

CAVCO INDUSTRIES INC

Form DEF 14A

May 24, 2006

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**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the Securities**  
**Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement.
- Confidential, for Use of the Commission Only.
- Definitive Proxy Statement.
- Definitive Additional Materials.
- Soliciting Material pursuant to Rule 14a-11(c) or Rule 14a-12.

**CAVCO INDUSTRIES, INC.**

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
  - Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
    - (1) Title of each class of securities to which transaction applies:
    - (2) Aggregate number of securities to which transaction applies:
    - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:
    - (4) Proposed maximum aggregate value of transaction:
    - (5) Total fee paid:
  - Fee paid previously with preliminary materials.
  - Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.
    - (1) Amount Previously Paid:
    - (2) Form, Schedule or Registration Statement No.:
    - (3) Filing Party:
    - (4) Date Filed:
-

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Phoenix, Arizona 85004  
602-256-6263

May 26, 2006

Dear Stockholders:

It is our pleasure to invite you to attend the Cavco Industries, Inc. 2006 Annual Meeting of Stockholders. The meeting will be held on Thursday, June 29, 2006, at 9:00 a.m. (M.S.T.) at Cavco's offices, 1001 N. Central Avenue, Suite 800, in Phoenix, Arizona. The attached Notice of Annual Meeting and Proxy Statement provide information concerning the business to be conducted at the meeting and the nominees for election as directors.

Your vote is important. Whether or not you plan to attend the meeting, please vote your shares using the Internet, by telephone, or by completing, signing, dating, and returning the accompanying proxy in the enclosed envelope. Your shares will then be represented at the meeting if you are unable to attend. You may, of course, revoke your proxy and vote in person at the meeting if you desire.

Thank you for your support.

Sincerely,

Cavco Industries, Inc.

Joseph H. Stegmayer

Chairman of the Board of Directors

President and Chief Executive Officer

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**Notice of Annual Meeting of Stockholders of Cavco Industries, Inc.**

**Time:** 9:00 a.m. (M.S.T.), Thursday, June 29, 2006

**Place:** Cavco Industries, Inc. s ( Cavco ) Offices  
1001 N. Central Avenue, Suite 800  
Phoenix, Arizona 85004

**Items of Business:**

1. To elect two directors comprising a class of directors to serve until the annual meeting of stockholders in 2009, or until their successors have been elected and qualified;
2. To vote upon the amendment of Cavco s restated certificate of incorporation to increase the authorized shares of common stock of Cavco from 10,000,000 to 20,000,000;
3. To vote upon the ratification of the appointment of Ernst & Young LLP as Cavco s independent registered public accounting firm for fiscal year 2007; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

**Annual Reports:** The 2006 Annual Report to Shareholders, which includes the Annual Report on Form 10-K, is enclosed.

**Who Can Vote:** You can vote if you were a stockholder of record at the close of business on May 9, 2006.

**Date of Mailing:** This Notice and Proxy Statement are first being mailed to stockholders on or about May 26, 2006.

By Order of the Board of Directors

JAMES P. GLEW  
Secretary

Phoenix, Arizona  
May 26, 2006

**To ensure representation of your shares at the annual meeting, you must vote and submit the proxy by telephone, over the Internet or by mail in the manner described in the accompanying proxy. All stockholders are encouraged to review the accompanying proxy statement.**

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**CAVCO INDUSTRIES, INC.  
PROXY STATEMENT  
Annual Meeting of Stockholders  
to be Held June 29, 2006  
INTRODUCTION**

The accompanying proxy, mailed together with this proxy statement, is solicited by and on behalf of the board of directors of Cavco Industries, Inc., a Delaware corporation ( "Cavco" ), for use at the annual meeting of stockholders of Cavco to be held on June 29, 2006, and at any adjournment thereof. The mailing address of Cavco's executive offices is 1001 N. Central Avenue, Suite 800, Phoenix, Arizona 85004. This proxy statement and accompanying proxy are being mailed to stockholders on or about May 26, 2006.

**Purposes of the Annual Meeting**

At the annual meeting, action will be taken on the following matters:

- (1) Election of two directors comprising a class of directors to serve until the annual meeting of stockholders in 2009, or until their successors have been elected and qualified;
- (2) Amendment of the restated certificate of incorporation of Cavco to increase the authorized shares of common stock of Cavco from 10,000,000 to 20,000,000;
- (3) Ratification of the appointment of Ernst & Young LLP as Cavco's independent registered public accounting firm for fiscal year 2007; and
- (4) Such other business as may properly come before the meeting.

Our board of directors does not know of any matters that may be acted upon at the annual meeting other than the matters set forth in items (1), (2) and (3) above.

**Recommendation of the Board of Directors**

**Our board recommends a vote FOR the election of the nominees for director named in the accompanying proxy, a vote FOR the approval of the amendment of Cavco's restated certificate of incorporation to increase the authorized shares of Cavco common stock and a vote FOR the ratification of the appointment of Ernst & Young LLP as Cavco's independent registered public accounting firm for fiscal year 2007.**

**ABOUT THE MEETING**

**Who Can Vote**

Record holders of common stock, par value \$.01 per share, of Cavco at the close of business on May 9, 2006 may vote at the annual meeting. On that date, the issued and outstanding capital stock of Cavco entitled to vote at the annual meeting consisted of 6,354,980 shares of common stock. Each holder of common stock will be entitled to one vote per share on the election of directors and each other matter that is described above or that may be properly brought before the meeting. There are no cumulative voting rights.

**How You Can Vote**

Stockholders can vote their shares of common stock at the annual meeting by voting and submitting the accompanying proxy by telephone, over the Internet, or by completing, signing, dating and returning the proxy in the enclosed envelope.

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**How Proxies Will be Voted**

Shares represented by valid proxies received by telephone, over the Internet or by mail will be voted at the annual meeting in accordance with the directions given. If no specific choice is indicated, the shares represented by all valid proxies received will be voted FOR the election of the nominees for director named in the proxy, FOR the approval of the amendment of Cavco's restated certificate of incorporation to increase the authorized shares of Cavco common stock and FOR the ratification of the appointment of Ernst & Young LLP as Cavco's independent registered public accounting firm for fiscal year 2007.

Our board does not intend to present, and has no information that others will present, any business at the annual meeting other than as is set forth in the attached notice of the meeting. However, if other matters requiring the vote of stockholders come before the annual meeting, the persons named in the accompanying proxy intend to vote the proxies held by them in accordance with their best judgment in such matters.

**How to Revoke Your Proxy**

You have the unconditional right to revoke your proxy at any time prior to the voting thereof by submitting a later-dated proxy, by attending the annual meeting and voting in person or by written notice to Cavco addressed to James P. Glew, Secretary, Cavco Industries, Inc., 1001 N. Central Avenue, Suite 800, Phoenix, Arizona 85004. No such revocation will be effective, however, unless received by us at or prior to the annual meeting. Attending the meeting does not revoke your proxy.

**Quorum and Required Vote**

The presence at the annual meeting, in person or by proxy, of a majority of the shares of common stock entitled to vote at the meeting is necessary to constitute a quorum. Abstentions and, by definition, broker non-votes will be counted as present for the purpose of establishing a quorum.

The two nominees for director receiving a plurality of the votes cast at the meeting in person or by proxy will be elected. The amendment of Cavco's restated certificate of incorporation will be approved if the proposal receives the affirmative vote of a majority of the outstanding shares entitled to vote on the proposal. The ratification of the appointment of Ernst & Young LLP as Cavco's independent registered public accounting firm will be approved if the proposal receives the affirmative vote of a majority of the shares entitled to vote on, and voted for or against, the proposal. Abstentions and broker non-votes will have no effect on the election of directors or the ratification of the appointment of Ernst & Young LLP. With respect to the proposal to approve the amendment of Cavco's restated certificate of incorporation, abstentions and broker non-votes will have the same effect as votes against the proposal.

**Expenses of Soliciting Proxies**

We will bear the cost of soliciting proxies for the annual meeting. Solicitation may be made by mail, personal interview, telephone or other electronic means by our officers and other employees, who will receive no additional compensation therefor.



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The following table sets forth information, as of May 9, 2006, with respect to the beneficial ownership of shares of Cavco common stock by each director, director nominee and executive officer named in the Summary Compensation Table under Executive Compensation, individually itemized, and by all directors, director nominees and executive officers of Cavco as a group. Except as otherwise indicated, all shares are owned directly, and the owner has sole voting and investment power with respect thereto.

**COMMON STOCK OWNERSHIP INFORMATION IS DATED MAY 9, 2006**

Name of Beneficial Owner	Cavco Common Stock (1)	
	Number of Shares Beneficially Owned	Percent of Class
David L. Blank	35,000	*
Steven G. Bunger	18,750	*
Jacqueline Dout	18,750	*
Jack Hanna	18,750	*
Sean K. Nolen (2)	4,000	*
Joseph H. Stegmayer	477,127 (3)	7.10%
Michael H. Thomas	18,750	*
Daniel L. Urness		*
All directors, director nominees and executive officers of Cavco as a group (7 persons) (4)	587,127	8.59%

\* Less than 1%.

(1) Shares covered by stock options that are outstanding under the Cavco Industries, Inc. Stock Incentive Plan and exercisable on May 9, 2006 or within 60 days thereafter are included as beneficially owned pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC).  
Amounts

include the following shares that may be acquired upon exercise of such stock options:  
Mr. Blank  
35,000 shares;  
Mr. Bunger  
18,750 shares;  
Ms. Dout  
18,750 shares;  
Mr. Hanna  
18,750 shares;  
Mr. Nolen  
4,000 shares;  
Mr. Stegmayer  
366,935 shares;  
Mr. Thomas  
18,750 shares;  
and all directors, director nominees and executive officers of Cavco as a group 476,395 shares.

- (2) Mr. Nolen is our former Vice President, Chief Financial Officer, Treasurer and Secretary. He resigned from those positions effective August 11, 2005. Mr. Nolen is included as a named executive officer in the Summary Compensation Table because he was a named executive officer during a

portion of fiscal year 2006.

- (3) Includes 82,644 shares of restricted stock. Mr. Stegmayer has the right to vote and receive dividends on the shares of restricted stock; however, Cavco does not expect to pay dividends on its common stock in the foreseeable future. These shares were part of a grant of restricted stock made by Cavco to Mr. Stegmayer in fiscal year 2004 pursuant to the terms of his employment agreement with Cavco. This grant is described in more detail in the Summary Compensation Table.
- (4) Does not include Mr. Nolen.

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**Principal Stockholders**

The following table sets forth information, as of May 9, 2006, with respect to the persons, other than Mr. Stegmayer, known by Cavco to beneficially own more than five percent of the outstanding shares of Cavco common stock. Information regarding Mr. Stegmayer's beneficial ownership of Cavco common stock is set forth under Management above.

**PRINCIPAL STOCKHOLDER INFORMATION IS DATED MAY 9, 2006**

<b>Name and Address of Beneficial Owner</b>	<b>Cavco Common Stock</b>	
	<b>Number of Shares Beneficially Owned</b>	<b>Percent of Class</b>
Mario J. Gabelli (1) One Corporate Center Rye, New York 10580-1435	987,686	15.54%

(1) Based solely on information contained in a Schedule 13D filed by Mario J. Gabelli and certain other reporting persons with the SEC on March 14, 2006 with respect to shares of Cavco common stock beneficially owned as of March 14, 2006, but calculating the percentage shown by dividing the number of such shares of Cavco common stock by the total number of shares of Cavco common stock issued and outstanding on May 9, 2006. In the Schedule 13D,

the reporting persons do not affirm the existence of a group. The Schedule 13D discloses that the reporting persons, taken as a whole, had sole voting power as to 939,686 shares and sole dispositive power as to 987,686 shares and did not have shared voting or shared dispositive power as to any shares. The other reporting persons are GGCP, Inc. formerly known as Gabelli Group Capital Partners, Inc. ( GGCP ), GAMCO Investors, Inc. formerly known as Gabelli Asset Management Inc. ( GBL ), Gabelli Funds, LLC ( Gabelli Funds ), GAMCO Asset Management Inc. formerly known as GAMCO Investors, Inc. ( GAMCO ), Gabelli Advisers, Inc. ( Gabelli Advisers ),

Gabelli  
Securities, Inc.  
( GSI ), Gabelli  
& Company,  
Inc. ( Gabelli &  
Company ),  
MJG  
Associates, Inc.  
( MJG  
Associates ),  
Gabelli  
Foundation, Inc.  
( Foundation ),  
Mario Gabelli,  
Lynch, and  
Interactive.

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**ELECTION OF DIRECTORS AND RELATED MATTERS**

Cavco's restated certificate of incorporation and amended and restated bylaws provide for the division of the board of directors into three classes, with the directors in each class to hold office for staggered terms of three years each. Each class of directors is to consist, as nearly as possible, of one-third of the total number of directors constituting the entire board. There are presently two directors in the class whose term expires at the annual meeting, one director in the class whose term expires at the 2007 annual meeting and two directors in the class whose term expires at the 2008 annual meeting. Each director holds office until his or her successor has been elected and qualified or until the director's earlier resignation or removal.

Steven G. Bunger and Jack Hanna, members of the board whose terms expire at the annual meeting, will stand for re-election at the meeting. Each of these persons has been nominated for continued service as a director by our independent directors and the full board pursuant to the procedures described under Director Nominating Process below. Unless contrary instructions are indicated on the proxy, it is intended that the shares represented by the accompanying proxy will be voted for the election of these two nominees or, if the nominees become unavailable (which we do not anticipate), for such substitute nominees as the board shall designate. A plurality of votes cast at the annual meeting, in person or by proxy, is required to elect each nominee. **The board recommends that the stockholders vote FOR the election of such nominees.** The biographical information appearing below regarding the nominees for director and the continuing directors has been furnished to Cavco by the respective nominees and directors.

Our board of directors has determined that all the members of the board, other than Joseph H. Stegmayer, who is an employee of Cavco, are independent in accordance with (1) the applicable requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules adopted by the SEC thereunder and (2) the applicable listing standards of the Nasdaq National Market and Rule 4200(a)(15) of the National Association of Securities Dealers, Inc. (the NASD).

**Nominees for Director Standing for Election**

**Steven G. Bunger**, 45, is a member of our audit committee and has been a member of our board since April 2004. Since 2001, he has served as Chairman of the Board of Mobile Mini, Inc., the nation's largest publicly owned provider of portable storage containers and mobile offices. He is also the President and Chief Executive Officer of Mobile Mini, having served in those capacities since 1997. Mr. Bunger joined Mobile Mini in 1983. Since that time, he has held numerous positions with Mobile Mini, including Vice President of Operations and Marketing and Executive Vice President and Chief Operating Officer.

**Jack Hanna**, 59, is chairman of our compensation committee and has been a member of our board since 2003. Since 1993, Mr. Hanna has hosted *Jack Hanna's Animal Adventures*, a nationally syndicated educational and conservation-oriented television program. Since 1992, Mr. Hanna has served as Director Emeritus of the Columbus Zoo and Aquarium in Columbus, Ohio. Mr. Hanna is a board member of the Dian Fossey Gorilla Fund.

**Continuing Directors**

*Term Expiring in 2007*

**Jaqueline Dout**, 51, is chairperson of our audit committee, a member of our compensation committee and has been a member of our board since 2003. Since April 2002 Ms. Dout has served as Senior Vice President, Chief Financial Officer and Secretary for Pella Corporation in Pella, Iowa, a retail brand company that produces building products. She is responsible for corporate development, financial functions, general counsel, shareholder relations and information technology. Prior to joining Pella, Ms. Dout was President of JJB Enterprises, Inc. of Detroit, Michigan, and previously served as Executive Vice President and Chief Financial Officer of Champion Enterprises, Inc., a publicly traded manufactured home builder and retailer. She is a member of the Iowa State Board of Education and a former member of the board of visitors for Oakland University School of Business.

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*Term Expiring in 2008*

**Joseph H. Stegmayer**, 55, serves as our Chairman of the Board, President and Chief Executive Officer. He has served as President and Chief Executive Officer and as a member of the board of directors of Cavco and its predecessor since March 2001. Mr. Stegmayer also served as President of Centex Corporation's manufactured housing holding company, Centex Manufactured Housing Group, LLC, from September 2000 until Cavco's spin-off from Centex Corporation in June 2003. Prior to joining Cavco, Mr. Stegmayer served from January 1998 to September 2000 as President - Retail Operations and Chief Financial Officer of Champion Enterprises, Inc., a publicly traded company that builds and sells manufactured homes. From 1993 until January 1998, he served as President, Vice Chairman and Chairman of the Executive Committee of Clayton Homes, Inc., a company that builds, sells, finances and insures manufactured homes and operates planned housing communities.

**Michael H. Thomas**, 56, is a member of our audit committee and compensation committee and has been a member of our board since 2003. Mr. Thomas is a principal of Stonehenge Partners, one of the largest private equity firms in Central Ohio. Mr. Thomas is responsible for sourcing, structuring, closing, and monitoring existing and new investments. Prior to joining Stonehenge Partners in August 1999, Mr. Thomas co-founded and was Executive Vice President and Treasurer of JMAC, Inc., the private investment company of the McConnell family of Columbus, Ohio. His activities included direct investments in the financial services, publishing, health care, real estate and manufacturing sectors. He was also responsible for the family's financial estate and income tax planning. Previously, Mr. Thomas worked for Ernst & Young LLP and served as director of the firm's Columbus, Ohio tax practice.

**Board Compensation**

Board members who are not employees of Cavco or any of its subsidiaries receive compensation in the amount of \$15,000 per year and \$1,000 for each board meeting attended. The chairperson of the audit committee receives \$4,000 per year for serving as such. In addition, each member of a board committee receives a fee of \$1,000 for each committee meeting attended.

Any new non-employee director will also receive, upon commencement of service, a grant of an option to purchase 10,000 shares of common stock. In addition, on an annual basis, each non-employee director receives a grant of an option to purchase 2,500 shares of common stock. The options have a seven-year term, a per share exercise price equal to the fair market value of a share of common stock of Cavco on the date of grant, and become exercisable at the rate of 25% on the date of grant and an additional 25% on each of the first three anniversaries of the date of grant. All rights to exercise the options terminate within four (4) months of the date that the non-employee director ceases to be a director of the Company for any reason other than death or disability. However, if the non-employee director held the position for at least ten (10) years, the options will vest on the date that the non-employee director ceases to be a director and all rights to exercise the options will terminate three (3) years thereafter.

All board members are reimbursed for reasonable expenses of attending board and committee meetings. Directors who are employees of Cavco or its subsidiaries receive no compensation for board service.

**Board and Committee Meetings**

During Cavco's fiscal year ended March 31, 2006, our board held four regularly scheduled meetings and two special meetings. Each of our incumbent directors attended at least 75% of the meetings of the board and board committees on which they served in fiscal year 2006.

All board members are expected to attend our annual meetings of stockholders, unless an emergency prevents them from doing so. At our 2005 annual meeting of stockholders, all directors who were serving at the time were present.



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**Director Nominating Process**

*Selection by Independent Directors.* The board of directors has adopted resolutions, as required by listing standards of the Nasdaq National Market and the NASD rules, providing for the nomination of directors by the independent directors of the board. Accordingly, the board of directors has not established a nominating committee. The board's director nominating process involves independent directors and the entire board and promotes flexibility and independence. Initially, director nominees are identified and screened by all independent directors. For any nominee to be placed on the Corporation's ballot for voting by the Corporation's stockholders at any Meeting of Stockholders of the Corporation, such nominee must first be approved by a majority of the independent directors of the Corporation (excluding such nominee), by a majority of all independent directors of the Corporation, and by a majority of the entire Board of Directors (first with the nominee abstaining, and then with the nominee voting). The board may form a nominating committee in the future at such time as the board determines that a committee structure is necessary or useful in the director nominating process.

*Director Qualifications.* The independent directors evaluate potential director nominees according to the following criteria:

decisions for nominating candidates are based on the business and corporate governance needs of Cavco. If the need for a director exists, then candidates are evaluated on the basis of merit, qualifications, performance and competency;

the independent directors consider the composition of the entire board when evaluating individual directors, including the diversity of experience and background represented by the board; the need for financial, business, academic, public or other expertise on the board and its committees; and the desire for directors working cooperatively to represent the best interests of Cavco, its stockholders and employees, and not any particular constituency;

a majority of our board must be comprised of independent directors in accordance with applicable SEC rules and Nasdaq National Market listing standards;

we seek directors with the highest personal and professional character and integrity who have outstanding records of accomplishment in diverse fields of endeavor, and who have obtained leadership positions in their chosen business or profession;

candidates must be willing and able to devote the necessary time to discharge their duties as a director, and should have the desire to represent and evaluate the interests of Cavco as a whole;

candidates must be free of conflicts of interest that would interfere with their ability to discharge their duties as a director or that would violate any applicable law or regulation; and

candidates must also meet any other criteria as determined by the independent directors, which may differ from time to time.

*Nominations by Stockholders.* Our bylaws also impose some procedural requirements on stockholders who wish to: make nominations for the election of directors;

propose that a director be removed; or

propose any other business to be brought before an annual meeting of stockholders.

Under these procedural requirements, in order to bring a proposal before a meeting of stockholders, a stockholder must deliver timely notice of a proposal pertaining to a proper subject for presentation at the meeting to our corporate secretary along with, among other specified information, the following:



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a description of the business or nomination to be brought before the meeting and the reasons for conducting such business at the meeting;

the stockholder's name and address;

the number of shares beneficially owned by the stockholder and evidence of such ownership;

the names of all persons with whom the stockholder is acting in concert and a description of all arrangements and understandings with such persons; and

the number of shares that such persons beneficially own.

To be timely, a stockholder must deliver notice:

in connection with an annual meeting of stockholders, not less than 90 nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of stockholders was held; or

in connection with a special meeting of stockholders, not less than 40 nor more than 60 days prior to the date of the special meeting.

In order to submit a nomination for our board of directors, a stockholder must also submit information with respect to the nominee that we would be required to include in a proxy statement, as well as other specified information. If a stockholder fails to follow the required procedures, the stockholder's nominee or proposal will be ineligible for election or other action and will not be voted on by our stockholders.

**Audit Committee**

Our audit committee is composed of three directors, Ms. Dout and Messrs. Bunger, and Thomas, who satisfy the independence requirements set forth in (1) Section 10A(m) of the Exchange Act and the rules adopted by the SEC thereunder and (2) applicable Nasdaq National Market listing standards and NASD rules. The audit committee functions under a charter, which was adopted by our board of directors on September 22, 2003. A copy of our Audit Committee Charter was included as Appendix A to our Definitive Proxy Statement filed for the fiscal year ended March 31, 2004.

The board of directors has determined that one or more of the members of the audit committee meets the definition of "audit committee financial expert" as such term is defined under SEC rules. Jacqueline Dout, the chairperson of the audit committee, is currently the Chief Financial Officer of Pella Corporation, a large, privately held company that produces building products. Prior to that position, Ms. Dout was the Executive Vice President and Chief Financial Officer of Champion Enterprises, Inc., a publicly traded company that builds and sells manufactured homes. Accordingly, she is one of the members of the audit committee who meets the definition of an "audit committee financial expert" under SEC rules.

The audit committee assists the board in its general oversight of (1) the quality and integrity of Cavco's accounting, auditing and financial reporting practices and processes, (2) the financial information to be provided to Cavco stockholders, (3) the systems of internal control established by management, the audit committee and the board, (4) compliance with Cavco's code of ethics, (5) the independence, qualification and performance of Cavco's independent auditors and (6) Cavco's internal and external audit process.

The following are certain key responsibilities of the audit committee:

the selection, appointment, compensation, evaluation, retention and oversight of the work of any independent auditors engaged to issue an audit report or related work or performing other audit, review or attest services for Cavco, including all audit engagement fees, and approving all non-audit services;

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establishment of procedures for (1) the receipt, retention and treatment of complaints received by Cavco regarding accounting, internal accounting controls or auditing matters and (2) the confidential, anonymous submission by Cavco employees of concerns regarding questionable accounting or auditing matters;

discuss the annual audited financial statements and quarterly financial statements of Cavco and other significant financial disclosures (including press releases and financial information and earnings guidance provided to analysts and, if applicable, rating agencies) with management and the independent auditors of Cavco;

discuss policies with respect to risk assessment and risk management;

prepare the report required to be included in Cavco's annual proxy statement regarding review of financial statements and auditor independence (the report for fiscal year 2006 is included below); and

review and reassess at least annually the adequacy of the audit committee charter and recommend appropriate changes to the board.

The audit committee also reviews Cavco's corporate compliance program. The audit committee meets separately with the independent auditors, outside the presence of Cavco's management or other employees, to discuss matters of concern, to receive recommendations or suggestions for change and to exchange relevant views and information.

During the last fiscal year, the audit committee met five times. All of the members attended all the meetings.

**Report of Audit Committee**

*To the Board of Directors of Cavco Industries, Inc.:*

*We have reviewed and discussed with management Cavco Industries, Inc.'s audited financial statements as of and for the year ended March 31, 2006.*

*We have discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended by Statement on Auditing Standards No. 90, Audit Committee Communications, by the Auditing Standards Board of the American Institute of Auditors.*

*We have received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standard No. 1, Independence Discussions with Audit Committees, as amended, by the Independence Standards Board, and have discussed with the auditors the auditors' independence. We have also considered whether the auditors' provision of non-audit services to Cavco Industries, Inc. and its affiliates is compatible with the auditors' independence.*

*Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in Cavco Industries, Inc.'s Annual Report on Form 10-K for the year ended March 31, 2006.*

**Audit Committee of the Board of Directors**

*Jacqueline Dout, Chairperson*

*Steven G. Bunger*

*Michael H. Thomas*

*April 28, 2006*

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**Compensation Committee**

Our compensation committee is composed of three non-employee directors, Ms. Dout and Messrs. Hanna, and Thomas, as defined by Rule 16b-3(b)(3) promulgated under the Exchange Act, who are independent under applicable Nasdaq National Market listing standards and NASD rules. A copy of our Compensation Committee Charter was included as Appendix B to our Definitive Proxy Statement filed for the fiscal year ended March 31, 2004. Pursuant to its charter, the compensation committee assists the board in:

assessing whether the various compensation programs of Cavco are designed to attract, motivate and retain the senior management necessary for Cavco to deliver superior results and are performance based, market driven and stockholder aligned;

its oversight of specific incentive compensation plans adopted by Cavco, with the approval of the compensation committee, including stock plans and short-term and long-term incentive compensation plans for members of senior management of Cavco;

its approval, review and oversight of benefit plans of Cavco; and

its oversight of the performance and compensation of the Chief Executive Officer of Cavco and the other members of senior management of Cavco.

During the last fiscal year, the compensation committee met once. All the members attended the meeting.

**Communicating With Our Board**

You can communicate with any member of our board of directors by sending the communication to Cavco Industries, Inc., 1001 N. Central Avenue, Suite 800, Phoenix, Arizona 85004, to the attention of the director or directors of your choice. We relay these communications addressed in this manner as appropriate. Communications addressed to the attention of The Board of Directors are forwarded to the chairperson of our audit committee for review and further handling.

**Table of Contents****EXECUTIVE COMPENSATION**

The following table sets forth the cash and non-cash compensation for each of the last three fiscal years (or such shorter period of time during which such person was an executive officer) awarded to or earned by the Chief Executive Officer of Cavco, the other executive officer of Cavco at the end of fiscal year 2006 and two former executive officers. We refer to these persons as the named executive officers.

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation Awards		All Other Compensation (\$)(5)
		Salary (\$)	Bonus (\$)	Restricted Stock Award(s) (\$)	Securities Underlying Options (1) (#)	
Joseph H. Stegmayer, Chairman of the Board, President and Chief Executive Officer	2006	245,337	1,357,336		65,500	
	2005	235,688	927,360		68,000	
	2004	225,000	477,240	1,000,000 (2)	377,580	
Daniel L. Urness, Vice President, Chief Financial Officer and Treasurer (3)	2006	120,519	51,750			2,368
David L. Blank, Vice President and General Manager (Litchfield) (4)	2006	114,231	459,720			2,000
	2005	157,125	338,353		10,000	1,247
	2004	150,000	176,777		40,000	3,719
Sean K. Nolen, Vice President, Chief Financial Officer, Treasurer and Secretary (4)	2006	127,212				1,300
	2005	157,125	200,000		6,000	2,840
	2004	150,000	151,500		100,000	5,000

(1) On January 31, 2005, in accordance with the terms of the Cavco Industries, Inc. Stock Incentive Plan, we made proportionate adjustments to all outstanding Cavco stock options to take into account the

two-for-one split of Cavco common stock effected on that date. The stock option share numbers for fiscal years 2004 and 2005 under the column

Securities Underlying Options reflect these adjustments.

- (2) In fiscal year 2004, in connection with the spin-off of Cavco from Centex Corporation, Cavco granted to Mr. Stegmayer an award of restricted stock. The award was made pursuant to Mr. Stegmayer's employment agreement and is evidenced by a restricted stock award agreement dated as of July 7, 2003. The value shown in the table is the number of shares of restricted stock granted to Mr. Stegmayer (55,096 shares, each of which was split into

two shares pursuant to the January 2005 two-for-one stock split) times the closing price of Cavco common stock on the Nasdaq National Market on July 7, 2003, the effective date of the award. The value does not reflect a discount for the fact that the shares are restricted. Mr. Stegmayer is entitled to receive dividends on the restricted shares; however, Cavco does not expect to pay dividends on its common stock in the foreseeable future. Mr. Stegmayer also has the right to vote the restricted shares, but the shares cannot be sold and are subject to forfeiture during the restricted period.



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The restricted stock vests 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 so long as Mr. Stegmayer continues to be employed by Cavco.

As of March 31, 2006, 75% of Mr. Stegmayer's restricted stock award (representing 82,644 shares on a post-split basis) had vested. Accordingly, as of that date, Mr. Stegmayer's remaining restricted stock totaled 27,548 shares (on a post-split basis), valued at \$1,338,557, (based on the closing price of Cavco common stock on the Nasdaq National Market on that date).

- (3) Mr. Urness became a named executive officer of Cavco in fiscal year 2006. No fiscal year 2005 or 2004 compensation information is reported for Mr. Urness because he was not an executive officer of Cavco in those years.
- (4) Mr. Blank was an executive officer of Cavco until August 11, 2005 when he was named Vice President and General Manager - Litchfield.
- (5) Mr. Nolen resigned as Vice President, Chief Financial Officer, Treasurer and Secretary of Cavco effective August 11, 2005, and resigned as an employee of Cavco effective December 31, 2005. Mr. Nolen's compensation as set forth in the above compensation table includes salary and bonus

for all positions held in fiscal year 2006.

- (6) Represents matching contributions to the named executive officer under or relating to Cavco's 401(k) plan for the indicated fiscal year.

### Option Grants in Last Fiscal Year (1)

Name	Individual Grants		Exercise Price (\$/Sh) (2)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year			5% (\$)	10% (\$)
Joseph H. Stegmayer	65,500	100%	27.55	5/17/2012	734,623	1,711,984
Daniel L. Urness						
David L. Blank						
Sean K. Nolen						

- (1) Amounts set forth in the table reflect the number and value of options only. Cavco has not issued any stock appreciation rights.

- (2) These options were granted under the Cavco Industries, Inc. Stock Incentive

Plan at an exercise price equal to the closing price of Cavco common stock on the Nasdaq National Market on May 17, 2005, the date of grant. These options become exercisable at the rate of 25% on the date of grant and 25% on each of the first three anniversaries of the date of grant.

**Table of Contents****Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values (1)**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) (2)		Value of Unexercised In-the-Money Options at Fiscal Year-End (\$) (3)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Joseph H. Stegmayer			333,560	177,520	11,805,762	5,502,041
Daniel L. Urness			32,500	17,500	1,182,675	584,825
David L. Blank						
Sean K. Nolen	60,500	1,624,093	6,000		209,565	

(1) Amounts set forth in the table reflect the number and value of options only. Cav