

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 June 30, 2006

OR

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

For the transition period from to

Commission File Number 000-08822

Cavco Industries, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

56-2405642
(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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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

As of August 8, 2006, there were 6,358,980 shares of the registrant's common stock, \$.01 par value, issued and outstanding.

CAVCO INDUSTRIES, INC.
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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

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

	<u>June 30,</u> 2006 (Unaudited)	<u>March 31,</u> 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 15,930	\$ 15,122
Short-term investments	47,400	42,900
Restricted cash	422	1,223
Accounts receivable	10,313	11,568
Inventories	14,570	12,733
Prepaid expenses and other current assets	806	1,446
Deferred income taxes	4,180	4,040
Total current assets	<u>93,621</u>	<u>89,032</u>
Property, plant and equipment, at cost:		
Land	6,050	6,050
Buildings and improvements	6,913	6,744
Machinery and equipment	7,083	6,752
	<u>20,046</u>	<u>19,546</u>
Accumulated depreciation	<u>(7,434)</u>	<u>(7,202)</u>
	<u>12,612</u>	<u>12,344</u>
Goodwill	<u>67,346</u>	<u>67,346</u>
Total assets	<u>\$ 173,579</u>	<u>\$ 168,722</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 5,285	\$ 6,269
Accrued liabilities	27,031	26,384
Total current liabilities	<u>32,316</u>	<u>32,653</u>
Deferred income taxes	11,450	11,040
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; 20,000,000 shares authorized; Outstanding 6,358,980 and 6,352,980 shares, respectively	64	64
Additional paid-in capital	121,804	121,354
Retained earnings	7,945	3,611
Total stockholders' equity	<u>129,813</u>	<u>125,029</u>
Total liabilities and stockholders' equity	<u>\$ 173,579</u>	<u>\$ 168,722</u>

See accompanying notes to consolidated financial statements

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

	Three Months Ended June 30,	
	2006	2005
Net sales	\$ 54,050	\$ 45,876
Cost of sales	43,431	36,239
Gross profit	10,619	9,637
Selling, general and administrative expenses	4,421	4,112
Income from operations	6,198	5,525
Interest income	574	282
Income before income taxes	6,772	5,807
Income tax expense	2,438	2,265
Net income	\$ 4,334	\$ 3,542
Net income per share:		
Basic	\$ 0.68	\$ 0.56
Diluted	\$ 0.65	\$ 0.53
Weighted average shares outstanding:		
Basic	6,355,818	6,288,730
Diluted	6,641,376	6,646,042

See accompanying notes to consolidated financial statements

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

	Three Months Ended June 30,	
	2006	2005
OPERATING ACTIVITIES		
Net income	\$ 4,334	\$ 3,542
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	232	233
Deferred income taxes	270	600
Share-based compensation expense	293	63
Tax benefit from option exercises	75	-
Incremental tax benefit from option exercises	(66)	-
Changes in operating assets and liabilities:		
Restricted cash	801	183
Accounts receivable	1,255	(1,562)
Inventories	(1,837)	(1,344)
Prepaid expenses and other current assets	641	625
Accounts payable and accrued liabilities	(338)	1,796
Net cash provided by operating activities	5,660	4,136
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(500)	(199)
Purchases of short-term investments	(115,000)	-
Proceeds from sale of short-term investments	110,500	-
Net cash used in investing activities	(5,000)	(199)
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	82	-
Incremental tax benefit from option exercises	66	-
Net cash provided by financing activities	148	-
Net increase in cash and cash equivalents	808	3,937
Cash and cash equivalents at beginning of period	15,122	46,457
Cash and cash equivalents at end of period	\$ 15,930	\$ 50,394
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$ -	\$ 110

See accompanying notes to consolidated financial statements

CAVCO INDUSTRIES, INC.
Notes to Consolidated Financial Statements
June 30, 2006
(Dollars in thousands, except per share data)
(Unaudited)

1. Basis of Presentation

The accompanying consolidated interim financial statements of Cavco Industries, Inc. (“Cavco Inc.”) and its wholly-owned subsidiary, CRG Holdings, LLC (collectively, the “Company”), have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for Quarterly Reports on Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, these statements include all the normal recurring adjustments necessary to fairly state the Company’s consolidated financial statements. Certain previous period amounts in the consolidated financial statements have been reclassified to conform to the current period presentation. The Consolidated Statements of Operations and Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year. The Company suggests that these consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes to consolidated financial statements included in the Company’s annual report on Form 10-K filed with the SEC on May 24, 2006 (the “Form 10-K”).

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.

2. Composition of Certain Financial Statement Captions

Inventories consist of the following:

	June 30, 2006	March 31, 2006
Raw materials	6,717	4,903
Work in process	2,912	2,731
Finished goods	4,941	5,099
	<u>\$ 14,570</u>	<u>\$ 12,733</u>

Accrued liabilities consist of the following:

	June 30, 2006	March 31, 2006
Estimated warranties	\$ 7,050	\$ 6,850
Salaries, wages and benefits	4,721	4,662
Accrued volume rebates	4,199	3,543
Customer deposits	2,157	4,291
Accrued insurance	2,011	2,015
Reserve for repurchase commitments	1,500	1,500
Other	5,393	3,523
	<u>\$ 27,031</u>	<u>\$ 26,384</u>

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 June 30, 2006, \$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 June 30,	
	2006	2005
Balance at beginning of period	\$ 6,850	\$ 5,576
Charged to costs and expenses	2,239	1,684
Deductions	(2,039)	(1,697)
Balance at end of period	<u>\$ 7,050</u>	<u>\$ 5,563</u>

5. Contingencies

Repurchase Contingencies - The Company is contingently liable under terms of repurchase agreements with financial institutions providing inventory financing for independent retailers of its products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to retailers in the event of default by the retailer. The risk of loss under these agreements is spread over numerous retailers. The price the Company is obligated to pay generally declines over the period of the agreement 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 \$39,000 at June 30, 2006, without reduction for the resale value of the homes. The Company had a reserve for repurchase commitments of \$1,500 at June 30, 2006, based on prior experience and existing market conditions. In connection with the repurchase agreement with one financial institution, the Company has provided a guaranty in the amount of \$300 to guarantee 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 contingent liability related to this guaranty is included in the Company’s reserve for repurchase commitments.

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

6. Stock-Based Compensation

The Company maintains stock incentive plans whereby stock option grants or awards of restricted stock may be made to certain of our officers, directors and key employees. The plans, which are shareholder approved, permit the award of up to 1,350,000 shares of the Company's common stock, of which 583,420 shares were still available for grant at June 30, 2006. When options are exercised, new shares of the Company's common stock are issued. Stock options may not be granted below 100% of the fair market value of the Company's common stock at the date of grant and generally expire seven years from the date of grant. Stock options and awards of restricted stock 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. The stock incentive plans provide for accelerated vesting of stock options and removal of restrictions on restricted stock awards upon a change in control (as defined in the plans).

Prior to April 1, 2006, the Company accounted for stock options issued under the above plans in accordance with the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and its related interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation* ("FAS 123"). Under the disclosure-only provisions of FAS 123, as amended by FASB Statement No. 148, *Accounting for Stock Based Compensation-Transition and Disclosure*, no option-based compensation cost was recognized, as all options were granted with an exercise price equal to the fair value of the underlying common stock on the date of grant.

Effective April 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123 – revised 2004, *Share-Based Payment* ("FAS 123(R)"), and SEC Staff Accounting Bulletin No. 107 ("SAB 107"), using the modified-prospective transition method. Other than restricted stock awards, no share-based compensation cost has been reflected in net income prior to the adoption of FAS 123(R) and the results for prior periods have not been restated. The recognized compensation costs during the first quarter of fiscal 2007 under the modified-prospective transition method include (i) compensation cost for all share-based payments granted prior to, but not yet vested as of April 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and (ii) compensation cost for all share-based payments granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of FAS 123(R).

The adoption of FAS 123(R) decreased income before income taxes for the three months ended June 30, 2006 by approximately \$230 and decreased net income for the three months ended June 30, 2006 by approximately \$147. Total compensation cost, including costs related to the vesting of restricted stock awards, charged against income for the three months ended June 30, 2006 was approximately \$293. The total income tax benefit recognized in the income statement for share-based compensation arrangements was approximately \$188. Had compensation cost for the Company's employee stock-based compensation awards been determined based on the fair value at the grant date for the three months ended June 30, 2005, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below:

	Three Months Ended June 30, 2005
Net income, as reported	\$ 3,542
Less: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax benefits	(303)
Pro forma net income	\$ 3,239
Basic net income per share:	
As reported	\$ 0.56
Pro forma	\$ 0.52
Diluted net income per share:	
As reported	\$ 0.53
Pro forma	\$ 0.49

As of June 30, 2006, total unrecognized compensation cost related to stock options was approximately \$901 and the related weighted-average period over which it is expected to be recognized is approximately 1.61 years.

The following table summarizes the option activity within the Company's stock-based compensation plans for the three months ended June 30, 2006:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at March 31, 2006	697,330	\$ 15.40		
Granted	5,000	45.46		
Exercised	(6,000)	13.66		
Canceled or forfeited	-	-		
Outstanding at June 30, 2006	<u>696,330</u>	<u>\$ 15.63</u>	<u>4.77</u>	<u>\$ 20,060</u>
Exercisable at June 30, 2006	<u>482,685</u>	<u>\$ 14.54</u>	<u>4.68</u>	<u>\$ 14,430</u>

The weighted-average estimated fair value of employee stock options granted during the three months ended June 30, 2006 and 2005 were \$15.72 and \$9.08 per share, respectively. The total intrinsic value of options exercised during the three months ended June 30, 2006 was approximately \$190. No options were exercised during the three months ended June 30, 2005.

The Company uses the Black-Scholes-Merton option-pricing model ("Black-Scholes model") to determine the fair value of stock options. The determination of the fair value of stock options on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include actual and projected employee stock option exercise behaviors, the Company's expected stock price volatility over the term of the awards, risk-free interest rate, and expected dividends. The fair values of options granted were estimated at the date of grant using the following weighted average assumptions:

	Three Months Ended June 30,	
	2006	2005
Volatility	33.0%	29.2%
Risk-free interest rate	4.9%	3.9%
Dividend yield	0.0%	0.0%
Expected option life in years	4.25	5.00

Expected term - The Company estimates the expected term of options granted by using the simplified method as prescribed by SAB 107.

Expected volatility - The Company estimates the volatility of its common stock taking into consideration its historical stock price movement, the volatility of stock prices of companies of similar size with similar businesses to it and its expected future stock price trends based on known or anticipated events.

Risk-free interest rate - The Company bases the risk-free interest rate that it uses in the option pricing model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options.

Expected dividend - The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option-pricing model.

Forfeitures - The Company is required to estimate future forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record stock-based compensation cost only for those awards that are expected to vest.

Though not required under the adoption provisions of FAS 123(R), the Company has made a policy decision to continue the use of the straight-line attribution method in order to remain consistent with the previous FAS 123 pro forma disclosures.

The Company also grants restricted stock awards to certain employees. Restricted stock awards are valued at the closing market value of the Company's common stock on the date of grant, and the total value of the award is expensed ratably over the service period of the employees receiving the grants. No shares of restricted stock were granted during the three months ended June 30, 2006 and 2005. Share-based compensation cost related to all restricted stock awards outstanding during the three months ended June 30, 2006 and 2005, was approximately \$63. All share-based compensation cost related to the Company's restricted stock awards has been recognized as of June 30, 2006 as all awards have vested.

A summary of restricted stock activity within the Company's share-based compensation plans and changes for the three months ended June 30, 2006 is as follows:

<u>Nonvested Shares</u>	<u>Shares</u>	<u>Grant-Date Fair Value</u>
Nonvested at March 31, 2006	6,887	\$ 9.07
Granted	-	-
Vested	6,887	9.07
Forfeited	-	-
Nonvested at June 30, 2006	<u>-</u>	<u>\$ -</u>

Finally, for the three months ended June 30, 2006, the adoption of FAS 123(R) resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities of \$66, related to incremental tax benefits from stock options exercised during the period.

7. Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period increased by the weighted-average number of dilutive common stock equivalents outstanding during the period, using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share.

	<u>Three Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Net income	<u>\$ 4,334</u>	<u>\$ 3,542</u>
Weighted average shares outstanding:		
Basic	6,355,818	6,288,730
Common stock equivalents - treasury stock method	285,558	357,312
Diluted	<u>6,641,376</u>	<u>6,646,042</u>
Net income per share:		
Basic	<u>\$ 0.68</u>	<u>\$ 0.56</u>
Diluted	<u>\$ 0.65</u>	<u>\$ 0.53</u>

8. Discontinued Operations

The Company has plans to dispose of certain of its retail sales centers and these operations are classified as discontinued retail operations. Finished goods inventories to be liquidated in conjunction with the disposal of these retail sales centers approximated \$774 at June 30, 2006. There were no operating losses for the three months ended June 30, 2006 or 2005 for the stores identified for disposal as the costs related to the liquidation of inventory were consistent with our expectations of net realizable values. Net sales for the retail sales centers to be disposed of were \$1,432 and \$1,820 for the three month periods ended June 30, 2006 and 2005, respectively.

9. Business Segment Information

The Company operates in two business segments — Manufacturing and Retail. Through its Manufacturing segment, the Company designs and manufactures homes which are sold primarily in the southwestern 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 June 30,	
	2006	2005
Net sales		
Manufacturing	\$ 51,568	\$ 44,788
Retail	4,319	3,038
Less: Intercompany	(1,837)	(1,950)
Total consolidated net sales	<u>\$ 54,050</u>	<u>\$ 45,876</u>
Income (loss) from operations		
Manufacturing	\$ 7,448	\$ 6,920
Retail	66	(12)
Intercompany profit in inventory	115	(85)
General corporate charges	(1,431)	(1,298)
Total consolidated income from operations	<u>\$ 6,198</u>	<u>\$ 5,525</u>
Depreciation		
Manufacturing	\$ 156	\$ 195
Retail	4	15
Corporate	72	23
Total consolidated depreciation	<u>\$ 232</u>	<u>\$ 233</u>
Capital expenditures		
Manufacturing	\$ 451	\$ 164
Retail	35	-
Corporate	14	35
Total consolidated capital expenditures	<u>\$ 500</u>	<u>\$ 199</u>
	As of	
	June 30, 2006	March 31, 2006
Total assets		
Manufacturing	\$ 101,687	\$ 101,139
Retail	4,340	5,466
Corporate	67,552	62,117
Total consolidated assets	<u>\$ 173,579</u>	<u>\$ 168,722</u>

Total Corporate assets are comprised primarily of cash and cash equivalents, short-term investments and deferred taxes.

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

Introduction

The following should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes that appear in Item 1 of this Report. References to "Note" or "Notes" refer to the Notes to the Company's Consolidated Financial Statements.

Overview

We are the largest producer of manufactured homes in Arizona and the 10th largest producer of manufactured homes in the United States in terms of wholesale shipments, based on 2005 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 United States. The Company operated three homebuilding facilities located in Arizona, one manufacturing facility in Texas and seven Company-owned sales centers in three states. The retail segment of the Company operates retail sales locations which offer homes produced by the Company and other manufacturers to retail customers.

Our Company is part of the manufactured housing industry. In recent years, our industry has experienced a significant downturn, and continues to operate at levels that are at a forty plus year low point. The availability of consumer financing remains a key issue to be resolved before marked emergence from these historic lows can occur. Progress has also been impeded by several economic challenges including goods and services price inflation, increased interest rates, higher land costs, and a slow down in housing in general. These issues are not new to us, and we continue to work diligently to produce the strongest financial results possible in spite of them.

We have worked to identify prospects for expansion of niche markets and have opened a new facility in Texas, which has the possibility of being a modest contributor to the business in the second half of the fiscal year. This factory began shipping park models and vacation cabins in April 2006 and may become more flexible in its product offering as market demands warrant. Our products are diverse and tailored to the needs and desires of our customers. Innovation in housing design is a forte of the Company and we strive to effectively prototype new models with expressive interiors and exteriors that compliment home styles in the areas in which they are to be located.

Results of Operations - (Dollars in thousands)

Three months ended June 30, 2006 compared to 2005

Net Sales. Total net sales increased 18% to \$54,050 for the three months ended June 30, 2006 compared to \$45,876 for the same period last year.

Manufacturing net sales increased 15% to \$51,568 for the three months ended June 30, 2006 from \$44,788 for the same period last year. This increase was driven by a higher average selling price per home. The average sales price per home increased 15.7% to \$48,512 versus \$41,936 last year. However, the Company began to experience a decline in the incoming order rates for homes as total homes sold during the current quarter decreased to 1,063 wholesale shipments versus 1,068 last year. As a result, the Company's order backlogs are reduced, causing modestly lower production levels. Industry sales have slowed considerably in California, an important market for the Company, while Arizona has experienced a smaller decline in sales activity.

Retail net sales increased \$1,281 to \$4,319 for the three months ended June 30, 2006 from \$3,038 for the same period last year. This increase in retail sales was due to additional homes sold during the quarter and a higher average sales price per home.

Gross Profit. Gross profit as a percent of sales decreased to 19.6% for the three months ended June 30, 2006 from 21.0% for the same period last year. The Company continues to recognize excellent operating margins, although inflation, including higher material and transportation costs, impacted this quarter. Unlike the same period in the prior fiscal year, the current market climate may no longer be conducive to passing through higher material costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 7.5% or \$309 to \$4,421 or 8.2% of net sales for the three months ended June 30, 2006 versus \$4,112 or 9.0% of net sales for the same period last year. The increase was primarily the result of \$230 in additional share-based compensation charges associated with the adoption of SFAS 123(R) during the period (see Note 6), 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 and cash equivalents. Interest income is earned on a tax-free basis from a portion of the Company's short-term investments. The increase in interest income resulted from the Company's larger balance of investable funds and higher short-term interest rates.

Income Taxes. The effective income tax rate for the three months ended June 30, 2006 was approximately 36% versus approximately 39% for the same period last year. The lower income tax rates reflect the effects of tax-free interest income noted above, certain state income tax credits, and deductions provided in the American Jobs Creation Act.

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 (see Note 8).

Liquidity and Capital Resources

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 June 30, 2006, \$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.

The Company believes that cash, cash equivalents and short-term investments on hand at June 30, 2006 together with cash flow from operations will be sufficient to fund our operations and provide for growth for the next twelve months and into the foreseeable future. In addition, as described above, we have entered into a \$15 million credit facility with JPMorgan Chase Bank N.A. that can be used to supplement these sources of liquidity.

Our primary source of liquidity has historically been cash generated from operations. During the three months ended June 30, 2006 operating activities provided \$5,660 of cash as compared to \$4,136 during the same period last year. Cash generated by operating activities for the current period was primarily derived from operating income before non-cash charges and the timing of collection of accounts receivable balances partially offset by higher inventories necessary to ensure the availability of raw materials. Cash generated by operating activities in the prior period was primarily derived from operating income before non-cash charges and the timing of payments related to accounts payable balances partially offset by increased accounts receivable due to the timing of collections and increased inventory levels necessary to supply higher production volume.

Investing activities required the use of \$5,000 of cash during the three months ended June 30, 2006 compared to the use of \$199 during the same period last year. The cash was primarily used to make net purchases of \$4,500 of short-term investments in order to enhance yields, combined with \$500 in purchases of property, plant and equipment. Cash utilized during the prior period related to normal recurring capital expenditures.

Financing activities provided \$148 of cash during the three months ended June 30, 2006 resulting from proceeds associated with the issuance of common stock and related incremental tax benefits upon exercise of stock options under our stock incentive plans. The Company had no financing activities during the three months ended June 30, 2005.

Critical Accounting Policies

In Part II, Item 7 of our Form 10-K, 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 our Consolidated Financial Statements.

Recent Accounting Pronouncements

Beginning April 1, 2006, we have adopted FAS 123(R), which requires us to record stock-based compensation expense for awards granted to employees based on the fair value of the equity instrument at the time of grant. The change in accounting rules resulted in a decrease in reported earnings during the current period and will lead to decreases in future periods. We do not anticipate that the impacts will be material in future periods; however, the recognition of additional expense may negatively impact our future stock price. For the first quarter of fiscal 2007, we recorded stock-based compensation of approximately \$230 (see Note 6).

Forward-looking Statements

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. In addition to the Risk Factors described in Part I, Item 1A. *Risk Factors* in our Form 10-K, factors that could affect our results and cause them to materially differ from those contained in the forward-looking statements include, but are not limited to:

- We have incurred net losses in prior periods and there can be no assurance that we will generate income in the future;
- We operate in an industry that is currently experiencing a prolonged and significant downturn;
- Housing demand and geographic concentration;
- A write-off of all or part of our goodwill could adversely affect our operating results and net worth;
- The cyclical and seasonal nature of the manufactured housing industry causes our revenues and operating results to fluctuate, and we expect this cyclicity and seasonality to continue in the future;
- Our liquidity and ability to raise capital may be limited;
- Tightened credit standards and curtailed lending activity by home-only lenders have contributed to a constrained consumer financing market;
- The availability of wholesale financing for industry retailers is limited due to a reduced number of floor plan lenders and reduced lending limits;
- We have contingent repurchase obligations related to wholesale financing provided to industry retailers;
- The manufactured housing industry is highly competitive, and competition may increase the adverse effects of industry conditions;
- If we are unable to establish or maintain relationships with independent retailers who sell our homes, our sales could decline;
- Our results of operations can be adversely affected by labor shortages and the pricing and availability of raw materials;
- If the manufactured housing industry is not able to secure favorable local zoning ordinances, our sales could decline and our business could be adversely affected;

- The loss of any of our executive officers could reduce our ability to execute our business strategy and could have a material adverse effect on our business and results of operations;
- We have a limited operating history as an independent company;
- You may have difficulty evaluating our business, as our historical financial information may not be representative of what our results of operations would have been if we had been an independent company;
- We may be required to satisfy certain indemnification obligations to Centex Corporation, our predecessor, or may not be able to collect on indemnification rights from Centex;
- We could be responsible for certain tax liabilities if the Internal Revenue Service challenges the tax-free nature of the share distribution that resulted in us becoming an independent company;
- Certain provisions of our organizational documents could delay or make more difficult a change in control of our company; and
- Volatility of stock price.

We may make additional written or oral forward-looking statements from time to time in filings with the SEC or in public news releases or statements. Such additional statements may include, but are not be limited to include, projections of revenues, income or loss, capital expenditures, acquisitions, plans for future operations, financing needs or plans, the impact of inflation and plans relating to our products or services, as well as assumptions relating to the foregoing.

Statements in this Report on Form 10-Q, including those set forth in this section, may be considered “forward looking statements” within the meaning of Section 21E of the Securities Act of 1934. These forward-looking statements are often identified by words such as “estimate,” “predict,” “hope,” “may,” “believe,” “anticipate,” “plan,” “expect,” “require,” “intend,” “assume,” and similar words.

Forward-looking statements contained in this Report on Form 10-Q speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. We do not intend to publicly update or revise any forward-looking statement contained in this Report on Form 10-Q or in any document incorporated herein by reference to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

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 do not believe that we are subject to significant interest rate risk.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

The term “disclosure controls and procedures” means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934 (the “Exchange Act”) (15 U.S.C. 78a *et seq.*) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to a member of company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, 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 defined in Exchange Act Rule 13a-15(e) and 15d-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on 10-Q, our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period

(b) Changes In Internal Control Over Financial Reporting

The term “internal control over financial reporting” (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No change in the Company’s internal control over financial reporting occurred during the fiscal quarter ended June 30, 2006 that materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding reportable legal proceedings is contained in Part I, “Item 3. Legal Proceedings” in our Form 10-K. The following describes legal proceedings, if any, that became reportable during the quarter ended June 30, 2006, and, if applicable, amends and restates descriptions of previously reported legal proceedings in which there have been material developments during such quarter.

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

Item 1A. Risk Factors

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Part I, *Item 1A. Risk Factors* in our Form 10-K, which could materially affect our business, financial condition or future results. The risks described in this Report and in our Form 10-K are not the only risks facing

our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 4: Submission of Matters to a Vote of Security Holders

On June 29, 2006, the Company held its 2006 Annual Meeting of Stockholders. At the Annual Meeting, the stockholders elected Steven G. Bungler and Jack Hanna to serve as members of the Board of Directors for a three-year term. The term of Jacqueline Dout will expire in 2007. The terms of Joseph H. Stegmayer and Michael H. Thomas will expire in 2008.

There were present at the Annual Meeting, in person or by proxy, stockholders of the Company who were holders of record on May 9, 2006 of 5,652,163 shares of common stock or 88.94% of the total shares of the outstanding common stock of the Company, which constituted a quorum. Of the 6,354,980 shares entitled to vote in such election, the votes cast were as follows:

<u>Election of Directors:</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Steven G. Bungler	5,636,439	15,724
Jack Hanna	5,636,439	15,724

Additionally, the stockholders approved the amendment to the Company's Restated Certificate of Incorporation to increase the authorized shares of common stock from 10,000,000 to 20,000,000. The votes cast were as follows:

<u>Votes For</u>	<u>Votes Against</u>	<u>Abstentions</u>	<u>Nonvotes</u>
5,431,223	215,933	5,007	702,817

At the same meeting, a proposal for the ratification of the selection of Ernst & Young LLP as independent Auditor of the Company was submitted to the stockholders, and the votes cast were as follows:

<u>Votes For</u>	<u>Votes Withheld</u>	<u>Abstentions</u>	<u>Nonvotes</u>
5,643,279	2,582	6,302	702,817

Item 5: Other Information

On August 9, 2006, the Compensation Committee (the "Committee") of the Company's Board of Directors approved the Vice President and Chief Financial Officer Incentive Compensation Plan for Fiscal Year 2007 (the "CFO Incentive Plan"). The CFO Incentive Plan, which covers the Company's fiscal year beginning April 1, 2007, consists of three components: (i) a Specific Objectives Based Bonus, (ii) an Earnings Growth Incentive Bonus, and (iii) a Restricted Stock Award. The amount of the Specific Objectives Based Bonus, which ranges between \$60,000 and \$80,000, will be determined at the sole discretion of the Board of Directors, with a minimum payment of \$60,000. The Earnings Growth Incentive Bonus is payable based upon achievement of certain specified increases in the income of the Company from continuing operations during fiscal year 2007. Mr. Urness also received a Restricted Stock Award of 923 shares under the Cavco Industries, Inc. 2003 Stock Incentive Plan. The restricted shares shall vest in twenty percent increments over the next five years on the anniversaries of the Grant Date.

Item 6: Exhibits

<u>Exhibit No.</u>	<u>Exhibit</u>
3.1*	Restated Certificate of Incorporation, as Amended
3.2(1)	Amended and Restated Bylaws
10.1*(2)	Summary of Vice President and Chief Financial Officer Incentive Compensation Plan for Fiscal Year 2007
31.1*	Certification of the Principal Executive Officer Pursuant to Rule 13-14(a) under the Securities Exchange Act of 1934

- 31.2* Certification of the Principal Financial Officer pursuant to Rule 13-14(a) under the Securities Exchange Act of 1934
- 32** Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* filed herewith
** furnished herewith

(1) Incorporated by reference to Exhibit 3.2 of the Annual Report on Form 10-K for the fiscal year ended March 31, 2004

(2) Management contract or compensatory plan or arrangement

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

August 9, 2006

/s/ Joseph H. Stegmayer

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

August 9, 2006

/s/ Daniel L. Urness

Daniel L. Urness
Vice President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

Exhibit 3.1

**STATE OF DELAWARE
CERTIFICATE OF AMENDMENT
OF RESTATED CERTIFICATE OF INCORPORATION
OF
CAVCO INDUSTRIES, INC.**

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

FIRST: That at a meeting of the Board of Directors of Cavco Industries, Inc. held on March 28, 2006, resolutions were duly adopted setting forth a proposed amendment of the Restated Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling for consideration thereof by the stockholders at the 2006 annual meeting of stockholders. The resolution setting forth the proposed amendment is as follows:

BE IT RESOLVED that, subject to the approval by the requisite vote of the Stockholders of the Corporation at the 2006 annual meeting of stockholders, the Restated Certificate of Incorporation of the Corporation be amended to increase the total number of shares of Common Stock that the Corporation is authorized to issue to twenty million (20,000,000), to be effected by amending the first paragraph of Article Fourth of the Corporation's Restated Certificate of Incorporation to read in its entirety as follows:

FOURTH: The aggregate number of shares of capital stock that the Corporation shall have authority to issue is 21,000,000, of which 20,000,000 shares are classified as common stock, par value \$.01 per share ("Common Stock"), and 1,000,000 shares are classified as preferred stock, par value \$.01 per share ("Preferred Stock").

; and further

RESOLVED, that the Board hereby directs that the Charter Amendment be submitted for approval by the stockholders of the Corporation at the 2006 annual meeting of stockholders.

SECOND: That thereafter, pursuant to resolution of its Board of Directors, at the annual meeting of the stockholders of said corporation held on June 29, 2006, which was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said corporation has caused this certificate to be signed this 29th day of June, 2006.

CAVCO INDUSTRIES, INC.

By: /s/ Daniel L. Urness
Daniel L. Urness
Vice President and Chief Financial Officer

**RESTATED CERTIFICATE OF INCORPORATION
OF
CAVCO INDUSTRIES, INC.**

**UNDER SECTIONS 242 AND 245 OF THE
DELAWARE GENERAL CORPORATION LAW**

CAVCO INDUSTRIES, INC. ("the Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, hereby certifies as follows:

1. The name of the Corporation is:

Cavco Industries, Inc.

The Corporation was originally incorporated under the same name upon the filing of the Certificate of Incorporation of the Corporation with the Secretary of State of the State of Delaware on January 14, 2003.

2. The restatement and amendment of the Certificate of Incorporation has been duly adopted by a resolution of the Board of Directors of the Corporation (the "Board of Directors") proposing and declaring advisable this Restated Certificate of Incorporation, and the sole holder of all shares of the capital stock of the Corporation has duly approved and adopted this Restated Certificate of Incorporation, all in accordance with the provisions of Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware.

3. This Restated Certificate of Incorporation restates and amends the Certificate of Incorporation of the Corporation.

4. The text of the Certificate of Incorporation is hereby restated and amended to read in its entirety as follows:

FIRST: The name of the Corporation is Cavco Industries, Inc. (hereinafter, the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, Delaware 19808, and the name of the registered agent of the Corporation at such address is Corporation Service Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the "DGCL").

FOURTH: The aggregate number of shares of capital stock that the Corporation shall have authority to issue is 11,000,000, of which 10,000,000 shares are classified as common stock, par value \$.01 per share ("Common Stock"), and 1,000,000 shares are classified as preferred stock, par value \$.01 per share ("Preferred Stock").

The Corporation may issue shares of any class or series of its capital stock from time to time for such consideration and for such corporate purposes as the Board of Directors of the Corporation (the "Board of Directors") may from time to time determine.

The following is a statement of the powers, preferences and rights, and the qualifications, limitations or restrictions, of the Preferred Stock and the Common Stock:

DIVISION A. PREFERRED STOCK

The shares of Preferred Stock may be divided into and issued in one or more series, the relative rights, powers and preferences of which series may vary in any and all respects. The Board of Directors is expressly vested with the authority to fix, by resolution or resolutions adopted prior to and providing for the issuance of any

shares of each particular series of Preferred Stock, and incorporate in a certificate of designations filed with the Secretary of State of the State of Delaware, the designations, powers, preferences, rights, qualifications, limitations and restrictions thereof, of the shares of each series of Preferred Stock, to the extent not provided for in this Restated Certificate of Incorporation. The Board of Directors is also expressly vested with the authority to increase or decrease the number of shares within each such series; provided, however, that the Board of Directors may not decrease the number of shares within a series of Preferred Stock below the number of shares within such series that is then issued. The authority of the Board of Directors with respect to fixing the designations, powers, preferences, rights, qualifications, limitations and restrictions of each such series of Preferred Stock shall include, but not be limited to, determination of the following:

- (1) the distinctive designation and number of shares of that series;
- (2) the rate of dividends (or the method of calculation thereof) payable with respect to shares of that series, the dates, terms and other conditions upon which such dividends shall be payable, and the relative rights of priority of such dividends to dividends payable on any other class or series of capital stock of the Corporation;
- (3) the nature of the dividend payable with respect to shares of that series as cumulative, noncumulative or partially cumulative, and if cumulative or partially cumulative, from which date or dates and under what circumstances;
- (4) whether shares of that series shall be subject to redemption, and, if made subject to redemption, the times, prices, rates, adjustments and other terms and conditions of such redemption (including the manner of selecting shares of that series for redemption if fewer than all shares of such series are to be redeemed);
- (5) the rights of the holders of shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation (which rights may be different if such action is voluntary than if it is involuntary), including the relative rights of priority in such event as to the rights of the holders of any other class or series of capital stock of the Corporation;
- (6) the terms, amounts and other conditions of any sinking or similar purchase or other fund provided for the purchase or redemption of shares of that series;
- (7) whether shares of that series shall be convertible into or exchangeable for shares of capital stock or other securities of the Corporation or of any other corporation or entity, and, if provision be made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchange;
- (8) the extent, if any, to which the holders of shares of that series shall be entitled (in addition to any voting rights provided by law) to vote as a class or otherwise with respect to the election of directors or otherwise;
- (9) the restrictions and conditions, if any, upon the issue or reissue of any additional Preferred Stock ranking on a parity with or prior to shares of that series as to dividends or upon liquidation, dissolution or winding up;
- (10) any other repurchase obligations of the Corporation, subject to any limitations of applicable law; and
- (11) any other designations, powers, preferences, rights, qualifications, limitations or restrictions of shares of that series.

Any of the designations, powers, preferences, rights, qualifications, limitations or restrictions of any series of Preferred Stock may be dependent on facts ascertainable outside this Restated Certificate of Incorporation, or outside the resolution or resolutions providing for the issue of such series of Preferred Stock adopted by the Board of Directors pursuant to authority expressly vested in it by this Restated Certificate of Incorporation. Except as applicable law or this Restated Certificate of Incorporation otherwise may require, the terms of any series of Preferred Stock may be amended without consent of the holders of any other series of Preferred Stock or any class of capital stock of the Corporation.

The relative powers, preferences and rights of each series of Preferred Stock in relation to the powers, preferences and rights of each other series of Preferred Stock shall, in each case, be as fixed from time to time by the Board of Directors in the resolution or resolutions adopted pursuant to the authority granted in this Division A of this Article Fourth, and the consent, by class or series vote or otherwise, of holders of Preferred Stock of such of the series of Preferred Stock as are from time to time outstanding shall not be required for the issuance by the Board of Directors of any other series of Preferred Stock, whether or not the powers, preferences and rights of such other series shall be fixed by the Board of Directors as senior to, or on a parity with, the powers, preferences and rights of such outstanding series, or any of them; provided, however, that the Board of Directors may provide in such resolution or resolutions adopted with respect to any series of Preferred Stock that the consent of holders of at least a majority (or such greater proportion as shall be therein fixed) of the outstanding shares of such series voting thereon shall be required for the issuance of shares of any or all other series of Preferred Stock.

Shares of any series of Preferred Stock shall have no voting rights except as required by law or as provided in the relative powers, preferences and rights of such series.

DIVISION B. COMMON STOCK

1. Dividends. Dividends may be paid on the Common Stock, as the Board of Directors shall from time to time determine, out of any assets of the Corporation available for the payment of such dividends after full cumulative dividends on all outstanding shares of capital stock of all series ranking senior to the Common Stock in respect of dividends and liquidation rights (referred to in this Division B as "stock ranking senior to the Common Stock") have been paid, or have been declared and a sum sufficient for the payment thereof has been set apart, for all past quarterly dividend periods, and after or concurrently with making payment of or provision for dividends on all outstanding shares of stock ranking senior to the Common Stock for the then current quarterly dividend period.

2. Distribution of Assets. In the event of any liquidation, dissolution or winding up of the Corporation, after there shall have been paid to or set aside for the holders of the stock ranking senior to the Common Stock the full preferential amounts to which they are respectively entitled, the holders of the Common Stock shall be entitled to receive, on a pro rata basis, all of the remaining assets of the Corporation available for distribution to its stockholders. The Board of Directors, by vote of a majority of the members thereof, may distribute in kind to the holders of the Common Stock such remaining assets of the Corporation, or may sell, transfer or otherwise dispose of all or any of the remaining property and assets of the Corporation to any other corporation or other purchaser and receive payment therefore wholly or partly in cash or property, or in stock of any such corporation, or in obligations of such corporation or other purchaser, and may sell all or any part of the consideration received therefore and distribute the same or the proceeds thereof to the holders of the Common Stock.

3. Voting Rights. Subject to the voting rights expressly conferred under prescribed conditions upon the stock ranking senior to the Common Stock, the holders of the Common Stock shall exclusively possess full voting power for the election of directors and for all other purposes.

DIVISION C. OTHER PROVISIONS APPLICABLE TO CAPITAL STOCK

1. Preemptive Rights. No holder of any stock of the Corporation shall be entitled as of right to purchase or subscribe for any part of any unissued or treasury stock of the Corporation, or of any additional stock of any class, to be issued by reason of any increase of the authorized capital stock of the Corporation, or to be issued from any unissued or additionally authorized stock, or of bonds, certificates of indebtedness, debentures or other securities convertible into stock of the Corporation, but any such unissued or treasury stock, or any such additional authorized issue of new stock or securities convertible into stock, may be issued and disposed of by the Board of Directors to such persons, firms, corporations or associations, and upon such terms as the Board of Directors may, in its discretion, determine, without offering to the stockholders then of record, or any class of stockholders, any thereof, on the same terms or any terms.

2. **Votes Per Share.** Any stockholder of the Corporation having the right to vote at any meeting of the stockholders or of any class or series thereof, shall be entitled to one vote for each share of stock held by him, except as otherwise provided with respect to any series of Preferred Stock pursuant to this Restated Certificate of Incorporation or a resolution of the Board of Directors providing for the establishment of such series of Preferred Stock; provided that no holder of Common Stock shall be entitled to cumulate his votes for the election of one or more directors or for any other purpose.

FIFTH: (a) **Directors.** The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the authority and powers conferred on the Board of Directors by the DGCL or by the other provisions of this Restated Certificate of Incorporation, the Board of Directors is authorized and empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject to the provisions of the DGCL, this Restated Certificate of Incorporation and the Bylaws of the Corporation; provided, however, that no Bylaws hereafter adopted, or any amendments thereto, shall invalidate any prior act of the Board of Directors that would have been valid if such Bylaws or amendment had not been adopted.

(b) **Number, Election and Terms of Directors.** The number of directors which shall constitute the whole Board of Directors shall be fixed from time to time by a majority of the directors then in office, but in any event shall not be less than one nor more than 15. Effective upon and commencing as of the first date on which the Board of Directors shall fix the number of directors which shall constitute the whole Board of Directors to be a number equal to or greater than three, the directors, other than those who may be elected by the holders of any series of Preferred Stock, shall be divided into three classes: Class I, Class II and Class III, it being understood that the Board of Directors shall assign each person who is then serving as a director to one of such classes. Such classes shall be as nearly equal in number of directors as possible. Each director shall serve for a term ending on the third annual meeting of stockholders following the annual meeting of stockholders at which that director was elected; provided, however, that the directors first designated as Class I directors shall serve for a term expiring at the annual meeting of stockholders next following the date of their designation as Class I directors, the directors first designated as Class II directors shall serve for a term expiring at the second annual meeting of stockholders next following the date of their designation as Class II directors, and the directors first designated as Class III directors shall serve for a term expiring at the third annual meeting of stockholders next following the date of their designation as Class III directors. Each director shall hold office until the annual meeting of stockholders at which that director's term expires and, the foregoing notwithstanding, shall serve until his successor shall have been duly elected and qualified or until his earlier death, resignation or removal.

At each annual election, the directors chosen to succeed those whose terms then expire shall be of the same class as the directors they succeed, unless, by reason of any intervening changes in the authorized number of directors, the Board of Directors shall have designated one or more directorships whose term then expires as directorships of another class in order to more nearly achieve equality of number of directors among the classes.

In the event of any change in the authorized number of directors, each director then continuing to serve as such shall nevertheless continue as a director of the class of which he is a member until the expiration of his current term, or his prior death, resignation or removal. The Board of Directors shall specify the class to which a newly created directorship shall be allocated.

Election of directors need not be by written ballot unless the Bylaws of the Corporation so provide.

(c) **Removal of Directors.** No director of the Corporation may be removed from office as a director by vote or other action of the stockholders or otherwise except for cause, and then only by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock of the Corporation generally entitled to vote in the election of directors, voting together as a single class. Except as applicable law otherwise provides, cause for the removal of a director shall be deemed to exist only if the director whose removal is proposed: (i) has been convicted, or has been granted immunity to testify in any proceeding in which another has been convicted, of a felony by a court of competent jurisdiction and that conviction is no longer subject to direct appeal; (ii) has been found to have been negligent or guilty of misconduct in the performance of his duties to the Corporation in any matter of substantial importance to the Corporation by (A) the affirmative vote of at least 80% of the directors then in office at any meeting of the Board of Directors called for

that purpose or (B) a court of competent jurisdiction; or (iii) has been adjudicated by a court of competent jurisdiction to be mentally incompetent, which mental incompetency directly affects his ability to serve as a director of the Corporation. Notwithstanding the foregoing, whenever holders of outstanding shares of one or more series of Preferred Stock are entitled to elect members of the Board of Directors pursuant to a resolution of the Board of Directors providing for the establishment of any series of Preferred Stock, any such director of the Corporation so elected may be removed in accordance with the provisions of this Restated Certificate of Incorporation or such resolution.

(d) Vacancies. Except as a resolution of the Board of Directors providing for the establishment of any series of Preferred Stock may provide otherwise, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, removal, disqualification or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until that director's successor shall have been elected and qualified or until his earlier death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(e) Amendment of this Article Fifth. In addition to any other affirmative vote required by applicable law, this Article Fifth may not be amended, modified or repealed except by the affirmative vote of the holders of at least sixty six and two-thirds percent (66-2/3%) of the voting power of all outstanding shares of capital stock of the Corporation generally entitled to vote in the election of directors, voting together as a single class.

SIXTH: (a) Action by Written Consent; Special Meetings. No action required to be taken or that may be taken at any annual or special meeting of the stockholders of the Corporation may be taken without a meeting, and the power of the stockholders of the Corporation to consent in writing to the taking of any action by written consent without a meeting is specifically denied. Unless otherwise provided by the DGCL, by this Restated Certificate of Incorporation or by any provisions established pursuant to Article Fourth hereof with respect to the rights of holders of one or more outstanding series of Preferred Stock, special meetings of the stockholders of the Corporation may be called at any time only by the Chairman of the Board of Directors, the President and Chief Executive Officer of the Corporation, or by the Board of Directors pursuant to a resolution approved by the affirmative vote of at least a majority of the members of the Board of Directors, and no such special meeting may be called by any other person or persons.

(b) Amendment of this Article Sixth. In addition to any other affirmative vote required by applicable law, this Article Sixth may not be amended, modified or repealed except by the affirmative vote of the holders of at least sixty six and two-thirds percent (66-2/3%) of the voting power of all outstanding shares of capital stock of the Corporation generally entitled to vote in the election of directors, voting together as a single class.

SEVENTH: No director of the Corporation shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director of the Corporation; provided, however, that this Article Seventh shall not eliminate or limit the liability of such a director (1) for any breach of such director's duty of loyalty to the Corporation or its stockholders, (2) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) under Section 174 of the DGCL, as the same exists or as such provision may hereafter be amended, supplemented or replaced, or (4) for any transactions from which such director derived an improper personal benefit. If the DGCL is amended after the filing of this Restated Certificate of Incorporation to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by such law, as so amended. Any repeal or modification of this Article Seventh by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

EIGHTH: (a) Indemnification. Each person who was or is made a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he or she is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise (an "Indemnitee"), shall be indemnified and held harmless by the Corporation to the fullest extent permitted by the DGCL and other applicable law in effect on the date of the filing of this Restated Certificate of Incorporation, and to such greater extent as applicable law may thereafter permit, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement incurred by such Indemnitee in connection with such a Proceeding, and such right of indemnification shall continue with respect to an Indemnitee who has ceased to be such a director or officer and shall inure to the benefit of his or her heirs, executors and administrators. The rights of an Indemnitee under the immediately preceding sentence shall include, but not be limited to, the right to be indemnified to the fullest extent permitted by Section 145(b) of the DGCL in the case of Proceedings by or in the right of the Corporation and to the fullest extent permitted by Section 145(a) of the DGCL in the case of all other Proceedings.

(b) Advancement of Expenses. An Indemnitee shall be entitled to the payment of expenses (including attorneys' fees) incurred in defending any Proceeding in advance of the final disposition thereof in accordance with the provisions set forth in the Bylaws of the Corporation or, if no provisions relating to the advancement of expenses are set forth therein, in accordance with such terms and conditions as the Board of Directors deems appropriate.

(c) Determination of Entitlement to Indemnification. A determination as to whether an Indemnitee is entitled to indemnification in respect of any expenses (including attorneys' fees), judgments, fines or amounts paid in settlement incurred by such Indemnitee in connection with a Proceeding shall be made in accordance with Section 145(d) of the DGCL and the provisions set forth in the Bylaws of the Corporation.

(d) Non-Exclusivity. The rights conferred by this Article Eighth shall not be exclusive of any other rights which an Indemnitee or any other person may now or hereafter have under this Restated Certificate of Incorporation or any bylaw, agreement, vote or stockholder or disinterested directors or otherwise.

NINTH: The Board of Directors is expressly empowered to adopt, amend or repeal the Bylaws of the Corporation. Any adoption, amendment or repeal of the Bylaws of the Corporation by the Board of Directors shall require the affirmative vote of at least eighty percent (80%) of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose. In addition to any other affirmative vote required by applicable law, this Article Ninth may not be amended, modified or repealed except by the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all outstanding shares of capital stock of the Corporation generally entitled to vote in the election of directors, voting together as a single class.

TENTH: Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of Section 291 of the DGCL or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 279 of the DGCL, order a meeting of the creditors or class of creditors, and/or the stockholders or a class of stockholders of the Corporation as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which said application has been made, be binding on all of the creditors or class of creditors, and/or the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

ELEVENTH: The Corporation has elected not to be governed by Section 203 of the DGCL until the first date on which no person (as defined in such Section) is the beneficial owner (as such term is defined in Rule 13d-3 under the Securities Exchange Act of 1934) of at least a majority of the outstanding voting stock (as defined in

such Section) of the Corporation. From such date forward, the Corporation shall be governed by Section 203 of the DGCL, and will continue to be governed by such section even if after such date a person becomes the beneficial owner of a majority (or more) of the outstanding voting stock of the Corporation.

IN WITNESS WHEREOF, the Corporation has caused the Restated Certificate of Incorporation to be signed and attested by its duly authorized officer, this 30th day of June 2003.

CAVCO INDUSTRIES, INC.

By: /s/ Joseph H. Stegmeyer
Joseph H. Stegmayer
President and Chief Executive Officer

Exhibit 10.1

Summary of Vice President and Chief Financial Officer Incentive Compensation Plan for Fiscal Year 2007

On August 9, 2006, the Compensation Committee (the “Committee”) of the Company’s Board of Directors approved the Vice President and Chief Financial Officer Incentive Compensation Plan for Fiscal Year 2007 (the “CFO Incentive Plan”). The CFO Incentive Plan, which covers the Company’s fiscal year beginning April 1, 2007, consists of three components: (i) a Specific Objectives Based Bonus, (ii) an Earnings Growth Incentive Bonus, and (iii) a Restricted Stock Award. The amount of the Specific Objectives Based Bonus, which ranges between \$60,000 and \$80,000, will be determined at the sole discretion of the Board of Directors, with a minimum payment of \$60,000. The Earnings Growth Incentive Bonus is payable based upon achievement of certain specified increases in the income of the Company from continuing operations during fiscal year 2007. Mr. Urness also received a Restricted Stock Award of 923 shares under the Cavco Industries, Inc. 2003 Stock Incentive Plan. The restricted shares shall vest in twenty percent increments over the next five years on the anniversaries of the Grant Date.

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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: August 9, 2006

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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: August 9, 2006

By: /s/ Daniel L. Urness
Daniel L. Urness
Chief Financial Officer

Exhibit 32

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of

In connection with the Quarterly Report of Cavco Industries, Inc. (the "Registrant") on Form 10-Q for the period ending June 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Joseph H. Stegmayer and Daniel L. Urness, Chief Executive Officer and Chief Financial Officer, respectively, of the Registrant, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

August 9, 2006

/s/ Joseph H. Stegmayer

Joseph H. Stegmayer
President and Chief Executive Officer

/s/ Daniel L. Urness
Daniel L. Urness
Vice President and Chief Financial Officer

End of Filing