

UNITED STATES
SECURITIES & 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 December 31, 2004

OR

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

For the transition period from to

Commission File Number 000-08822

Cavco Industries, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

56-2405642

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification Number)

1001 North Central Avenue, Suite 800, Phoenix, Arizona 85004

(Address of principal executive offices)

(Zip Code)

(602) 256-6263

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the latest practicable date.

Class

Common Stock, \$.01 Par Value

Outstanding at February 4, 2005

6,288,730 Shares

CAVCO INDUSTRIES, INC. AND SUBSIDIARY
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CAVCO INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	<u>December 31,</u> 2004	<u>March 31,</u> 2004
	(Unaudited)	
ASSETS		
Current assets		
Cash	\$ 39,054	\$ 30,775
Restricted cash	1,139	827
Accounts receivable	5,955	6,479
Inventories	9,021	7,995
Prepaid expenses and other current assets	1,433	1,701
Deferred income taxes	3,690	3,570
Retail assets held for sale	1,597	2,941
Total current assets	<u>61,889</u>	<u>54,288</u>
Property, plant and equipment, at cost:		
Land	2,330	2,330
Buildings and improvements	5,151	5,043
Machinery and equipment	6,257	6,216
	<u>13,738</u>	<u>13,589</u>
Accumulated depreciation	(6,232)	(5,369)
	<u>7,506</u>	<u>8,220</u>
Goodwill	<u>67,346</u>	<u>67,346</u>
Total assets	<u>\$ 136,741</u>	<u>\$ 129,854</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 3,025	\$ 6,105
Accrued liabilities	20,938	18,986
Total current liabilities	<u>23,963</u>	<u>25,091</u>
Deferred income taxes	8,560	6,830
Commitments and contingencies		
Stockholders' equity		
Preferred Stock, \$.01 par value, 1,000,000 shares authorized; No shares issued or outstanding	-	-
Common Stock, \$.01 par value; 10,000,000 shares authorized; Outstanding 6,288,730 shares	63	63
Additional paid-in capital	119,998	119,998
Unamortized value of restricted stock	(375)	(563)
Accumulated deficit	(15,468)	(21,565)
Total stockholders' equity	<u>104,218</u>	<u>97,933</u>
Total liabilities and stockholders' equity	<u>\$ 136,741</u>	<u>\$ 129,854</u>

See Notes to Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2004	2003	2004	2003
Net sales	\$ 38,820	\$ 33,489	\$ 113,392	\$ 93,824
Cost of sales	31,745	27,251	92,955	76,991
Gross profit	7,075	6,238	20,437	16,833
Selling, general and administrative expenses	3,505	3,148	10,923	10,287
Income from operations	3,570	3,090	9,514	6,546
Interest income	134	63	335	138
Income from continuing operations before income taxes	3,704	3,153	9,849	6,684
Income tax expense	(1,445)	(1,260)	(3,902)	(2,015)
Income from continuing operations	2,259	1,893	5,947	4,669
Income (loss) from discontinued retail operations less income taxes of \$100 in 2004	-	-	150	(73)
Net Income	\$ 2,259	\$ 1,893	\$ 6,097	\$ 4,596
Net income per share (basic):				
Continuing operations	\$ 0.36	\$ 0.30	\$ 0.95	
Discontinued retail operations	-	-	0.02	
Net Income	\$ 0.36	\$ 0.30	\$ 0.97	
Net income per share (diluted):				
Continuing operations	\$ 0.34	\$ 0.30	\$ 0.91	
Discontinued retail operations	-	-	0.02	
Net Income	\$ 0.34	\$ 0.30	\$ 0.93	
Weighted average shares outstanding:				
Basic	6,288,730	6,292,990	6,288,730	
Diluted	6,548,394	6,294,102	6,529,864	
Proforma financial information:				
Income from continuing operations before income taxes			\$ 6,684	
Proforma income tax expense			(2,672)	
Proforma income from continuing operations			4,012	
Proforma loss from discontinued operations, net of proforma taxes			(44)	
Proforma net income			\$ 3,968	
Proforma net income (loss) per share - Basic and Diluted:				
Continuing operations			\$ 0.64	
Discontinued operations			(0.01)	
Net income			\$ 0.63	
Proforma weighted average shares outstanding:				
Basic			6,256,260	
Diluted			6,256,630	

See Notes to Consolidated Financial Statements

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

	Nine Months Ended December 31,	
	2004	2003
OPERATING ACTIVITIES		
Net income	\$ 6,097	\$ 4,596
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	828	898
Amortization of restricted stock	188	375
Deferred income taxes provision	1,610	1,344
Impairment charges	270	
Changes in operating assets and liabilities:		
Restricted cash	(312)	(27)
Accounts receivable	524	1,485
Inventories	318	2,612
Prepaid expenses and other current assets	268	(825)
Accounts payable and accrued liabilities	(1,128)	3,800
Net cash provided by operating activities	8,663	14,258
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(384)	(166)
Net cash used in investing activities	(384)	(166)
FINANCING ACTIVITIES		
Funding provided by Centex	-	12,224
Net cash provided by financing activities	-	12,224
Net increase in cash	8,279	26,316
Cash at beginning of period	30,775	-
Cash at end of period	\$ 39,054	\$ 26,316
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$ 1,780	\$ 490
Supplemental schedule of noncash financing activities:		
Issuance of restricted stock		\$ 1,000
Assumption of net deferred tax liability		\$ 700

See Notes to Consolidated Financial Statements

CAVCO INDUSTRIES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2004
(Dollars in thousands, except per share data)
(unaudited)

1. Basis of Presentation

The consolidated interim financial statements include the accounts of Cavco Industries, Inc. ("Cavco Inc.") and its wholly-owned subsidiary (collectively, the "Company") after elimination of all significant intercompany balances and transactions. The statements have been prepared, without audit, in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted.

In the opinion of the Company, all adjustments (consisting of normal, recurring accruals) necessary to present fairly the information in the consolidated financial statements of the Company have been included. The results of operations for such interim periods are not necessarily indicative of results for the full year. The Company suggests that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes to consolidated financial statements included in the Company's Form 10-K Annual Report filed with the Securities and Exchange Commission on May 24, 2004 (the "Form 10-K").

All shares authorized, outstanding and per share amounts for all periods presented have been restated to give retroactive application to the January 31, 2005 two-for-one stock split effected in the form of a 100 percent stock dividend to Company stockholders of record on January 18, 2005.

Effective June 30, 2003, Cavco Industries, LLC ("Cavco LLC") was merged into Cavco Inc. and 100% of the outstanding shares of common stock of Cavco Inc. were distributed to the stockholders of Centex Corporation ("Centex"), Cavco Inc.'s parent company. Subsequent to this distribution, Cavco Inc. became a separate public company.

Prior to June 30, 2003, Cavco LLC was incorporated into the consolidated Federal income tax returns of Centex. Therefore, income taxes are not provided for prior to June 30, 2003. As a result of the distribution described above, proforma tax amounts have been presented on the face of the consolidated income statement for the nine months ended December 31, 2003 as if the Company was a stand-alone taxable entity. Proforma income tax expense is calculated assuming a 40% effective tax rate. As a stand-alone taxable entity, the deferred taxes associated with its assets and liabilities have been assumed by the Company from Centex and recorded in its financial statements. The Company's deferred tax assets primarily result from financial accruals and its deferred tax liabilities result from excess tax amortization of goodwill.

For a description of 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.

Accounting For Stock Based Compensation - The Company accounts for its stock-based compensation programs under APB No. 25, *Accounting for Stock Issued to Employees* and related interpretations ("APB 25"), under which no compensation expense has been recognized, as all options have been granted with an exercise price equal to the fair value of the common stock on the date of grant. The Company has adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock Based Compensation-Transition and Disclosure* ("SFAS 123"). For the disclosure requirements of SFAS 123, the fair value of each option grant as of the date of the grant was estimated using the Black-Scholes option pricing method. The assumptions used for the three and nine months ended December 31, 2004 were volatility of 28.9%, risk-free interest rate of 3.6%, dividend rate of 0.0% and an expected life of the options of 5 years.

Options granted generally vest over a three-year period with 25% becoming vested on the grant date and the remainder becoming vested in cumulative 25% increments on each of the first three anniversaries of the grant date. Had compensation cost been determined as prescribed by SFAS 123, utilizing the assumptions detailed above and amortizing the resulting fair value of the stock options granted over the respective vesting period of the options, net income and earnings per share would have been reduced to the proforma amounts for the three and nine months ended December 31, 2004 and 2003 as follows. The Company had not granted any options prior to December 12, 2003. For the nine month period ended December 31, 2003, net income includes the proforma tax provision discussed above.

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2004	2003	2004	2003
Net income, as reported	\$ 2,259	\$ 1,893	\$ 6,097	\$ 3,968
Less: Total stock-based employee compensation determined under the fair value based method for all awards, net of related tax effects of \$64, \$182, \$235 and \$182, respectively	(96)	(274)	(353)	(274)
Proforma net income	\$ 2,163	\$ 1,619	\$ 5,744	\$ 3,694
Basic net income per share:				
As reported	\$ 0.36	\$ 0.30	\$ 0.97	\$ 0.63
Pro forma	\$ 0.34	\$ 0.26	\$ 0.91	\$ 0.59
Diluted net income per share:				
As reported	\$ 0.34	\$ 0.30	\$ 0.93	\$ 0.63
Pro forma	\$ 0.33	\$ 0.26	\$ 0.88	\$ 0.59

During December 2004, the Financial Accounting Standards Board issued Statement No. 123R, *Share-Based Payment* ("SFAS 123R"), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. Share-based payments include stock options which the Company grants to some of its employees and directors under its stock incentive plan at prices equal to the market value of the stock on the dates the options were granted. SFAS 123R is effective for all interim or annual periods beginning after June 15, 2005. Early adoption is encouraged and retroactive application of the provisions of SFAS 123R to the beginning of the fiscal year that includes the effective date is permitted, but not required. The Company plans to adopt SFAS 123R effective April 1, 2005.

Because the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method, it has recognized no compensation cost for stock options granted. Accordingly, the adoption of SFAS 123R's fair value method will impact our results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share above.

2. Inventories

Raw materials inventories are valued at the lower of cost (first-in, first-out method which approximates actual cost) or market. Finished goods are valued at the lower of cost or market, using the specific identification method. Inventories at December 31, 2004 and March 31, 2004 were as follows:

	December 31, 2004	March 31, 2004
Raw materials	\$ 3,756	\$ 3,004
Work in process	2,240	1,981
Finished goods	3,025	3,010
Total inventories	<u>\$ 9,021</u>	<u>\$ 7,995</u>

3. Revolving line of credit

The Company has established a \$15 million revolving line of credit facility ("RLC") with Bank One, NA which expires on July 31, 2006. As of December 31, 2004, \$820 of the line amount is reserved for an outstanding letter of credit issued for the Company's workers' compensation program. The Company has not made any draws under the RLC. The outstanding principal amount of borrowings under the RLC bears interest at the Company's election at either the prime rate or the London Interbank Offered Rate plus 1.75%. The RLC contains certain restrictive and financial covenants, which, among other things, limit the Company's ability to pledge assets and incur additional indebtedness, and requires the Company to maintain certain defined leverage and fixed charge coverage ratios.

4. Warranties

Homes are 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 provided a liability for estimated future warranty costs relating to homes sold, based upon management's assessment of historical experience factors and current industry trends. Activity in the liability for estimated warranties was as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2004	2003	2004	2003
Balance at beginning of period	\$ 4,575	\$ 4,316	\$ 4,596	\$ 4,241
Charged to costs and expenses	1,824	1,333	4,690	4,414
Deductions	(1,416)	(1,432)	(4,303)	(4,438)
Balance at end of period	<u>\$ 4,983</u>	<u>\$ 4,217</u>	<u>\$ 4,983</u>	<u>\$ 4,217</u>

5. 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 and is further reduced by the resale value of repurchased homes. The maximum amount for which the Company was contingently liable under such agreements approximated \$21,221 at December 31, 2004. The Company has a reserve for repurchase commitments based on prior experience and market conditions of \$1,900 at December 31, 2004. In connection with the repurchase agreement with one financial institution, the Company has provided a guaranty in the amount of \$300 to guaranty payment should one of the Company's larger independent dealers default on certain of its obligations in the event of a repurchase by the lender. The potential liability related to this guaranty is included in the Company's reserve for repurchase commitments.

The Company is engaged in various legal proceedings that are incidental to and arise in the course of its business. Certain of the cases filed against the Company and other companies engaged in businesses similar to the Company allege, among other things, breach of contract and warranty, product liability and personal injury. Legal fees associated with these lawsuits are expensed as incurred. In the opinion of management, the ultimate liability, if any, with respect to the proceedings in which the Company is currently involved is not expected to have a material adverse effect on the Company's financial position or results of operations. However, the potential exists for unanticipated material adverse judgments against the Company.

6. Impairment Charges

Due to weak industry conditions in the market served by one of the Company's retail locations leading to a reduction in the cash flows generated by this location, the Company recognized an impairment charge of \$270 in the nine month period ended December 31, 2004 for the write down of the buildings, improvements and equipment at this location. The amount of the charge represented the difference between the net book value of these assets and their fair value which was determined by comparison to sales prices for similar assets. The charge is included in selling, general and administrative expenses in the Company's Retail segment.

7. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share. For the nine months ended December 31, 2003, proforma net income includes the proforma income tax provision discussed in Note 1. Earnings per share calculations for all periods presented have been restated to give retroactive application to the January 31, 2005 two-for-one stock split effected in the form of a 100 percent stock dividend to Company stockholders of record on January 18, 2005.

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2004	2003	2004	2003
Net income	<u>\$ 2,259</u>	<u>\$ 1,893</u>	<u>\$ 6,097</u>	
Weighted average shares outstanding:				
Basic	6,288,730	6,292,990	6,288,730	
Add: Effect of dilutive stock options	<u>259,664</u>	<u>1,112</u>	<u>241,134</u>	
Diluted	<u>6,548,394</u>	<u>6,294,102</u>	<u>6,529,864</u>	
Net income per share:				
Basic	<u>\$ 0.36</u>	<u>\$ 0.30</u>	<u>\$ 0.97</u>	
Diluted	<u>\$ 0.34</u>	<u>\$ 0.30</u>	<u>\$ 0.93</u>	
Proforma net income				<u>\$ 3,968</u>
Proforma weighted average shares				
outstanding:				
Basic				6,256,260
Add: Effect of dilutive stock options				<u>370</u>
Diluted				<u>6,256,630</u>
Proforma net income per share:				
Basic				<u>\$ 0.63</u>
Diluted				<u>\$ 0.63</u>

8. Business Segment Information

The Company operates in two business segments in the manufactured housing industry — Manufacturing and Retail. Through its Manufacturing segment, the Company designs and manufactures homes which are sold primarily in the Southwestern and Western United States to a network of dealers which includes Company-owned retail locations comprising the Retail segment. The Company's Retail segment derives its revenues from home sales to individuals. The accounting policies of the segments are the same as those described in the Form 10-K. Retail segment results include retail profits from the sale of homes to consumers but do not include any manufacturing segment profits associated with the homes sold. Intercompany transactions between reportable operating segments are eliminated in consolidation. Each segment's results include corporate office costs that are directly and exclusively incurred for the segment. The following table summarizes information with respect to the Company's business segments for the periods indicated:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2004	2003	2004	2003
Net sales				
Manufacturing	\$ 38,563	\$ 31,412	\$ 111,846	\$ 88,789
Retail	2,231	4,391	7,166	12,841
Less: Intercompany	(1,974)	(2,314)	(5,620)	(7,806)
Total consolidated net sales	<u>\$ 38,820</u>	<u>\$ 33,489</u>	<u>\$ 113,392</u>	<u>\$ 93,824</u>
Income (loss) from operations				
Manufacturing	\$ 5,217	\$ 3,844	\$ 14,105	\$ 9,987
Retail	(252)	50	(800)	(117)
Intercompany profit in inventory	(50)	120	235	180
General corporate charges	(1,345)	(924)	(4,026)	(3,504)
Total consolidated income from operations	<u>\$ 3,570</u>	<u>\$ 3,090</u>	<u>\$ 9,514</u>	<u>\$ 6,546</u>
Depreciation				
Manufacturing	\$ 202	\$ 199	\$ 587	\$ 597
Retail	41	37	120	115
Corporate	38	58	121	186
Total consolidated depreciation	<u>\$ 281</u>	<u>\$ 294</u>	<u>\$ 828</u>	<u>\$ 898</u>
Capital expenditures				
Manufacturing	\$ 168	\$ 20	\$ 369	\$ 163
Corporate	-	-	15	3
Total consolidated capital expenditures	<u>\$ 168</u>	<u>\$ 20</u>	<u>\$ 384</u>	<u>\$ 166</u>
			As of	
			December 31,	March 31,
			2004	2004
Total assets				
Manufacturing			\$ 88,485	\$ 88,631
Retail			3,777	3,774
Retail assets held for sale			1,597	2,941
Corporate, primarily cash and deferred taxes			42,882	34,508
Total consolidated assets			<u>\$ 136,741</u>	<u>\$ 129,854</u>

9. Discontinued Operations

The Company has initiated plans to dispose of certain of its retail sales centers and these operations are classified as discontinued retail operations. Retail assets held for sale represent finished goods inventories to be liquidated in conjunction with the disposal of these retail sales centers. There were no operating losses for the three months ended December 31, 2004 or 2003 for the stores we have identified for sale or disposal as the costs related to the liquidation of inventory were in line with our expectations of net realizable values. Income from discontinued retail operations for the nine months ended December 31, 2004 resulted from better than anticipated results from liquidating retail inventories at our closed retail locations. This income was partially offset by an accrual for the estimated remaining lease costs for one retail location closed during the second quarter of fiscal 2005. The loss from discontinued retail operations for the nine months ended December 31, 2003 primarily represents accrued lease costs related to one of the retail locations closed during the first quarter of fiscal 2004. Net sales for the retail sales centers to be disposed of were \$2,608 and \$4,944 for the three month periods ended December 31, 2004 and 2003, respectively and \$10,801 and \$17,303 for the nine month periods ended December 31, 2004 and 2003, respectively. The decline in sales versus the prior year was primarily due to the closure or disposal of retail sales centers in accordance with the Company's plans.

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

Overview

Effective June 30, 2003, Cavco Industries, LLC ("Cavco LLC"), our predecessor, was merged into Cavco Industries, Inc. (the "Company") and 100% of the outstanding shares of common stock of the Company were distributed to the stockholders of Centex Corporation ("Centex"), Cavco Inc.'s parent company. Subsequent to this distribution, the Company became a separate public company. The consolidated financial statements contained in this quarterly report reflect the financial condition and results of operations of the Company and unless the context otherwise requires, all financial information contained in this section gives effect to the reorganization as if it had occurred prior to the date of such financial information.

The Company is the largest producer of manufactured homes in Arizona and 12th largest producer of manufactured homes in the United States in terms of wholesale shipments, based on 2003 data published by Manufactured Home Merchandiser. Headquartered in Phoenix, Arizona, the Company designs and produces manufactured homes which are sold to a network of retailers located primarily in the Southwestern and Western United States. The retail segment of the Company operates retail sales locations which primarily offer homes produced by the Company to retail customers.

Results of Operations - (Dollars in thousands)

Three and nine months ended December 31, 2004 compared to 2003

Net Sales. Total net sales increased 15.9% to \$38,820 for the three months ended December 31, 2004 compared to \$33,489 last year. For the first nine months of the fiscal year ending March 31, 2005, net sales increased 20.9% to \$113,392 versus \$93,824 last year.

Manufacturing net sales increased 22.8% to \$38,563 for the three months ended December 31, 2004 from \$31,412 for last year and 26.0% to \$111,846 for the first nine months of fiscal 2005 from \$88,789 last year. These increases in sales were attributable to increases in wholesale sales prices and the number of homes sold. Total homes sold during the current quarter increased 10.6% to 1,000 wholesale shipments versus 904 last year and the average sales price per home increased 11.0% to \$38,563 versus \$34,748 last year. For the first nine months of fiscal 2005, the number of homes sold increased 11.5% to 2,942 wholesale shipments versus 2,638 last year and the average sales price per home increased 13.0% to \$38,017 versus \$33,658 last year. The higher volume of homes sold resulted from our efforts to expand our market share in Arizona and California through recruiting of new independent dealers and expansion of specialty products to markets different from those for traditional manufactured homes. Wholesale sales prices were increased to offset significant material cost increases experienced since early 2004. In addition, customers are trending toward larger homes with more amenities because lower interest rates have made higher priced homes more affordable and traditional mortgage financing can require more square footage to meet appraisal requirements.

Retail net sales decreased \$2,160 to \$2,231 for the three months ended December 31, 2004 from \$4,391 for the same period last year and \$5,675 to \$7,166 for the first nine months of fiscal 2005 from \$12,841 last year. This decrease in retail sales was primarily due to further credit tightening which has eliminated certain lower end buyers and increased manufacturing backlogs which have lengthened delivery times for new homes.

Gross Profit. Gross profit as a percent of sales decreased to 18.2% for the three months ended December 31, 2004 from 18.6% last year and increased to 18.0% for the first nine months of fiscal 2005 from 17.9% last year. The decrease in gross profit as a percent of sales for the three months ended December 31, 2004 versus last year was primarily due to increased material costs and increased warranty accruals partially offset by the efficiencies realized through higher production rates. For the nine months ended December 31, 2004 versus the comparable period last year, increases in material costs have been offset by efficiencies realized through higher production rates. Since early 2004, the Company has experienced significant cost increases in substantially all of the major components in the Company's products, including lumber and lumber-related products, gypsum products, raw steel and products built with steel and petroleum-based products and services, including delivery costs.

Gross profit increased to \$7,075 for the three months ended December 31, 2004 from \$6,238 last year and to \$20,437 for the first nine months of fiscal 2005 from \$16,833 last year. This increase in gross profit was due to the overall increase in net sales offset by the lower gross profit percentage.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 11.3% or \$357 to \$3,505 or 9.0% of net sales for the three months ended December 31, 2004 versus \$3,148 or 9.4% of net sales last year. This increase was primarily the result of incentive compensation programs tied to profitability and increases in the cost of being a stand alone public company, including the costs of complying with the Sarbanes Oxley Act. For the first nine months of fiscal 2005, selling, general and administrative expenses increased 6.2% or \$636 to \$10,923 from \$10,287 last year. This increase was due to the items noted above and an impairment charge of \$270 to write down the net book value of certain retail assets to their fair value partially offset by less amortization of restricted stock in the current period.

Interest Income. Interest income represents income earned on unrestricted cash. The increases in interest income for the current quarter and the first nine months of fiscal 2005 versus the comparative periods for last year resulted from the increase in the Company's available cash.

Income Taxes. The effective income tax rate for the three and nine months ended December 31, 2004 approximated the Company's estimated combined statutory rate of 39%. Prior to the distribution on June 30, 2003, Cavco LLC was incorporated in the consolidated income tax returns of Centex. Therefore, income taxes were not provided for by Cavco LLC as Cavco LLC and Centex had agreed that all taxes or tax benefits from filing consolidated income tax returns would either be borne by or benefit Centex. Cavco LLC was a disregarded entity for income tax purposes and therefore on a stand-alone basis would not be subject to income taxes. As a result of the distribution described above, proforma tax amounts for the nine months ended December 31, 2003 which included a period prior to the date of the distribution have been presented on the face of the consolidated income statement as if the Company was a stand-alone taxable entity. Proforma income tax expense is calculated based on a combined statutory rate of 40%.

Discontinued Retail Operations. There were no operating losses for the three months ended December 31, 2004 or 2003 for the stores we have identified for sale or disposal as the costs related to the liquidation of inventory were in line with our expectations of net realizable values. Income from discontinued retail operations for the nine months ended December 31, 2004 resulted from better than anticipated results from liquidating retail inventories at our closed retail locations. This income was partially offset by an accrual for the estimated remaining lease costs for one retail location closed during the current quarter. The loss from discontinued retail operations for the nine months ended December 31, 2003 primarily represents accrued lease costs related to one of the retail locations closed during that period.

Liquidity and Capital Resources

Prior to the distribution noted above, we participated in Centex's central cash management program, wherein all of our cash receipts were remitted to Centex and all cash disbursements were funded by Centex. Subsequent to the distribution, we are now responsible for funding our own operating needs.

The Company has established a \$15 million revolving line of credit facility ("RLC") with Bank One, NA. As of December 31, 2004, \$820 of the line amount is reserved for an outstanding letter of credit issued for the Company's workers' compensation program. The Company has not made any draws under the RLC. The outstanding principal amount of borrowings under the RLC bears interest at the Company's election at either the prime rate or the London Interbank Offered Rate plus 1.75%. The RLC expires on July 31, 2006.

The RLC contains certain restrictive and financial covenants, which, among other things, limit the Company's ability to pledge assets and incur additional indebtedness, and requires the Company to maintain certain defined leverage and fixed charge coverage ratios.

We believe that cash on hand at December 31, 2004, together with cash flow from operations, will be sufficient to fund our operations for at least the next twelve months. In addition, as described above, we have entered into a \$15 million line of credit facility with Bank One that can be used to supplement these sources of liquidity.

Operating activities provided \$8,663 of cash during the nine months ended December 31, 2004 compared to providing \$14,258 of cash during the first nine months of last year. Cash generated by operating activities was derived from operating income before non-cash charges. Cash provided by operating activities last year included amounts generated through the liquidation of retail inventories held for sale and an increase in accounts payable and accrued expenses resulting from the timing of payments due to vendors and service providers.

Investing activities required the use of \$384 of cash during the nine months ended December 31, 2004 compared to the use of \$166 last year. The cash used for investing activities during the nine months ended December 31, 2004 was primarily for capital expenditures for our manufacturing facilities.

The Company had no financing activities during the nine months ended December 31, 2004. Financing activities provided \$12,224 of cash during the nine months ended December 31, 2003 resulting from the payment by Centex of a capital contribution committed to by Centex in anticipation of the distribution.

Critical Accounting Policies

In our Form 10-K filed with the Securities and Exchange Commission on May 24, 2004, under the heading "Critical Accounting Policies", we have provided a discussion of the critical accounting policies that management believes affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

During December 2004, the Financial Accounting Standards Board issued Statement No. 123R, *Share-Based Payment* ("SFAS 123R"), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. Share-based payments include stock options which the Company grants to some of its employees and directors under its stock incentive plan at prices equal to the market value of the stock on the dates the options were granted. SFAS 123R is effective for all interim or annual periods beginning after June 15, 2005. Early adoption is encouraged and retroactive application of the provisions of SFAS 123R to the beginning of the fiscal year that includes the effective date is permitted, but not required. The Company plans to adopt SFAS 123R effective April 1, 2005.

Because the Company currently accounts for share-based payments to employees using the intrinsic value method under APB No. 25, *Accounting for Stock Issued to Employees* and related interpretations, it has recognized no compensation cost for stock options granted. Accordingly, the adoption of SFAS 123R's fair value method will impact our results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123R in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 1 to our consolidated financial statements.

FORWARD-LOOKING STATEMENTS

Various sections of this Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Act of 1934 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the context of the statement and generally arise when we are discussing our beliefs, estimates or expectations.

All forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties, many of which are beyond our control. As a result, our actual results or performance may differ materially from anticipated results or performance. Also, forward-looking statements are based upon management's estimates of fair values and of future costs, using currently available information. Therefore, actual results may differ materially from those expressed or implied in those statements. Factors that could cause such differences to occur include, but are not limited to, those discussed in our Form 10-K filed with the Securities and Exchange Commission under the heading "Risk Factors". We expressly disclaim any obligation to update any forward-looking statements contained in this report or elsewhere, whether as a result of new information, future events or otherwise. For all of these reasons, you are cautioned not to place undue reliance on any forward-looking statements included in this report or elsewhere.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Market Risk - Market risk is the risk of loss arising from adverse changes in market prices and interest rates. We may from time to time be exposed to interest rate risk inherent in our financial instruments, but are not currently subject to foreign currency or commodity price risk. We manage our exposure to these market risks through our regular operating and financing activities. We are not currently a party to any market risk sensitive instruments that could be reasonably expected to have a material effect on our financial condition or results of operations.

Item 4: Controls and Procedures

An evaluation has been performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2004. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2004, for the purpose of ensuring that information required to be disclosed in this Report has been processed, summarized and reported in a timely manner. There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to December 31, 2004.

Part II. Other Information

Item 6: Exhibits

31.1 Certification of the Chief Executive Officer of Cavco Industries, Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.

31.2 Certification of the Chief Financial Officer of Cavco Industries, Inc. pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.

32.1 Certification of the Chief Executive Officer of Cavco Industries, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer of Cavco Industries, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

Signatures

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

Cavco Industries, Inc.

Registrant

February 7, 2005

/s/ Joseph H. Stegmayer

Joseph H. Stegmayer – Chairman,
President and
Chief Executive Officer
(Principal Executive Officer)

February 7, 2005

/s/ Sean K. Nolen

Vice President, Chief Financial
Officer, Treasurer and Secretary
(Principal Financial and
Accounting Officer)

Exhibit 31.1

Certification of Periodic Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Joseph H. Stegmayer, certify that:

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

Dated: February 7, 2005

By: /s/ Joseph H. Stegmayer
 Joseph H. Stegmayer
 Chief Executive Officer

Exhibit 31.2

Certification of Periodic Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Sean K. Nolen, certify that:

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

Dated: February 7, 2005

By: /s/ Sean K. Nolen
Sean K. Nolen
Chief Financial Officer

Exhibit 32.1

Certification of Periodic Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

For the purpose of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Joseph H. Stegmayer, the Chief Executive Officer of Cavco Industries, Inc. (the "Company"), hereby certifies that, to his knowledge:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: February 7, 2005

By: /s/ Joseph H. Stegmayer
Joseph H. Stegmayer
Chief Executive Officer

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 and, accordingly, is not being filed as part of the Form 10-Q.

Exhibit 32.2

Certification of Periodic Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

For the purpose of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Sean K. Nolen, the Chief Financial Officer of Cavco Industries, Inc. (the "Company"), hereby certifies that, to his knowledge:

- (i) the Quarterly Report on Form 10-Q of the Company for the quarter ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: February 7, 2005

By: /s/ Sean K. Nolen
Sean K. Nolen
Chief Financial Officer

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 and, accordingly, is not being filed as part of the Form 10-Q.

End of Filing