

**UNITED STATES  
SECURITIES & EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2005

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 by Rule 12b-2 of the Exchange Act). Yes  No

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

Outstanding at November 3, 2005

-----  
Common Stock, \$.01 Par Value

-----  
6,335,730 Shares

**CAVCO INDUSTRIES, INC. AND SUBSIDIARY**  
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**September 30, 2005**

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

	<u>September 30,</u> 2005	<u>March 31,</u> 2005
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash	\$ 10,839	\$ 46,457
Short-term investments	39,900	-
Restricted cash	1,168	1,028
Accounts receivable	9,329	7,545
Inventories	11,897	9,703
Prepaid expenses and other current assets	1,404	1,202
Deferred income taxes	3,590	3,610
Retail assets held for sale	334	1,114
Total current assets	<u>78,461</u>	<u>70,659</u>
Property, plant and equipment, at cost:		
Land	6,050	2,330
Buildings and improvements	6,192	5,045
Machinery and equipment	6,656	6,446
	<u>18,898</u>	<u>13,821</u>
Accumulated depreciation	(6,810)	(6,349)
	<u>12,088</u>	<u>7,472</u>
Goodwill	<u>67,346</u>	<u>67,346</u>
Total assets	<u>\$ 157,895</u>	<u>\$ 145,477</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 5,450	\$ 5,978
Accrued liabilities	25,815	22,099
Total current liabilities	<u>31,265</u>	<u>28,077</u>
Deferred income taxes	10,150	9,090
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 6,334,776 and 6,288,730 shares, respectively	63	63
Additional paid-in capital	120,984	119,998
Unamortized value of restricted stock	(188)	(313)
Accumulated deficit	(4,379)	(11,438)
Total stockholders' equity	<u>116,480</u>	<u>108,310</u>
Total liabilities and stockholders' equity	<u>\$ 157,895</u>	<u>\$ 145,477</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 September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Net sales	\$ 47,091	\$ 38,635	\$ 92,967	\$ 74,572
Cost of sales	<u>37,482</u>	<u>31,366</u>	<u>73,721</u>	<u>61,210</u>
Gross profit	9,609	7,269	19,246	13,362
Selling, general and administrative expenses	<u>4,207</u>	<u>4,068</u>	<u>8,319</u>	<u>7,418</u>
Income from operations	5,402	3,201	10,927	5,944
Interest income	<u>364</u>	<u>100</u>	<u>646</u>	<u>201</u>
Income from continuing operations before income taxes	5,766	3,301	11,573	6,145
Income tax expense	<u>2,249</u>	<u>1,320</u>	<u>4,514</u>	<u>2,457</u>
Income from continuing operations	3,517	1,981	7,059	3,688
Income from discontinued retail operations less income taxes of \$100 in 2004	<u>-</u>	<u>150</u>	<u>-</u>	<u>150</u>
Net Income	<u><u>\$ 3,517</u></u>	<u><u>\$ 2,131</u></u>	<u><u>\$ 7,059</u></u>	<u><u>\$ 3,838</u></u>
Net income per share (basic):				
Continuing operations	\$ 0.56	\$ 0.32	\$ 1.12	\$ 0.59
Discontinued retail operations	<u>-</u>	<u>0.02</u>	<u>-</u>	<u>0.02</u>
Net Income	<u><u>\$ 0.56</u></u>	<u><u>\$ 0.34</u></u>	<u><u>\$ 1.12</u></u>	<u><u>\$ 0.61</u></u>
Net income per share (diluted):				
Continuing operations	\$ 0.52	\$ 0.30	\$ 1.06	\$ 0.57
Discontinued retail operations	<u>-</u>	<u>0.03</u>	<u>-</u>	<u>0.02</u>
Net Income	<u><u>\$ 0.52</u></u>	<u><u>\$ 0.33</u></u>	<u><u>\$ 1.06</u></u>	<u><u>\$ 0.59</u></u>
Weighted average shares outstanding:				
Basic	<u>6,302,386</u>	<u>6,288,730</u>	<u>6,295,558</u>	<u>6,288,730</u>
Diluted	<u><u>6,720,397</u></u>	<u><u>6,520,528</u></u>	<u><u>6,685,694</u></u>	<u><u>6,522,178</u></u>

On January 6, 2005, Cavco Industries, Inc. announced that its Board of Directors had authorized a 2-for-1 split of its common stock in the form of a 100% stock dividend. The dividend was paid on January 31, 2005 to stockholders of record as of January 18, 2005. The information for the three and six months ended September 30, 2004 is presented as if this stock split had been completed as of the beginning of these periods.

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

	Six Months Ended September 30,	
	2005	2004
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 7,059	\$ 3,838
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	461	547
Amortization of restricted stock	125	125
Deferred income taxes provision	1,080	970
Tax benefit of option exercises	441	-
Impairment charges	-	270
Changes in operating assets and liabilities:		
Restricted cash	(140)	(454)
Accounts receivable	(1,784)	(722)
Inventories	(1,414)	(153)
Prepaid expenses and other current assets	(202)	670
Accounts payable and accrued liabilities	3,188	133
Net cash provided by operating activities	8,814	5,224
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(5,077)	(216)
Purchases of short-term investments	(53,900)	-
Proceeds from sale of short-term investments	14,000	-
Net cash used in investing activities	(44,977)	(216)
<b>FINANCING ACTIVITIES</b>		
Common stock issued	545	-
Net cash provided by financing activities	545	-
Net (decrease) increase in cash	(35,618)	5,008
Cash at beginning of period	46,457	30,775
Cash at end of period	\$ 10,839	\$ 35,783
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for income taxes	\$ 3,682	\$ 1,392

*See Notes to Consolidated Financial Statements*

**CAVCO INDUSTRIES, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**September 30, 2005**  
(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 20, 2005 (the "Form 10-K").

All shares authorized, outstanding and per share amounts for the three and six months ended September 30, 2004 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.

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 six months ended September 30, 2005 were volatility of 6.67%, risk-free interest rate of 3.87%, 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 pro forma amounts for the three and six months ended September 30, 2005 and 2004 as follows.

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Net income, as reported	\$ 3,517	\$ 2,131	\$ 7,059	\$ 3,838
Less: Total stock-based employee compensation determined under the fair value based method for all awards, net of related tax effects of \$40, \$64, \$211 and \$171, respectively.	(71)	(96)	(374)	(257)
Pro forma net income	\$ 3,446	\$ 2,035	\$ 6,685	\$ 3,581
Basic net income per share:				
As reported	\$ 0.56	\$ 0.34	\$ 1.12	\$ 0.61
Pro forma	\$ 0.55	\$ 0.32	\$ 1.06	\$ 0.57
Diluted net income per share:				
As reported	\$ 0.52	\$ 0.33	\$ 1.06	\$ 0.59
Pro forma	\$ 0.51	\$ 0.31	\$ 1.00	\$ 0.55

Recent Accounting Pronouncements — 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 annual periods beginning after June 15, 2005. The Company plans to adopt SFAS 123R effective April 1, 2006.

Because the Company currently accounts for share-based payments to employees using the intrinsic value method under APB No. 25, 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 net income 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 September 30, 2005 and March 31, 2005 were as follows:

	September 30, 2005	March 31, 2005
Raw materials	\$ 4,610	\$ 3,811
Work in process	3,693	2,546
Finished goods	3,594	3,346
Total inventories	\$ 11,897	\$ 9,703

### 3. Revolving line of credit

The Company has established a \$15 million revolving line of credit facility (“RLC”) with JPMorgan Chase Bank N.A. which expires on July 31, 2007. As of September 30, 2005, \$945 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 a certain defined fixed charge coverage ratio.

### 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		Six Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Balance at beginning of period	\$ 5,563	\$ 4,601	\$ 5,576	\$ 4,596
Charged to costs and expenses	2,065	1,361	3,748	2,866
Deductions	(1,770)	(1,387)	(3,466)	(2,887)
Balance at end of period	<u>\$ 5,858</u>	<u>\$ 4,575</u>	<u>\$ 5,858</u>	<u>\$ 4,575</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 \$28,540 at September 30, 2005. The Company has a reserve for repurchase commitments based on prior experience and market conditions of \$1,600 at September 30, 2005. 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. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share. Earnings per share calculations for the three and six months ended September 30, 2004 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		Six Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Net income	\$ 3,517	\$ 2,131	\$ 7,059	\$ 3,838
Weighted average shares outstanding:				
Basic	6,302,386	6,288,730	6,295,558	6,288,730
Add: Effect of dilutive stock options	418,011	231,798	390,136	233,448
Diluted	6,720,397	6,520,528	6,685,694	6,522,178
Net income per share:				
Basic	\$ 0.56	\$ 0.34	\$ 1.12	\$ 0.61
Diluted	\$ 0.52	\$ 0.33	\$ 1.06	\$ 0.59

## 7. Discontinued Operations

The Company has 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 and six months ended September 30, 2005 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 three and six months ended September 30, 2004 resulted from better than anticipated results from liquidating retail inventories at our closed locations partially offset by an accrual for the estimated remaining lease costs for one retail location closed during these periods. Net sales for the retail sales centers to be disposed of were \$1,752 and \$3,693 for the three month periods ended September 30, 2005 and 2004, respectively and \$3,572 and \$8,193 for the six month periods ended September 30, 2005 and 2004, 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.

## 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 September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Net sales				
Manufacturing	\$ 45,122	\$ 38,338	\$ 89,910	\$ 73,283
Retail	3,309	2,204	6,347	4,935
Less: Intercompany	(1,340)	(1,907)	(3,290)	(3,646)
Total consolidated net sales	<u>\$ 47,091</u>	<u>\$ 38,635</u>	<u>\$ 92,967</u>	<u>\$ 74,572</u>
Income (loss) from operations				
Manufacturing	\$ 6,914	\$ 5,117	\$ 13,834	\$ 8,888
Retail	16	(446)	4	(548)
Intercompany profit in inventory	85	85	-	285
General corporate charges	(1,613)	(1,555)	(2,911)	(2,681)
Total consolidated income from operations	<u>\$ 5,402</u>	<u>\$ 3,201</u>	<u>\$ 10,927</u>	<u>\$ 5,944</u>
Depreciation				
Manufacturing	\$ 191	\$ 189	\$ 386	\$ 385
Retail	16	41	31	79
Corporate	21	42	44	83
Total consolidated depreciation	<u>\$ 228</u>	<u>\$ 272</u>	<u>\$ 461</u>	<u>\$ 547</u>
Capital expenditures				
Manufacturing	\$ 4,878	\$ 37	\$ 5,042	\$ 201
Corporate	-	-	35	15
Total consolidated capital expenditures	<u>\$ 4,878</u>	<u>\$ 37</u>	<u>\$ 5,077</u>	<u>\$ 216</u>
			As of	
			September 30, 2005	March 31, 2005
Total assets				
Manufacturing			\$ 97,808	\$ 89,358
Retail			5,353	4,824
Retail assets held for sale			334	1,114
Corporate, primarily cash, short-term investments and deferred taxes			54,400	50,181
Total consolidated assets			<u>\$ 157,895</u>	<u>\$ 145,477</u>

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

### Overview

The consolidated financial statements contained in this quarterly report reflect the financial condition and results of operations of Cavco Industries, Inc. (the "Company"). The Company is the largest producer of manufactured homes in Arizona and 7th largest manufactured home builder in the United States in terms of total dollar volume, based on 2004 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 six months ended September 30, 2005 compared to 2004*

*Net Sales.* Total net sales increased 22% to \$47,091 for the three months ended September 30, 2005 compared to \$38,635 last year. For the first six months of the fiscal year ending March 31, 2006, net sales increased 25% to \$92,967 versus \$74,572 last year.

Manufacturing net sales increased 18% to \$45,122 for the three months ended September 30, 2005 from \$38,338 for last year and 23% to \$89,910 for the first six months of fiscal 2006 from \$73,283 last year. These increases in sales were attributable to increases in the number of homes sold and wholesale sales prices. Total homes sold during the current quarter increased 4% to 1,051 wholesale shipments versus 1,008 last year and the average sales price per home increased 13% to \$42,932 versus \$38,034 last year. The higher volume of homes sold resulted from stronger demand for our products particularly in Arizona and California 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 increased \$1,105 to \$3,309 for the three months ended September 30, 2005 from \$2,204 for the same period last year and \$1,412 to \$6,347 for the first six months of fiscal 2005 from \$4,935 last year. This increase in retail sales was due to additional units sold during the quarter and a higher average sales price per unit.

*Gross Profit.* Gross profit as a percent of sales increased to 20.4% for the three months ended September 30, 2005 from 18.8% last year and to 20.7% for the first six months of fiscal 2006 from 17.9% last year. The increases in gross profit percentage were primarily due to increases in sales prices, which were enacted to offset material cost increases, and the 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. The Company anticipates continued upward pressure in material prices and is concerned about the availability of materials, particularly in view of the recent hurricane activity in the gulf coast region of the United States, which has further escalated demand for building products.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased 3.4% or \$139 to \$4,207 or 8.9% of net sales for the three months ended September 30, 2005 versus \$4,068 or 10.5% of net sales last year. For the first six months of fiscal 2006, selling, general and administrative expenses increased 12.1% or \$901 to \$8,319 from \$7,418 last year. The increase was primarily the result of incentive compensation programs tied to profitability and an increase in costs influenced by higher sales volume.

*Interest Income.* Interest income represents income earned on short-term investments and unrestricted cash. The increases in interest income for the current quarter versus the comparative period for last year resulted from the increase in the Company's investable funds and higher short-term interest rates.

*Income Taxes.* The effective income tax rate for the three and six months ended September 30, 2005 approximated the Company's estimated combined statutory rate of 39% versus 40% for the same periods last year.

*Discontinued Retail Operations.* The Company has plans to dispose of certain of its retail sales centers and these operations are classified as discontinued retail operations. 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 September 30, 2005 and 2004 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 three and six months ended September 30, 2004 resulted from better than anticipated results from liquidating retail inventories at our closed locations partially offset by an accrual for the estimated remaining lease costs for one retail location closed during these periods. Net sales for the retail sales centers to be disposed of were \$1,752 and \$3,693 for the three month periods ended September 30, 2005 and 2004, respectively and \$3,572 and \$8,193 for the six month periods ended September 30, 2005 and 2004, 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.

## **Liquidity and Capital Resources**

The Company has established a \$15 million revolving line of credit facility ("RLC") with JPMorgan Chase Bank N.A. As of September 30, 2005, \$945 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, 2007.

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 a certain defined fixed charge coverage ratio.

We believe that cash on hand at September 30, 2005, together with cash flow from operations, will be sufficient to fund our operations for at least the next twelve months. In addition, our \$15 million line of credit facility described above can be used to supplement these sources of liquidity.

Operating activities provided \$8,814 of cash during the six months ended September 30, 2005 compared to providing \$5,224 of cash during the first six months of last year. Cash generated by operating activities was primarily derived from operating income before non-cash charges and an increase in accrued liabilities due to operating growth partially offset by higher accounts receivable due to increased sales and higher inventories necessary to supply increased production. Cash generated by operating activities in the prior year was primarily derived from operating income before non-cash charges partially offset by increased accounts receivable due to the timing of payments.

Investing activities required the use of \$44,977 of cash during the six months ended September 30, 2005 compared to the use of \$216 last year. The cash was primarily used to make net purchases of \$39,900 of short-term investments in order to enhance yields. In addition, the Company also purchased \$5,077 of property, plant and equipment, including \$1,550 for a production facility in Texas and \$3,000 for land in Arizona on which the Company may build an additional production facility.

Financing activities provided \$545 of cash during the six months ended September 30, 2005 from common stock issued for stock options exercised.

## **Critical Accounting Policies**

In our Form 10-K filed with the Securities and Exchange Commission on May 20, 2005, 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 annual periods beginning after June 15, 2005. The Company plans to adopt SFAS 123R effective April 1, 2006.

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 net income 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.

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 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.

The Company maintains short-term investments. Short-term investments are comprised of auction rate certificates which are adjustable-rate securities with dividend rates that are reset by bidders through periodic "Dutch auctions" generally conducted every 7 to 35 days by a broker/dealer on behalf of the issuer. The Company believes these securities are highly liquid investments through the related auctions; however, the collateralizing securities have stated terms of up to thirty (30) years. The investment instruments are rated AAA by Standard & Poor's Ratings Group, or equivalent. The Company's investments are intended to establish a high-quality portfolio that preserves principal, meets liquidity needs, and delivers an appropriate yield in relationship to the Company's investment guidelines and market conditions. Given the short-term nature of these investments, and that we have no borrowings outstanding, we are not subject to significant interest rate risk.

#### **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 Interim Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2005. Based on that evaluation, our management, including our Chief Executive Officer and Interim Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2005, 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 were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II. Other Information

### Item 6: Exhibits

10.1 Amendment to Credit Agreement dated as of October 25, 2005.

10.2 Agreement between Cavco Industries, Inc. and Sean K. Nolen dated as of August 11, 2005.

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 Interim 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 Interim 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

November 8, 2005

/s/ Joseph H. Stegmayer

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

November 8, 2005

/s/ Daniel L. Urness

Interim Chief Financial Officer  
(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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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: November 8, 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, Daniel L. Urness, 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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: November 8, 2005

By: /s/ Daniel L. Urness  
Daniel L. Urness  
Interim 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 September 30, 2005, 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: November 8, 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, Daniel L. Urness, the Interim 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 September 30, 2005, 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: November 8, 2005

By: /s/ Daniel L. Urness  
Daniel L. Urness  
Interim 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**