

CAVCO INDUSTRIES INC
Form 10-Q
November 05, 2014

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 27, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 000-08822

Cavco Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

56-2405642

(I.R.S. Employer
Identification No.)

1001 North Central Avenue, Suite 800

Phoenix, Arizona

(Address of principal executive offices)

602-256-6263

(Registrant's telephone number, including area code)

85004

(Zip Code)

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

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

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

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

Large accelerated filer ☐

Accelerated filer

☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company

☐

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

As of November 3, 2014, 8,857,449 shares of Registrant's Common Stock, \$.01 par value, were outstanding.

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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 27, 2014 (Unaudited)	March 29, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$80,830	\$72,949
Restricted cash, current	9,335	7,213
Accounts receivable, net	21,546	20,766
Short-term investments	9,367	8,289
Current portion of consumer loans receivable, net	23,369	19,893
Current portion of inventory finance notes receivable, net	2,901	2,941
Inventories	73,575	69,729
Assets held for sale	4,008	1,130
Prepaid expenses and other current assets	15,335	12,623
Deferred income taxes, current	9,205	12,313
Total current assets	249,471	227,846
Restricted cash	1,283	1,188
Investments	17,338	17,165
Consumer loans receivable, net	77,266	78,391
Inventory finance notes receivable, net	19,947	18,367
Property, plant and equipment, net	44,591	48,227
Goodwill and other intangibles, net	77,366	78,055
Total assets	\$487,262	\$469,239
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$17,130	\$15,287
Accrued liabilities	75,844	73,519
Current portion of securitized financings and other	8,050	10,187
Total current liabilities	101,024	98,993
Securitized financings and other	60,064	59,865
Deferred income taxes	19,978	19,948
Stockholders' equity:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; No shares issued or outstanding	—	—
Common stock, \$.01 par value; 20,000,000 shares authorized; Outstanding 8,857,449 and 8,844,824 shares, respectively	89	88
Additional paid-in capital	236,551	232,081
Retained earnings	69,054	57,828
Accumulated other comprehensive income	502	436
Total stockholders' equity	306,196	290,433
Total liabilities and stockholders' equity	\$487,262	\$469,239
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 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net revenue	\$139,315	\$129,826	\$278,479	\$263,813
Cost of sales	107,718	99,942	215,164	204,531
Gross profit	31,597	29,884	63,315	59,282
Selling, general and administrative expenses	22,270	22,082	44,478	44,562
Income from operations	9,327	7,802	18,837	14,720
Interest expense	(1,161)	) (1,198	) (2,337	) (2,452
Other income, net	534	125	1,142	500
Income before income taxes	8,700	6,729	17,642	12,768
Income tax expense	(3,233)	) (1,986	) (6,416	) (4,164
Net income	5,467	4,743	11,226	8,604
Less: net income attributable to redeemable noncontrolling interest	—	433	—	2,468
Net income attributable to Cavco common stockholders	\$5,467	\$4,310	\$11,226	\$6,136
Comprehensive income:				
Net income	\$5,467	\$4,743	\$11,226	\$8,604
Unrealized (loss) gain on available-for-sale securities, net of tax	(102	) (44	) 66	(186
Comprehensive income	5,365	4,699	11,292	8,418
Comprehensive income attributable to redeemable noncontrolling interest	—	428	—	2,392
Comprehensive income attributable to Cavco common stockholders	\$5,365	\$4,271	\$11,292	\$6,026
Net income per share attributable to Cavco common stockholders:				
Basic	\$0.62	\$0.51	\$1.27	\$0.80
Diluted	\$0.61	\$0.50	\$1.25	\$0.79
Weighted average shares outstanding:				
Basic	8,852,860	8,422,353	8,850,509	7,689,538
Diluted	9,014,523	8,547,026	9,013,426	7,787,866

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 27, 2014	September 28, 2013	
OPERATING ACTIVITIES			
Net income	\$11,226	\$8,604	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,921	1,978	
Provision for credit losses	(44	) 41	
Deferred income taxes	3,098	(798)
Stock-based compensation expense	1,114	1,937)
Non-cash interest income, net	(421	) (373)
Incremental tax benefits from option exercises	(2,916) —)
Impairment of assets held for sale	—	291)
Gain on sale of property, plant and equipment including assets held for sale	(269	) (27)
Gain on sale of loans and investments	(2,753	) (3,259)
Changes in operating assets and liabilities:			
Restricted cash	(2,359	) (1,318)
Accounts receivable	(781	) (3,029)
Consumer loans receivable originated	(53,942	) (56,027)
Principal payments on consumer loans receivable	7,028	8,035)
Proceeds from sales of consumer loans	47,881	57,751)
Inventories	(3,846	) (473)
Prepaid expenses and other current assets	(1,936	) 1,415)
Inventory finance notes receivable	(1,535	) (1,065)
Accounts payable and accrued liabilities	7,283	8,787)
Net cash provided by operating activities	8,749	22,470)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(937	) (832)
Proceeds from sale of property, plant and equipment including assets held for sale	732	42)
Purchases of investments	(6,124	) (7,421)
Proceeds from sale of investments	4,962	6,333)
Net cash used in investing activities	(1,367	) (1,878)
FINANCING ACTIVITIES			
Proceeds from exercise of stock options	441	50)
Proceeds from other secured financings	2,055	—)
Payments on securitized financings	(4,913	) (6,794)
Incremental tax benefits from option exercises	2,916	—)
Net cash provided by (used in) financing activities	499	(6,744)
Net increase in cash and cash equivalents	7,881	13,848)
Cash and cash equivalents at beginning of the period	72,949	47,823)
Cash and cash equivalents at end of the period	\$80,830	\$61,671)
Supplemental disclosures of cash flow information:			
Cash paid during the year for income taxes	\$4,620	\$4,038)
Cash paid during the year for interest	\$2,106	\$2,445)
Supplemental disclosures of non-cash investing and financing activities:			

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Issuance of common stock to acquire noncontrolling interest	\$—	\$94,386
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. Subsequent to the balance sheet date, the Company sold an inactive manufacturing facility located in Woodland, California for \$4.7 million, which was recorded in assets held for sale as of September 27, 2014. These Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended March 29, 2014, filed with the SEC on June 11, 2014 ("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 28, 2015.

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 builds a wide variety of affordable modular homes, manufactured homes and park model seasonal homes in 15 factories located throughout the United States, primarily distributed through a network of independent and Company-owned retailers. The Company operates 46 Company-owned retail stores in the United States. The Company's mortgage subsidiary ("CountryPlace") is an approved Fannie Mae and Ginnie Mae seller/servicer and offers conforming mortgages to purchasers of factory-built and site-built homes. The Company's insurance subsidiary ("Standard Casualty") provides property and casualty insurance to owners of manufactured homes.

Redeemable Noncontrolling Interest. Historically, the Company's subsidiary, Fleetwood Homes, Inc. ("Fleetwood"), was jointly owned by the Company and its investment partners, Third Avenue Value Fund and an affiliate (collectively, "Third Avenue"). Third Avenue's financial interest in Fleetwood was reported as a "redeemable noncontrolling interest" in the Consolidated Financial Statements. During the quarter ended September 28, 2013, Cavco purchased from Third Avenue all noncontrolling interests in Fleetwood, which owns Fleetwood Homes, Palm Harbor Homes, CountryPlace and Standard Casualty (the "Fleetwood Businesses"). The Company satisfied the purchase price with 1,867,370 shares of Company common stock issued to Third Avenue. The acquisition closed on July 22, 2013, resulting in Cavco owning 100 percent of the Fleetwood Businesses and entitling Cavco to all of the associated earnings from that date forward.

As of September 27, 2014, based on the latest regulatory filing available, Third Avenue and its related funds owned approximately 19.5% of our outstanding common shares. Third Avenue and Third Avenue Management LLC are either directly or indirectly under common control. Third Avenue is considered a principal owner, and therefore a related party, under ASC 850, Related Party Disclosures ("ASC 850").

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. ASU 2014-09 will be effective beginning the first quarter of the Company's fiscal year 2018 and early application is not permitted. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently evaluating the effect ASU 2014-09 will have on the Company's Consolidated Financial Statements and disclosures.

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

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

2. Restricted Cash

Restricted cash consists of the following (in thousands):

	September 27, 2014	March 29, 2014
Cash related to CountryPlace customer payments to be remitted to third parties	\$7,637	\$5,371
Cash related to CountryPlace customer payments on securitized loans to be remitted to bondholders	1,698	1,840
Cash related to workers' compensation insurance held in trust	726	726
Other restricted cash	557	464
	\$10,618	\$8,401

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3. Investments

Investments consist of the following (in thousands):

	September 27, 2014	March 29, 2014
Available-for-sale investment securities	\$20,318	\$19,802
Non-marketable equity investments	6,387	5,652
	\$26,705	\$25,454

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

	September 27, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$1,977	\$—	\$(27	) \$1,950
Residential mortgage-backed securities	3,361	14	(69	) 3,306
State and political subdivision debt securities	6,131	234	(12	) 6,353
Corporate debt securities	2,845	11	(2	) 2,854
Marketable equity securities	4,178	754	(127	) 4,805
Certificates of deposit	1,050	—	—	1,050
	\$19,542	\$1,013	\$(237	) \$20,318
	March 29, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$2,318	\$1	\$(46	) \$2,273
Residential mortgage-backed securities	3,754	13	(149	) 3,618
State and political subdivision debt securities	5,923	155	(13	) 6,065
Corporate debt securities	1,550	24	—	1,574
Marketable equity securities	4,537	758	(73) 5,222
Certificates of deposit	1,050	—	—	1,050
	\$19,132	\$951	\$(281) \$19,802

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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 27, 2014					
	Less than 12 Months		12 Months or Longer		Total	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	
U.S. Treasury and government debt securities	\$ 942	\$(6)	\$ 682	\$(21)	\$ 1,624	\$(27)
Residential mortgage-backed securities	1,477	(40)	856	(29)	2,333	(69)
State and political subdivision debt securities	253	(1)	508	(11)	761	(12)
Corporate debt securities	1,525	(2)	—	—	1,525	(2)
Marketable equity securities	1,051	(127)	—	—	1,051	(127)
	\$ 5,248	\$(176)	\$ 2,046	\$(61)	\$ 7,294	\$(237)

	March 29, 2014					
	Less than 12 Months		12 Months or Longer		Total	Unrealized
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	
U.S. Treasury and government debt securities	\$ 1,562	\$(40)	\$ 344	\$(6)	\$ 1,906	\$(46)
Residential mortgage-backed securities	2,553	(149)	—	—	2,553	(149)
State and political subdivision debt securities	507	(13)	—	—	507	(13)
Marketable equity securities	1,101	(73)	—	—	1,101	(73)
	\$ 5,723	\$(275)	\$ 344	\$(6)	\$ 6,067	\$(281)

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 27, 2014.

As of September 27, 2014, the Company's investments in marketable equity securities consist of investments in common stock of industrial and other companies (\$4.4 million of the total fair value and \$120,000 of the total unrealized losses) and bank trust, insurance and public utility companies (\$393,000 of the total fair value and \$7,000 of the total unrealized losses).

As of March 29, 2014, the Company's investments in marketable equity securities consisted of investments in common stock of industrial and other companies (\$4.7 million of the total fair value and \$64,000 of the total unrealized losses) and bank trust, insurance and public utility companies (\$478,000 of the total fair value and \$9,000 of the total unrealized losses).

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

	September 27, 2014		March 29, 2014	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Due in less than one year	\$3,497	\$3,512	\$2,006	\$2,017
Due after one year through five years	2,348	2,358	2,908	2,949
Due after five years through ten years	2,057	2,040	924	872
Due after ten years	6,412	6,553	7,707	7,692
	\$14,314	\$14,463	\$13,545	\$13,530

Realized gains and losses from the sale of securities are determined using the specific identification method. Gross gains realized on the sales of investment securities for the three and six months ended September 27, 2014 were approximately \$123,000 and \$426,000, respectively. Gross losses realized were approximately \$11,000 and \$79,000, respectively, for the three and six months ended September 27, 2014. Gross gains realized on the sales of investment securities for the three and six months ended September 28, 2013 were approximately \$396,000 and \$464,000, respectively. Gross losses realized were approximately \$48,000 and \$84,000, respectively, for the three and six months ended September 28, 2013.

4. Inventories

Inventories consist of the following (in thousands):

	September 27, 2014	March 29, 2014
Raw materials	\$23,778	\$22,571
Work in process	7,016	6,835
Finished goods and other	42,781	40,323
	\$73,575	\$69,729

5. Consumer Loans Receivable

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

	September 27, 2014	March 29, 2014
Loans held for investment (acquired as part of the Palm Harbor transaction)	\$82,737	\$87,596
Loans held for investment (originated after the Palm Harbor transaction)	4,286	1,885
Loans held for sale	10,658	6,741
Construction advances	3,476	2,403
Consumer loans receivable	101,157	98,625
Deferred financing fees and other, net	(522)	(341)
Consumer loans receivable, net	\$100,635	\$98,284

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As of the date of the Palm Harbor acquisition, management evaluated consumer loans receivable held for investment by CountryPlace to determine whether there was evidence of deterioration of credit quality and if it was probable that CountryPlace would be unable to collect all amounts due according to the loans' contractual terms. The Company also considered expected prepayments and estimated the amount and timing of undiscounted expected principal, interest and other cash flows. The Company determined the excess of the loan pool's scheduled contractual principal and contractual interest payments over all cash flows expected as of the date of the Palm Harbor transaction as an amount that cannot be accreted into interest income (the non-accretable difference). The cash flows expected to be collected in excess of the carrying value of the acquired loans are 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 27, 2014 (in thousands)	March 29, 2014
Consumer loans receivable held for investment – contractual amount	\$207,488	\$223,388
Purchase discount		
Accretable	(75,301	) (77,737
Non-accretable	(49,148	) (57,672
Less consumer loans receivable reclassified as other assets	(302	) (383
Total acquired consumer loans receivable held for investment, net	\$82,737	\$87,596

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

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

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Balance at the beginning of the period	\$74,794	\$86,467	\$77,737	\$91,291
Accretion	(2,849	) (3,048	) (5,744	) (6,164
Reclassifications from (to) non-accretable discount	3,356	398	3,308	(1,310
Balance at the end of the period	\$75,301	\$83,817	\$75,301	\$83,817

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

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

The following table disaggregates gross consumer loans receivable as of September 27, 2014, for each class by portfolio segment and credit quality indicator as of the time of origination (in thousands):

Consumer Loans Held for Investment						
Asset Class	Securitized 2005	Securitized 2007	Unsecuritized	Construction Advances	Consumer Loans Held For Sale	Total
Credit Quality Indicator						
Chattel loans						
0-619	\$1,079	\$616	\$864	\$—	\$—	\$2,559
620-719	15,909	10,858	2,506	—	—	29,273
720+	17,818	11,742	1,652	—	—	31,212
Subtotal	34,806	23,216	5,022	—	—	63,044
Conforming mortgages						
0-619	—	—	270	139	90	499
620-719	—	—	2,204	2,484	8,605	13,293
720+	—	—	10	853	1,963	2,826
Subtotal	—	—	2,484	3,476	10,658	16,618
Non-conforming mortgages						
0-619	92	726	1,932	—	—	2,750
620-719	1,539	6,162	4,042	—	—	11,743
720+	1,879	3,978	1,130	—	—	6,987
Subtotal	3,510	10,866	7,104	—	—	21,480
Other loans						
Subtotal	—	—	15	—	—	15
	\$38,316	\$34,082	\$14,625	\$3,476	\$10,658	\$101,157

Loan contracts secured by collateral that is geographically concentrated could experience higher rates of delinquencies, default and foreclosure losses than loan contracts secured by collateral that is more geographically dispersed. Forty-two percent of the outstanding principal balance of consumer loans receivable portfolio is concentrated in Texas. Other than Texas, no other state had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of September 27, 2014.

6. Inventory Finance Notes Receivable and Allowance for Loan Loss

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

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

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

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

	September 27, 2014	March 29, 2014
Direct inventory finance notes receivable	\$21,239	\$19,879
Participation inventory finance notes receivable	1,743	1,568
Allowance for loan loss	(134	) (139
	\$22,848	\$21,308

The Company evaluates the potential for loss from its participation inventory finance programs based on the independent lender's overall financial stability, as well as historical experience, and has determined that an applicable allowance for loan loss was not needed at either September 27, 2014 or March 29, 2014.

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

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Balance at beginning of period	\$128	\$210	\$139	\$350
Provision for inventory finance credit losses	6	(1	) (5	) (98
Loans charged off, net of recoveries	—	(3) —	(46
Balance at end of period	\$134	\$206	\$134	\$206

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

	Direct Inventory Finance		Participation Inventory Finance	
	September 27, 2014	March 29, 2014	September 27, 2014	March 29, 2014
Inventory finance notes receivable:				
Collectively evaluated for impairment	\$13,175	\$12,202	\$—	\$—
Individually evaluated for impairment	8,064	7,677	1,743	1,568
	\$21,239	\$19,879	\$1,743	\$1,568
Allowance for loan loss:				
Collectively evaluated for impairment	\$(134	) \$(126) \$—	\$—
Individually evaluated for impairment	—	(13) —	—
	\$(134	) \$(139) \$—	\$—

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. Payments received on nonaccrual loans are recorded on a cash basis, first to interest and then to principal. At September 27, 2014, the Company was not aware of any potential problem loans that would have a material effect on the inventory finance receivables balance. Charge-offs occur when it becomes probable that outstanding amounts will not be recovered. The following table disaggregates the Company's inventory finance receivables by class and credit quality indicator (in thousands):

	Direct Inventory Finance		Participation Inventory Finance	
	September 27, 2014	March 29, 2014	September 27, 2014	March 29, 2014
Risk profile based on payment activity:				
Performing	\$21,066	\$19,477	\$1,743	\$1,568
Watch list	—	—	—	—
Nonperforming	173	402	—	—
	\$21,239	\$19,879	\$1,743	\$1,568

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

	September 27, 2014	March 29, 2014	
Florida	24.0	% 24.4	%
Texas	18.7	% 14.9	%
Arizona	13.9	% 10.3	%
Colorado	12.9	% 22.0	%

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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 inventory finance receivables in any other states as of September 27, 2014 or March 29, 2014, respectively. As of September 27, 2014 and March 29, 2014, the Company also has concentrations of inventory finance notes receivable with one independent third-party and its affiliates that equal 47.9% and 33.4%, respectively, of the principal balance outstanding, all of which is secured.

7. Property, Plant and Equipment

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

	September 27, 2014	March 29, 2014
Property, plant and equipment, at cost:		
Land	\$18,908	\$22,098
Buildings and improvements	25,936	25,909
Machinery and equipment	16,549	15,908
	61,393	63,915
Accumulated depreciation	(16,802)	(15,688)
Property, plant and equipment, net	\$44,591	\$48,227

8. Goodwill and Other Intangibles

Intangible assets principally consist of goodwill, trademarks and trade names, state insurance licenses, customer relationships, technology and insurance policies and renewal rights. Goodwill, trademarks and trade names and state insurance licenses are indefinite-lived intangible assets and are evaluated for impairment annually and whenever events or circumstances indicate that more likely than not impairment has occurred. During the six months ended September 27, 2014 and September 28, 2013, no impairment expense was recorded. Finite-lived intangibles are amortized over their estimated useful lives on a straight-line basis and are reviewed for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. The value of customer relationships is amortized over 4 to 11 years, technology over 7 to 10 years and insurance policies and renewal rights over 15 years.

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

	September 27, 2014			March 29, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite lived:						
Goodwill	\$67,346	\$—	\$67,346	\$67,346	\$—	\$67,346
Trademarks and trade names	6,250	—	6,250	6,250	—	6,250
State insurance licenses	1,100	—	1,100	1,100	—	1,100
Total indefinite-lived intangible assets	74,696	—	74,696	74,696	—	74,696
Finite lived:						
Customer relationships	6,200	(4,397)	) 1,803	6,200	(3,767)	) 2,433
Technology	900	(322)	) 578	900	(275)	) 625
Insurance policies and renewal rights	374	(85)	) 289	374	(73)	) 301
Total goodwill and other intangible assets	\$82,170	\$(4,804)	) \$77,366	\$82,170	\$(4,115)	) \$78,055

Amortization expense recognized on intangible assets was \$344,000 and \$689,000 during the three and six months ended September 27, 2014, respectively. Amortization expense of \$345,000 and \$690,000 was recognized during the three and six months ended September 28, 2013, respectively.

9. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 27, 2014	March 29, 2014
Salaries, wages and benefits	\$15,753	\$15,780
Unearned insurance premiums	12,644	11,326
Customer deposits	11,028	10,827
Estimated warranties	9,393	9,262
Deferred margin	4,439	4,074
Accrued insurance	3,572	4,082
Accrued volume rebates	3,296	2,540
Liabilities related to consumer loans sold	3,072	3,435
Insurance loss reserves	2,136	986
Accrued taxes	1,970	1,766
Reserve for repurchase commitments	1,850	1,845
Other	6,691	7,596
	\$75,844	\$73,519

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10. Warranties

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

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Balance at beginning of period	\$9,388	\$8,509	\$9,262	\$8,202
Charged to costs and expenses	3,072	2,800	6,250	5,518
Payments and deductions	(3,067	) (2,639	) (6,119	) (5,050
Balance at end of period	\$9,393	\$8,670	\$9,393	\$8,670

11. Debt Obligations

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

	September 27, 2014	March 29, 2014
Acquired securitized financings (acquired as part of the Palm Harbor transaction)		
Securitized financing 2005-1	\$30,913	\$33,291
Securitized financing 2007-1	34,471	36,761
Other secured financings	2,730	—
Total securitized financings and other, net	\$68,114	\$70,052

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

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

	September 27, 2014	March 29, 2014
Securitized financings – contractual amount	\$80,526	\$85,251
Purchase discount		
Accretable	(15,142	) (15,199
Non-accretable (1)	—	—
Total acquired securitized financings, net	\$65,384	\$70,052

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

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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 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Balance at the beginning of the period	\$14,268	\$18,879	\$15,199	\$19,916
Accretion	(1,034	) (1,088	) (2,095	) (2,238
Adjustment to cash flows	1,908	652	2,038	765
Balance at the end of the period	\$15,142	\$18,443	\$15,142	\$18,443

On July 12, 2005, prior to Fleetwood's acquisition of Palm Harbor and CountryPlace, CountryPlace completed its initial securitization (2005-1) for approximately \$141.0 million of loans, which was funded by issuing bonds totaling approximately \$118.4 million. The bonds were issued in four different classes: Class A-1 totaling \$36.3 million with a coupon rate of 4.23%; Class A-2 totaling \$27.4 million with a coupon rate of 4.42%; Class A-3 totaling \$27.3 million with a coupon rate of 4.80%; and Class A-4 totaling \$27.4 million with a coupon rate of 5.20%. The bonds mature at varying dates beginning in 2006 through 2015 and were issued with an expected weighted average maturity of 4.66 years. For accounting purposes, this transaction was structured as a securitized borrowing. As of September 27, 2014, the Class A-1 and Class A-2 bonds had been retired.

On March 22, 2007, prior to Fleetwood's acquisition of Palm Harbor and CountryPlace, CountryPlace completed its second securitization (2007-1) for approximately \$116.5 million of loans, which was funded by issuing bonds totaling approximately \$101.9 million. The bonds were issued in four classes: Class A-1 totaling \$28.9 million with a coupon rate of 5.484%; Class A-2 totaling \$23.4 million with a coupon rate of 5.232%; Class A-3 totaling \$24.5 million with a coupon rate of 5.593%; and Class A-4 totaling \$25.1 million with a coupon rate of 5.846%. The bonds mature at varying dates beginning in 2008 through 2017 and were issued with an expected weighted average maturity of 4.86 years. For accounting purposes, this transaction was also structured as a securitized borrowing. As of September 27, 2014, the Class A-1 and Class A-2 bonds had been retired.

CountryPlace's securitized debt is subject to provisions which may require acceleration of debt repayment. If cumulative loss ratios exceed levels specified in the respective pooling and servicing agreements for the 2005-1 and 2007-1 securitizations, repayment of the principal of the related Class A bonds is accelerated until cumulative loss ratios return to specified levels. During periods when cumulative loss ratios exceed the specified levels, 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 debt. However, principal repayment 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 27, 2014, the cumulative loss ratio was within the specified level for the 2005-1 securitized portfolio; however, the cumulative loss ratio for the 2007-1 securitized portfolio exceeded the specified level. The resulting acceleration of securitized debt repayment is not expected to have a materially adverse impact on our cash flows. An increase in the specified loss ratio level occurred in October 2014. The cumulative loss ratio is expected to be within the specified level for the next several months, but may exceed the specified level by the end of the fiscal year. The last scheduled increase occurs in October 2015.

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12. Reinsurance

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

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

	Three Months Ended		September 28, 2013	
	September 27, 2014		September 28, 2013	
	Written	Earned	Written	Earned
Direct premiums	\$3,188	\$3,190	\$2,833	\$2,421
Assumed premiums—nonaffiliate	4,951	4,641	4,368	3,739
Ceded premiums—nonaffiliate	(2,448)	) (2,448	) (1,838	) (1,838
Net premiums	\$5,691	\$5,383	\$5,363	\$4,322

	Six Months Ended		September 28, 2013	
	September 27, 2014		September 28, 2013	
	Written	Earned	Written	Earned
Direct premiums	\$6,764	\$6,264	\$5,741	\$4,530
Assumed premiums—nonaffiliate	10,250	9,012	8,313	7,216
Ceded premiums—nonaffiliate	(4,757)	) (4,757	) (3,459	) (3,459
Net premiums	\$12,257	\$10,519	\$10,595	\$8,287

Typical insurance policies written or assumed by Standard Casualty have a maximum coverage of \$300,000 per claim, of which Standard cedes \$225,000 of the risk of loss per reinsurance. Therefore, Standard Casualty maintains risk of loss limited to \$75,000 per claim on typical policies. Amounts are recoverable by Standard Casualty through reinsurance for catastrophic losses in excess of \$1.0 million per occurrence up to a maximum of \$20.0 million in the aggregate.

13. Income Taxes

The Company's deferred tax assets primarily result from financial statement accruals not currently deductible for tax purposes and differences in the acquired basis of certain assets, and its deferred tax liabilities primarily result from tax amortization of goodwill and other intangible assets. During the six months ended September 27, 2014, the Company utilized net operating losses generated in previous years, which affected deferred tax assets and additional paid in capital.

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

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Income tax returns are filed in the U.S. federal jurisdiction and in several state jurisdictions. The Company is no longer subject to examination by the IRS for years before fiscal year 2011. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to the Company's financial position. The total amount of unrecognized tax benefit related to any particular tax position is not anticipated to change significantly within the next 12 months. The provision for income taxes generally represents income taxes paid or payable for the current year plus the change in deferred taxes during the year.

14. Commitments and Contingencies

Repurchase Contingencies. The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for independent retailers of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to retailers in the event of default by the retailer. The risk of loss under these agreements is spread over numerous retailers. The price the Company is obligated to pay generally declines over the period of the agreement (generally 18 to 36 months, calculated from the date of sale to the retailer) and the risk of loss is further reduced by the resale value of the repurchased homes. The maximum amount for which the Company was contingently liable under such agreements approximated \$25.3 million at September 27, 2014, without reduction for the resale value of the homes. The Company applies ASC 460, Guarantees ("ASC 460"), and ASC 450-20, Loss Contingencies ("ASC 450-20"), to account for its liability for repurchase commitments. Under the provisions of ASC 460, the Company records the greater of the estimated value of the non-contingent obligation or a contingent liability for each repurchase arrangement under the provisions of ASC 450-20. The Company recorded an estimated liability of \$1.9 million and \$1.8 million at September 27, 2014 and March 29, 2014, respectively, related to the commitments pertaining to these agreements.

Letters of Credit. To secure certain reinsurance contracts, Standard Casualty maintains an irrevocable letter of credit of \$7.0 million to provide assurance that Standard Casualty will fulfill its reinsurance obligations. This letter of credit is secured by certain of Standard Casualty's investments. CountryPlace maintains an irrevocable letter of credit of \$100,000 related to state licensing requirements. There have been no draws on any of the aforementioned letters of credit.

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

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

	September 27, 2014	March 29, 2014
Construction loan contract amount	\$9,739	\$5,623
Cumulative advances	(3,476) (2,403
Remaining construction contingent commitment	\$6,263	\$3,220

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Representations and Warranties of Mortgages Sold. CountryPlace sells loans to GSEs and whole-loan purchasers. In connection with these activities, CountryPlace provides to the GSEs and whole-loan purchasers, representations and warranties related to the loans sold. These representations and warranties generally relate to the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with the criteria for inclusion in the sale transactions, including compliance with underwriting standards or loan criteria established by the buyer, and CountryPlace's ability to deliver documentation in compliance with applicable laws. Generally, representations and warranties may be enforced at any time over the life of the loan. Upon a breach of a representation, CountryPlace may be required to repurchase the loan or to indemnify a party for incurred losses. Repurchase demands and claims for indemnification payments are reviewed on a loan-by-loan basis to validate if there has been a breach requiring repurchase.

CountryPlace manages the risk of repurchase through underwriting and quality assurance practices and by servicing the mortgage loans to investor standards. CountryPlace maintains a reserve for these contingent repurchase and indemnification obligations. This reserve of \$904,000 and \$926,000 as of September 27, 2014 and March 29, 2014, respectively, included in accrued liabilities, reflects management's estimate of probable loss. CountryPlace considers a variety of assumptions, including borrower performance (both actual and estimated future defaults), historical repurchase demands and loan defect rates to estimate the liability for loan repurchases and indemnifications.

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

As of September 27, 2014 CountryPlace had outstanding IRLCs with a notional amount of \$8.1 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 based on quoted market values and are recorded in other assets in the consolidated balance sheets. The fair value of IRLCs is based on the value of the underlying mortgage loan adjusted for: (i) estimated cost to complete and originate the loan and (ii) the estimated percentage 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 27, 2014, CountryPlace recognized losses of \$26,000 and gains of \$27,000, respectively, on the outstanding IRLCs. During the three and six months ended September 28, 2013, CountryPlace recognized gains of \$274,000 and \$37,000, respectively, on the 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. Commitments to forward sales of whole loans are typically in an amount proportionate with the amount of IRLCs expected to close in particular time frames, assuming no change in mortgage interest rates, for the respective loan products intended for whole loan sale.

The estimated fair values of forward sales of MBS and forward sale commitments are based on quoted market values and are recorded within other current assets in the consolidated balance sheets. During the three and six months ended September 27, 2014, CountryPlace recognized gains of \$31,000 and losses of \$36,000, respectively, on forward sales and whole loan sale commitments. During the three and six months ended September 28, 2013, CountryPlace recognized gains of \$408,000 and \$147,000, respectively, on forward sales and whole loan sale commitments.

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

15. Stockholders' Equity

The following table represents changes in stockholders' equity for the six months ended September 27, 2014 (dollars in thousands):

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	paid-in capital	earnings	other comprehensive income	
Balance, March 29, 2014	8,844,824	\$88	\$232,081	\$57,828	\$436	\$290,433
Stock option exercises and associated tax benefits	12,625	1	3,356	—	—	3,357
Share-based compensation	—	—	1,114	—	—	1,114
Net income	—	—	—	11,226	—	11,226
Other comprehensive income (1)	—	—	—	—	66	66
Balance, September 27, 2014	8,857,449	\$89	\$236,551	\$69,054	\$502	\$306,196

Other comprehensive income is comprised of unrealized gains and losses on available-for-sale investments.

(1) Unrealized gains before tax on available-for-sale investments were \$106,000 for the six months ended September 27, 2014.

16. Stock-Based Compensation

The Company maintains stock incentive plans whereby stock option grants or awards of restricted stock may be made to certain officers, directors and key employees. The plans, which are shareholder approved, permit the award of up to 1,350,000 shares of the Company's common stock, of which 143,171 shares were still available for grant at September 27, 2014. 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 27, 2014 was \$832,000 and \$1.1 million, respectively. The Company recorded stock-based compensation expense of \$791,000 and \$1.9 million for the three and six months ended September 28, 2013, respectively.

As of September 27, 2014, total unrecognized compensation cost related to stock options was approximately \$2.0 million and the related weighted-average period over which it is expected to be recognized is approximately 3.2 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 27, 2014:

	Number of Shares
Outstanding at March 29, 2014	443,900
Granted	76,730
Exercised	(12,625)
Canceled or expired	(2,525)
Outstanding at September 27, 2014	505,480
Exercisable at September 27, 2014	345,500

17. Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net income attributable to Cavco common stockholders	\$5,467	\$4,310	\$11,226	\$6,136
Weighted average shares outstanding:				
Basic	8,852,860	8,422,353	8,850,509	7,689,538
Common stock equivalents—treasury stock method	161,663	124,673	162,917	98,328
Diluted	9,014,523	8,547,026	9,013,426	7,787,866
Net income per share attributable to Cavco common stockholders:				
Basic	\$0.62	\$0.51	\$1.27	\$0.80
Diluted	\$0.61	\$0.50	\$1.25	\$0.79

Anti-dilutive common stock equivalents excluded from the computation of diluted earnings per share for the three or six months ended September 27, 2014 were 4,241 and 1,641, respectively. There were 6,820 and 11,844 anti-dilutive common stock equivalents excluded for the three and six months ended September 28, 2013.

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18. Fair Value Measurements

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

	September 27, 2014		March 29, 2014	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Available for sale securities (1)	\$20,318	\$20,318	\$19,802	\$19,802
Non-marketable equity investments (2)	6,387	6,387	5,652	5,652
Consumer loans receivable (3)	100,635	136,783	98,284	131,384
Interest rate lock commitment derivatives (4)	12	12	(14)	(14)
Forward loan sale commitment derivatives (4)	(11)	(11)	24	24
Inventory finance receivable (5)	22,848	22,848	21,308	21,308
Securitized financings (6)	68,114	72,807	70,052	74,574
Mortgage servicing rights (7)	395	395	350	350

(1) The fair value is based on quoted market prices.

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

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.

(3) The fair value of the loans held for sale are estimated based on recent GSE mortgage backed bond prices. The fair value of the construction advances approximates book value and the sales price of these loans is estimated based on construction completed.

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

(5) The fair value approximates book value based on current market rates and the revolving nature of the instruments.

(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.

Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted

Level 2 – 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 27, 2014			
	Total	Level 1	Level 2	Level 3
Securities issued by the U.S Treasury and Government (1)	\$1,950	\$—	\$1,950	\$—
Mortgage-backed securities (1)	3,306	—	3,306	—
Securities issued by states and political subdivisions (1)	6,353	—	6,353	—
Corporate debt securities (1)	2,854	—	2,854	—
Marketable equity securities (1)	4,805	4,805	—	—
Interest rate lock commitment derivatives (2)	12	—	—	12
Forward loan sale commitment derivatives (2)	(11)	) —	—	(11)
Mortgage servicing rights (3)	395	—	—	395

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

(2) Gains or losses on derivatives are recognized in current period earnings through cost of sales.

(3) Changes in the fair value of mortgage servicing rights are recognized in the current period earnings through net revenue.

No transfers between Level 1, Level 2 or Level 3 occurred during the six months ended September 27, 2014. The Company's policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period.

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

	September 27, 2014			
	Total	Level 1	Level 2	Level 3
Loans held for investment	\$121,923	\$—	\$—	\$121,923
Loans held for sale	11,384	—	11,384	—
Loans held—construction advances	3,476	—	—	3,476
Inventory finance receivable	22,848	—	—	22,848
Securitized financings	72,807	—	72,807	—
Non-marketable equity investments	6,387	—	—	6,387

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Financial instruments measured on a nonrecurring basis also include impaired loans (nonaccrual loans) disclosed in Note 5 and loans held for sale. No recent sales have been executed in an orderly market of manufactured home loan portfolios with comparable product features, credit characteristics or performance. Impaired loans are measured using Level 3 inputs that are calculated using estimated discounted future cash flows with discount rates considered to reflect current market conditions. Loans held for sale are measured at the lower of cost or fair value using Level 2 inputs that consist of commitments on hand from investors. These loans are held for relatively short periods, typically no more than 45 days. As a result, changes in loan-specific credit risk are not a significant component of the change in fair value. The cost of loans held for sale is lower than the fair value as of September 27, 2014.

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

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

The Company records impairment losses on long-lived assets held for sale when the fair value of such long-lived assets is below their carrying values. The Company records impairment charges on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. No impairment charges were recorded during the six months ended September 27, 2014.

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

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

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	September 27, 2014	March 29, 2014	
Number of loans serviced with MSRs	3,027	2,743	
Weighted average servicing fee (basis points)	30.21	30.54	
Capitalized servicing multiple	37.27	% 35.77	%
Capitalized servicing rate (basis points)	11.26	10.93	
Serviced portfolio with MSRs (in thousands)	\$351,054	\$320,462	
Mortgage servicing rights (in thousands)	\$395	\$350	

19. Business Segment Information

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

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net revenue:				
Factory-built housing	\$126,378	\$117,803	\$252,643	\$240,055
Financial services	12,937	12,023	25,836	23,758
	\$139,315	\$129,826	\$278,479	\$263,813
Income before income taxes:				
Factory-built housing	\$8,697	\$7,077	\$19,444	\$14,081
Financial services	3,010	3,008	4,334	4,995
General corporate charges	(3,007)) (3,356) (6,136) (6,308
	\$8,700	\$6,729	\$17,642	\$12,768

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

Introduction

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

Overview

Headquartered in Phoenix, Arizona, the Company designs and produces factory-built homes primarily distributed through a network of independent and Company-owned retailers. We are a leading producer of manufactured homes in the United States, based on reported wholesale shipments, marketed under a variety of brand names, including Cavco Homes, Fleetwood Homes and Palm Harbor Homes. The Company is also a leading builder of park model homes, vacation cabins and systems-built commercial structures, as well as modular homes built primarily under the Nationwide Homes brand. Cavco's mortgage subsidiary, CountryPlace, is an approved Fannie Mae and Ginnie Mae seller/servicer and offers conforming mortgages to purchasers of factory-built and site-built homes. Our insurance subsidiary, Standard Casualty, provides property and casualty insurance to owners of manufactured homes.

Company Growth

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

In 2009, the Company and an investment partner, Third Avenue Value Fund and an affiliate (collectively, "Third Avenue"), formed a jointly-owned corporation, Fleetwood Homes, Inc. ("Fleetwood"). Cavco and Third Avenue each owned 50 percent of Fleetwood, which has been operated by the Company since Fleetwood's inception. Fleetwood acquired certain assets and liabilities of Fleetwood Enterprises, Inc. The assets acquired included, among other assets, seven operating homebuilding factories in seven states, which substantially expanded the organization's geographic presence and increased the diversity of products offered by the Company.

In 2011, Fleetwood acquired certain manufactured housing assets and liabilities of Palm Harbor Homes, Inc., a Florida corporation. The assets acquired included five operating homebuilding factories in four states, 49 operating retail locations, a manufactured housing finance company and a homeowners insurance company.

Financial information for Fleetwood was historically included in the Company's Consolidated Financial Statements and related Notes, as a result of Cavco's management control of Fleetwood. Third Avenue's financial interest in Fleetwood was considered a "redeemable noncontrolling interest," and was designated as such in the Consolidated Financial Statements (see Note 1 to the Consolidated Financial Statements).

On July 22, 2013, Cavco purchased all noncontrolling interests in Fleetwood pursuant to a Stock Purchase Agreement. As a result of the transaction, Cavco owns 100 percent of Fleetwood and the Fleetwood businesses. The Company issued 1,867,370 Cavco Shares, derived by dividing the purchase price of \$91.4 million by the 60-day volume-weighted average price per share, in accordance with the Stock Purchase Agreement. Subsequent to the transaction closing, Third Avenue and its related funds owned approximately 22.8% of Cavco's outstanding common stock. The new Cavco Shares are subject to registration, voting, lock-up and standstill provisions in accordance with the stock purchase agreement (see Note 20 of the Notes to Consolidated Financial Statements in the Form 10-K). The transaction eliminated the need for noncontrolling interest accounting. Since the transaction closed, Cavco's ownership of 100% of its subsidiaries entitles the Company to all of the associated earnings.

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The Company operates

\$

(5,448

)

\$

12,179

December 31, 2011

Intangible Asset	Weighted Average Amortization Period (in Years)	Gross	Accumulated Amortization	Net
Developed Technology	5	\$ 1,586	\$ (794)	\$ 792
Customer Relationships	8	6,767	(2,175)	4,592
Reseller Relationship	7	853	(30)	823
Trade Names	5	325	(253)	72
Covenant not-to-compete	4	182	(154)	28
		\$ 9,713	\$ (3,406)	\$ 6,307

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ASURE SOFTWARE, INC.
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(Amounts in thousands, except share and per share data or otherwise noted)

We record amortization expense using the straight-line method over the estimated economic useful lives of the intangible assets, as noted above. Amortization expenses were \$1,726 and \$680 for 2012 and 2011 respectively, included in Operating Expenses. Amortization expenses recorded in Cost of Sales were \$316 and \$202 for 2012 and 2011, of which \$102 and \$19, respectively, related to the acquisitions in those periods.

The following table summarizes the future estimated amortization expense relating to our intangible assets as of December 31, 2012:

Calendar Years	
2013	\$ 2,436
2014	2,250
2015	2,096
2016	1,586
2017	1,572
Thereafter	2,239
	\$ 12,179

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment and related depreciable useful lives as of December 31, 2012 and 2011 are composed of the following:

	December 31, 2012	2011
Software: 3-5 years	\$ 3,860	\$ 3,098
Furniture and equipment: 2-5 years	4,102	3,073
Internal support equipment: 2-4 years	699	706
Vehicle - 7 years	42	42
Capital leases: lease term or life of the asset	178	204
Leasehold improvements: lease term or life of the improvement	2,153	2,123
	11,034	9,246
Less accumulated depreciation	(9,880)	(8,832)
	\$ 1,154	\$ 414

We record the amortization of our capital leases as depreciation expense on our Consolidated Statements of Comprehensive Income (Loss). Depreciation and amortization expenses relating to property and equipment were approximately \$255 and \$165 for 2012 and 2011, respectively.

In October, 2012, we entered into a Code Purchase and Perpetual License Agreement (“License Agreement”) with FotoPunch, Inc., a Delaware corporation (“FotoPunch”) that owns and develops facial and voice recognition software for tracking employee time and labor management information for use with mobile and other devices. Under the License Agreement, we acquired a worldwide, perpetual, right to use the code and software in the workforce

management hardware, equipment and software solutions industry. We have the right to grant sublicenses to resellers and third parties. For a period of two years, FotoPunch has agreed to assist us in integrating and using the facial and voice recognition software with our solutions.

At the same time, we also entered into a Rights Agreement with FotoPunch under which FotoPunch granted us an option to acquire it or its business and a right of first refusal to match any third party offer.

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ASURE SOFTWARE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data or otherwise noted)

NOTE 8 - STOCKHOLDERS' EQUITY

STOCK SPLIT

On March 27, 2012, the Board of Directors declared a 3-for-2 stock split, payable April 30, 2012 to the holders of record of our common stock as of the close of business on April 23, 2012. We made cash payments based upon the closing price of our shares on the record date in lieu of the issuance of fractional shares. All prior periods have been adjusted to reflect the impact of the stock split.

SHARE REPURCHASE PROGRAM

Pursuant to Asure's stock repurchase plan, we may repurchase up to 450,000 shares of our common stock. We have repurchased a total of 256,000 shares for approximately \$5.0 million over the life of the plan. Management will periodically assess repurchasing additional shares, depending on our cash position, market conditions, financial covenants and other factors. While the program remains in place, we did not repurchase any shares during 2012 or 2011.

STOCK AND STOCK OPTION PLANS

Asure has one active equity plan, the 2009 Equity Plan (the "2009 Plan"). The 2009 Plan provides for the issuance of non-qualified and incentive stock options to our employees and consultants. We generally grant stock options with exercise prices greater than or equal to the fair market value at the time of grant. The options generally vest over three to four years and are exercisable for a period of five to ten years beginning with date of grant. Our shareholders approved an amendment to the 2009 Plan in June 2012 to increase the number of shares reserved under the plan from 525,000 to 900,000. We have a total of 679,000 options granted and outstanding pursuant to the 2009 Plan as of December 31, 2012.

Total compensation expense recognized in the Consolidated Statements of Comprehensive Income (Loss) for stock based awards was \$88 and \$81 for 2012 and 2011, respectively.

The following table summarizes the assumptions used to develop their fair value for 2012 and 2011:

	Year Ended December 31,	
	2012	2011
Risk-free interest rate	0.350%	0.875%
Expected volatility	0.91	0.91
Expected life in years	3.75	3.89
Dividend yield	-	-

As of December 31, 2012, Asure had reserved shares of common stock for future issuance as follows:

Options outstanding	679,000
Options available for future grant	221,000
Shares reserved	900,000

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ASURE SOFTWARE, INC.
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(Amounts in thousands, except share and per share data or otherwise noted)

The following table summarizes activity under all Plans during 2012 and 2011.

	For the Twelve months ended December 31, 2012		For the Twelve months ended December 31, 2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at the beginning of the year	530,000	\$ 2.35	270,000	\$ 2.04
Granted	260,000	6.42	470,000	2.40
Exercised	(37,000)	2.01	(3,000)	2.09
Canceled	(74,000)	2.43	(207,000)	2.08
Outstanding at the end of the year	679,000	\$ 3.16	530,000	\$ 2.35
Options exercisable at the end of the year	242,000	\$ 2.32	122,000	\$ 2.20
Weighted average fair value of options granted during the year	6.42		1.27	

The following table summarizes the outstanding and exercisable options and their exercise prices as of December 31, 2012:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE			
NUMBER		WEIGHTED-AVERAGE		NUMBER		WEIGHTED-AVERAGE	
RANGE OF	OUTSTANDING AT	REMAINING	WEIGHTED-AVERAGE	EXERCISABLE AND VESTED AT	DECEMBER 31, 2011	WEIGHTED-AVERAGE	EXERCISE PRICE
EXERCISE PRICES	DECEMBER 31, 2012	CONTRACTUAL LIFE (YEARS)	EXERCISE PRICE				
\$ 1.50--2.11	60	4.33	\$ 2.02	28	\$ 1.93		
2.33—2.33	467	3.49	2.33	208	2.33		
2.57—6.42	153	5.02	6.12	6	3.72		
\$ 1.50—6.42	679	3.91	\$ 3.16	242	\$ 2.32		

The aggregate intrinsic value of options outstanding and options exercisable is \$1,917 and \$859, respectively, at December 31, 2012.

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ASURE SOFTWARE, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data or otherwise noted)

NOTE 9 - DEFINED CONTRIBUTION PLAN

We sponsor a defined contribution 401(k) plan that is available to substantially all employees. Our Board of Directors may amend or terminate the plan at any time. We provided no matching contributions to the plan for 2012 and 2011.

NOTE 10 - REVENUE CONCENTRATION

During 2012 and 2011, there were no customers who individually represented 10% or more of consolidated revenue.

NOTE 11 - GAIN ON SALE OF INVESTMENT

In September 2010, we sold 1,312,014 shares of common stock in VTEL Products Corporation (VTEL) to J. Merritt Belisle for \$130 with \$10 due immediately, \$60 due September 30, 2011 and the remaining \$60 due September 30, 2012. As of December 31, 2012, the remaining balance on this note receivable was \$19. In addition to the note receivable, Asure retains the right to receive 3% of net proceeds of the consideration received by VTEL or its shareholders in connection with a potential change of control. If no such change of control happens within five years, Asure has the right, with written notice, to request VTEL to repurchase this right at fair market value. Asure has not placed a value on this right due to the uncertainty surrounding the future outcome.

NOTE 12 - NET LOSS PER SHARE

The following table sets forth the computation of basic and diluted net loss per common share for 2012 and 2011. On April 30, 2012, we completed a 3-for-2 stock split. All prior periods have been adjusted to reflect the impact of the stock split, including the impact on basic and diluted net loss per share.

We have excluded stock options to acquire 679,000 and 530,000 shares for 2012 and 2011, respectively, from the computation of the dilutive stock options because the effect of including the stock options would have been anti-dilutive.

	Twelve Months Ended December 31, 2012	Twelve Months Ended December 31, 2011
Net Loss	(3,032)	(649)
Weighted-average shares of common stock outstanding	5,048,000	4,628,000
Basic and diluted net loss per share	(0.60)	(0.14)

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ASURE SOFTWARE, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data or otherwise noted)

NOTE 13 - INCOME TAXES

The components of pre-tax loss for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Domestic	\$ (1,867)	\$ (692)
Foreign	(880)	115
Total	\$ (2,747)	(577)

The components of the provision for income taxes attributable to continuing operations for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Current:		
Federal	\$ -	\$ -
State	10	1
Foreign	79	43
Total current	89	44
Deferred:		
Federal	197	25
State	23	3
Foreign	(24)	-
Total deferred	196	28
	\$ 285	72

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes at December 31, 2012 and 2011 are as follows:

	2012	2011
DEFERRED TAX ASSETS:		
Current deferred tax assets		
Deferred revenue	\$ 858	\$ 454
Accrued expenses	30	91
Other	31	7
	919	552
Valuation allowance	(1,003)	(543)
Net current deferred tax assets	(84)	9
Noncurrent deferred tax assets		
Net operating losses	40,400	40,718
Research and development credit carryforwards	4,353	3,875

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Minimum tax credit carryforwards	161	161
Fixed assets	171	367
Share based compensation	67	65
	45,152	45,186
Valuation allowance	(42,955)	(44,449)
Net noncurrent deferred tax assets	2,197	737
Noncurrent deferred tax liabilities		
Acquired intangibles	(2,089)	(746)
Goodwill	(248)	(28)
Total noncurrent deferred tax liabilities	(2,337)	(774)
Net current deferred tax asset (liability)	(84)	9
Net noncurrent deferred tax liability	\$ (140)	\$ (37)

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ASURE SOFTWARE, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data or otherwise noted)

At December 31, 2012, we had federal net operating loss carryforwards of approximately \$118,135, research and development credit carryforwards of approximately \$4,792 and alternative minimum tax credit carryforwards of approximately \$161. The net operating loss and research and development credit carryforwards will expire in varying amounts from 2013 through 2033, if not utilized. Minimum tax credit carryforwards carry forward indefinitely.

As a result of our various acquisitions in prior years, we may be subject to a substantial annual limitation in the utilization of the net operating losses and credit carryforwards due to the “change in ownership” provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses before utilization.

Due to the uncertainty surrounding the timing of realizing the benefits of its favorable tax attributes in future tax returns, we have placed a valuation allowance against our net deferred tax asset, exclusive of goodwill. During 2012, the valuation allowance decreased by approximately \$3,339 due primarily to operations, including expiration of tax carryforwards. The valuation allowance also increased by approximately \$2,304 in 2012 due to the acquisition of PeopleCube. Approximately \$8,251 of the valuation allowance relates to tax benefits for stock option deductions included in our net operating loss carryforward which we will allocate, if and when realized, directly to contributed capital to the extent the benefits exceed amounts attributable to book deferred compensation expense.

We consider undistributed earnings of our foreign subsidiaries as permanently reinvested and, accordingly, we have made no provision for U.S. federal or state income taxes thereon.

Our provision for income taxes attributable to continuing operations differs from the expected tax expense (benefit) amount computed by applying the statutory federal income tax rate of 34% to income before income taxes as a result of the following:

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Computed at statutory rate	\$ (934)	\$ (196)
State taxes, net of federal benefit	61	3
Permanent items and other	248	26
Credit carryforwards	667	-
Foreign income taxed at different rates	354	-
Tax carryforwards not benefitted	(111)	239
	\$ 285	\$ 72

In August 2007, we adopted ASC 740-10 regarding uncertain tax positions. We did not record any additional tax liability as a result of the adoption of ASC 740-10 and no adjustment was required to the August 1, 2007 balance of retained earnings. The total amount of unrecognized tax benefits as of January 1, 2012 was approximately \$1,051. The reconciliation of our unrecognized tax benefits at the beginning and end of the year is as follows:

Balance at January 1, 2012	\$ 1,051
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Additions based on tax positions related to the current year

Additions for tax positions of prior years	110
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Balance at December 31, 2012	\$ 1,195
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As of December 31, 2012, we had \$1,195 of unrecognized tax benefits, which would affect the effective tax rate if recognized.

Our practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During 2012, we recognized \$5 of interest and penalties in our income tax expense.

Asure files tax returns in the U.S. federal jurisdiction and in several state and foreign jurisdictions. We are no longer subject to U.S. federal income tax examinations for years ending before July 31, 2009 and are no longer subject to state and local or foreign income tax examinations by tax authorities for years ending before July 31, 2008. Asure is not currently under audit for federal, state or any foreign jurisdictions.

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ASURE SOFTWARE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data or otherwise noted)

NOTE 14 - LEASE COMMITMENTS

Asure's future minimum lease payments under all operating and capital leases as of December 31, 2012 are as follows:

CALENDAR YEAR ENDING:	OPERATING LEASE OBLIGATIONS	CAPITAL LEASE OBLIGATIONS
2013	725	82
2014	604	80
2015	438	80
2016	59	85
2017	--	62
Thereafter	--	--
TOTAL	\$ 1,826	\$ 389
Less current portion of obligations		(82)
Long-term portion of obligations		\$ 307

Total rent expense under all operating leases for 2012 and 2011 were \$589 and \$433, respectively. For 2012 and 2011, approximately 51% and 76.0%, respectively, of our total operating lease obligations relates to our corporate office facility at Wild Basin in Austin, Texas.

NOTE 15 – SUBSEQUENT EVENT

On March 29, 2013, we amended our Senior Note Payable that provided for updated financial covenants in exchange for an increase in the floor interest rate from 10% to 11.5%. See Note 5 for more information.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASURE SOFTWARE, INC.

April 1, 2013	By	/s/ PATRICK GOEPEL Patrick Goepel Chief Executive Officer
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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ PATRICK GOEPEL Patrick Goepel	Chief Executive Officer (Principal Executive Officer) and Director	April 1, 2013
/s/ JENNIFER CROW Jennifer Crow	Chief Financial Officer (Principal Financial and Accounting Officer)	April 1, 2013
/s/ DAVID SANDBERG David Sandberg	Chairman of the Board	April 1, 2013
/s/ ADRIAN PERTIERRA Adrian Pertierra	Director	April 1, 2013
/s/ J. RANDALL WATERFIELD J. Randall Waterfield	Director	April 1, 2013
/s/ MATTHEW BEHRENT Matthew Behrent	Director	April 1, 2013

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INDEX TO EXHIBITS

EXHIBIT DOCUMENT DESCRIPTION
NUMBER

2.1	Asset Purchase Agreement dated October 1, 2011 by and among Asure Software, Inc., ADI Software, LLC and ADI Time, LLC (1)
2.2	Asset Purchase Agreement dated December 14, 2011 by and among Asure Software, Inc., ADI Legiant, LLC and WG Ross Corp. (2)
2.3	Stock Purchase Agreement dated July 1, 2012 between Meeting maker Holding B.V. and PeopleCube Holding B.V. and Asure Software, Inc. (3)
2.4	Code Purchase and Perpetual License Agreement dated October 9, 2012 between Asure Software, Inc. and FotoPunch, Inc. (4)
3.1	Restated Certificate of Incorporation (5)
3.2	Certificate of Amendment to the Restated Certificate of Incorporation (6)
3.3	(Second) Certificate of Amendment to the Restated Certificate of Incorporation (7)
3.4	Amended and Restated Bylaws (8)
4.1	Specimen Certificate for the Common Stock (9)
4.2	Amended and Restated Rights Agreement, dated as of October 28, 2009 between Asure Software, Inc. and American Stock Transfer & Trust Company (10)
4.3	Amended and Restated Certificate of Designation of Series A Junior Participating Preferred Stock (10)
4.4	Form of Rights Certificate (10)
4.5	Form of 9% Subordinated Convertible Promissory Note (1)
4.6	Form of 15% Subordinated Promissory Note (1)
4.7	Form of Securities Purchase Agreement for 9% Subordinated Convertible Promissory Note (1)
4.8	Form of Securities Purchase Agreement for 15% Subordinated Promissory Note (1)
4.9	Registration Rights Agreement (1)

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4.10	Amended and Restated Registration Rights Agreement dated March 10, 2012 (11)
4.11	Amendment Agreement with respect to the Amended and Restated 9% Convertible Promissory Notes (11)
4.12	Promissory Note dated October 2011 issued in connection with acquisition of certain assets from ADI Time, LLC (2)
4.13	Letter Agreement from Patrick Goepel relating to forfeiture of option rights (2)
4.14	Stock Option Agreement for Patrick Goepel (2)
4.15	Stock Option Agreement for Steve Rodriguez (2)
4.16	Stock Option Agreement for Mike Kinney (2)
4.17	Subordinated Promissory Note issued to WG Ross Corp. (2)
10.1	Amended Restricted Stock Plan, effective May 23, 2006 (12)
10.2	2009 Equity Plan (13)
10.3	Amendment No. 2 to the Asure Software, Inc. 2009 Equity Plan (14)
10.4	Form of Option Agreement under the 2009 Equity Plan (13)
10.5	Purchase Agreement dated September 25, 2009 with Patrick Goepel (14)
10.6	Amended and Restated Employment Agreement dated July 2, 2011 with Patrick Goepel (2)
10.7	Amended and Restated Employment Letter with David Scoglio, dated as of August 15, 2011 (2)
10.8	Employment Letter with Mike Kinney, dated as of August 15, 2011 (2)
10.9	Employment Letter with Steve Rodriguez, dated as of August 15, 2011 (2)
10.10	Credit Agreement between Asure Software, Inc. and JPMorgan Chase Bank, N.A. (1)
10.11	Fourth Amendment to Lease Agreement with WB One & Two LTD (15)
10.12	Lease Agreement to Premises located at 200 Crossings Boulevard, Warwick, Rhode Island (2)
10.13	Sixth Amendment to Lease Agreement with Wild Basin I & II Investors, LP (2)
10.14	<u>First Amendment to Loan Agreement dated March 29, 2013 by and among Asure Software Inc., ADI Software, LLC, Asure Legiant, LLC Meeting Maker - United States, Inc. and Deerpath Funding, LP *</u>
14	Code of Business Conduct and Ethics (8)
21	<u>Subsidiaries of the Company*</u>

- 23.1 Consent of Ernst & Young LLP*
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
- 101 The following materials from Asure Software, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (1) the Consolidated Balance Sheets, (2) the Consolidated Statements of Comprehensive Income (Loss), (3) the Consolidated Statements of Cash Flows, and (4) Notes to Consolidated Financial Statements, tagged as blocks of text.

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- (1) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2011 filed with the SEC on November 14, 2011.
- (2) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 30, 2012.
- (3) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2012.
- (4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on October 15, 2012.
- (5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended October 31, 2004 filed with the SEC on December 15, 2004.
- (6) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on December 29, 2009.
- (7) Incorporated by reference to Appendix C to the Company's 2012 Proxy Statement filed with the SEC on May 23, 2012.
- (8) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on September 27, 2012.
- (9) Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 filed with the SEC on December 13, 2012.
- (10) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on October 28, 2009.
- (11) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2012.
- (12) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended April 30, 2006 filed with the SEC on June 14, 2006.
- (13) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on September 25, 2009.
- (14) Incorporated by reference to Appendix B to the Company's 2012 Proxy Statement filed with the SEC on May 23, 2012.
- (15) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2010 filed with the SEC on May 17, 2010.

* Filed herewith.

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