. CountryPlace manages the risk of repurchase through underwriting and quality assurance practices and by servicing the mortgage loans to investor standards. CountryPlace maintains a reserve for these contingent repurchase and indemnification obligations. This reserve of $1.1 million as of September 29, 2018 and $1.0 million as of March 31, 2018, included in accrued liabilities, reflects management's estimate of probable loss. CountryPlace considers a variety of assumptions, including borrower performance (both actual and estimated future defaults), historical repurchase demands and loan defect rates to estimate the liability for loan repurchases and indemnifications. During the six months ended September 29, 2018, no claim request resulted in execution of an indemnification agreement.

Interest Rate Lock Commitments. In originating loans for sale, CountryPlace issues interest rate lock commitments ("IRLCs") to prospective borrowers and third-party originators. These IRLCs represent an agreement to extend credit to a loan applicant, or an agreement to purchase a loan from a third-party originator, whereby the interest rate on the loan is set prior to loan closing or sale. These IRLCs bind CountryPlace to fund the approved loan at the specified rate regardless of whether interest rates or market prices for similar loans have changed between the commitment date and the closing date. As such, outstanding IRLCs are subject to interest rate risk and related loan sale price risk during the period from the date of the IRLC through the earlier of the loan sale date or IRLC expiration date. The loan commitments generally range between 30 and 270 days; however, borrowers are not obligated to close the related loans. As a result, CountryPlace is subject to fallout risk related to IRLCs, which is realized if approved borrowers choose not to close on the loans within the terms of the IRLCs unless the commitment is successfully paired with another loan that may mitigate losses from fallout.

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As of September 29, 2018, CountryPlace had outstanding IRLCs with a notional amount of $18.6 million and are recorded at fair value in accordance with ASC 815, Derivatives and Hedging ("ASC 815"). ASC 815 clarifies that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The estimated fair values of IRLCs are recorded in Prepaid expenses and other assets in the Consolidated Balance Sheets. The fair value of IRLCs is based on the value of the underlying mortgage loan adjusted for: (i) estimated cost to complete and originate the loan and (ii) the estimated percentage of IRLCs that will result in closed mortgage loans. The initial and subsequent changes in the value of IRLCs are a component of gain (loss) on mortgage loans held for sale. During the three and six months ended September 29, 2018, CountryPlace recognized losses of $8,000 and gains of $12,000 on outstanding IRLCs, respectively. During the three and six months ended September 30, 2017, CountryPlace recognized gains of $10,000 and losses of $15,000, respectively, on outstanding IRLCs.

Forward Sales Commitments. CountryPlace manages the risk profiles of a portion of its outstanding IRLCs and mortgage loans held for sale by entering into forward sales of mortgage-backed securities ("MBS") and whole loan sale commitments. As of September 29, 2018, CountryPlace had $44.2 million in outstanding notional forward sales of MBSs and forward sales commitments. Commitments to forward sales of whole loans are typically in an amount proportionate with the amount of IRLCs expected to close in particular time frames, assuming no change in mortgage interest rates, for the respective loan products intended for whole loan sale.

The estimated fair values of forward sales of MBS and forward sale commitments are based on quoted market values and are recorded within Prepaid expenses and other current assets in the Consolidated Balance Sheets. During the three and six months ended September 29, 2018, CountryPlace recognized gains of $237,000 and $62,000, respectively, on forward sales and whole loan sale commitments. CountryPlace recognized losses of $227,000 and $72,000 on forward sales and whole loan sale commitments during the three and six months ended September 30, 2017, respectively.

Legal Matters. On August 20, 2018, the Company received a subpoena from the SEC's Division of Enforcement requesting certain documents relating to, among other items, trading in the stock of another public company. On October 1, 2018, the SEC sent a subpoena for documents and testimony to Joseph Stegmayer, the Company's former Chairman, President and Chief Executive Officer, regarding similar issues. At this time, the Company believes that Mr. Stegmayer traded in certain publicly traded stock in his personal accounts as well as in accounts held by the Company at a time when the Company had agreed to refrain from such trading. The Company has initiated an independent investigation and intends to cooperate fully with the SEC's investigation.

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

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17. Stockholders' Equity

The following table represents changes in stockholders' equity for the six months ended September 29, 2018 (dollars in thousands):

	Common Stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Shares	Amount				
Balance, March 31, 2018	9,044,858	$ 90	$246,197	$209,381	$ 1,438	$457,106
Net income	—	—	—	35,267	—	35,267
Cumulative effect of implementing ASU 2016-01, net	—	—	—	1,621	(1,621)	—
Cumulative effect of implementing ASC 606, net	—	—	—	454	—	454
Stock option exercises	52,501	1	(174)	—	—	(173)
Stock-based compensation	—	—	2,115	—	—	2,115
Other comprehensive income, net	—	—	—	—	(21)	(21)
Balance, September 29, 2018	9,097,359	$ 91	$248,138	$246,723	$ (204)	$494,748

18. Stock-Based Compensation

The Company maintains stock incentive plans whereby stock option grants or awards of restricted stock may be made to certain officers, directors and key employees. As of September 29, 2018, the plans, which are shareholder approved, permit the award of up to 1,650,000 shares of the Company's common stock, of which 314,330 shares were still available for grant. When options are exercised, new shares of the Company's common stock are issued. Stock options may not be granted below 100% of the fair market value of the Company's common stock at the date of grant and generally expire seven years from the date of grant. Stock options and awards of restricted stock typically vest over a one to five year period as determined by the plan administrator (the Compensation Committee of the Board of Directors, which consists of independent directors). The stock incentive plans provide for accelerated vesting of stock options upon a change in control (as defined in the plans).

Stock-based compensation cost charged against income for the three and six months ended September 29, 2018 was $1.5 million and $2.1 million, respectively. The Company recorded stock-based compensation expense of $1.0 million and $1.5 million for the three and six months ended September 30, 2017, respectively.

As of September 29, 2018, total unrecognized compensation cost related to stock options was approximately $4.5 million and the related weighted-average period over which the expense is expected to be recognized is approximately 3.62 years.

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The following table summarizes the option activity within the Company's stock-based compensation plans for the six months ended September 29, 2018:

	Number of Options
Outstanding at March 31, 2018	418,205
Granted	48,750
Exercised	(72,544)
Canceled or expired	—
Outstanding at September 29, 2018	394,411
Exercisable at September 29, 2018	189,563

19. Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Net income	$15,576	$ 6,182	$35,267	$ 17,935
Weighted average shares outstanding:				
Basic	9,079,679	9,020,834	9,064,007	9,013,917
Common stock equivalents—treasury stock method	224,509	161,065	223,723	157,598
Diluted	9,304,188	9,181,899	9,287,730	9,171,515
Net income per share:				
Basic	$1.72	$ 0.69	$3.89	$ 1.99
Diluted	$1.67	$ 0.67	$3.80	$ 1.96

Anti-dilutive common stock equivalents excluded from the computation of diluted earnings per share for the three and six months ended September 29, 2018 were 3,751 and 6,682, respectively. There were 4,867 and 8,432 anti-dilutive common stock equivalents excluded for the three and six months ended September 30, 2017, respectively.

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20. Fair Value Measurements

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

	September 29, 2018		March 31, 2018	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Available-for-sale debt securities (1)	$14,900	$14,900	$16,181	$16,181
Marketable equity securities (1)	12,409	12,409	10,405	10,405
Non-marketable equity investments (2)	19,302	19,302	18,853	18,853
Consumer loans receivable (3)	93,348	107,833	94,951	113,277
Interest rate lock commitment derivatives (4)	(1)	(1)	(12)	(12)
Forward loan sale commitment derivatives (4)	(88)	(88)	26	26
Commercial loans receivable (5)	33,829	31,047	16,601	16,972
Securitized financings and other (6)	(56,128)	(60,159)	(59,812)	(64,509)
Mortgage servicing rights (7)	1,519	1,519	1,410	1,410

(1) For Level 1 classified securities, the fair value is based on quoted market prices. The fair value of Level 2 securities is based on other inputs, as further described below.

(2) The fair value approximates book value based on the non-marketable nature of the investments.

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

(4) The fair values are based on changes in GSE mortgage-backed bond prices and, additionally for IRLCs, pull through rates.

(5) The fair value is estimated using market interest rates of comparable loans.

(6) The fair value is estimated using recent public transactions of similar asset-backed securities.

(7) The fair value of the mortgage servicing rights is based on the present value of expected net cash flows related to servicing these loans.

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

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

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

	September 29, 2018			
	Total	Level 1	Level 2	Level 3
Securities issued by the U.S Treasury and Government (1)	$290	$ —	$290	$ —
Mortgage-backed securities (1)	7,507	—	7,507	