FORM 10-K

Annual report pursuant to section 13 and 15(d)

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CAVCO INDUSTRIES INC

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SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 1996 Commission File 0-8822

CAVCO INDUSTRIES, INC.

An Arizona Corporation No. 86-0214910

1001 North Central, 8th Floor, Phoenix, AZ 85004

Registrant's Telephone No. (602) 256-6263

Securities registered pursuant to Section 12(b) of the Act:

<TABLE>
<CAPTION>

Title of each Class	Name of each exchange on which registered
<S>	<C>
None	None

</TABLE>

Securities registered pursuant to Section 12(g) of the Act:

Five cent ($.05) Par Value Common Stock

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of November 30, 1996 was $28,035,371.

As of November 30, 1996, the issuer had 3,387,968 shares of its five cent ($.05) par value Common Stock outstanding.

The Exhibit Index is located on Page .

The total number of pages is .

PART I

ITEM 1: BUSINESS

RECENT DEVELOPMENTS: PROPOSED MERGER.

On December 4, 1996, Cavco Industries, Inc. ("Cavco" or the "Company") entered into an Agreement and Plan of Merger ("Merger Agreement") by and among Cavco, Centex Real Estate Corporation ("CREC"), MFH Holding Company, a Nevada corporation (the "Holding Company"), MFH Acquisition Company, an Arizona corporation and wholly-owned subsidiary of the Holding Company (the "Merger Subsidiary") and certain shareholders of Cavco, Al R. Ghelfi, the Chairman of Cavco, his spouse, Janet M. Ghelfi, and Janal Limited Partnership, an Arizona limited partnership ("Janal") (the "Shareholder Parties"). The purpose of the transactions contemplated by the Merger Agreement is to effect the acquisition by CREC, through its ownership of shares in the Holding Company, of approximately 78% of the equity interest in Cavco, with the remaining approximately 22% equity interest to be retained by the Shareholder Parties through their ownership of shares in the Holding Company. If the transactions

contemplated by the Merger Agreement are consummated, all shares of Cavco Common Stock held by shareholders of Cavco other than the Shareholder Parties, together with 1,047,288 shares of Cavco Common Stock held by the Shareholder Parties, will be converted into the right to receive $26.75 in cash (or in the case of shareholders who exercise appraisal rights, the amount determined under applicable law). Consummation of the transactions contemplated by the Merger Agreement is subject to certain conditions, including the approval of a majority of the outstanding shares of Cavco common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this Form 10-K for additional information concerning the transactions contemplated by the Merger Agreement.

(a) GENERAL

Cavco is the largest manufacturer of residential and recreational manufactured housing in Arizona. The Company began as an unincorporated association in 1965, manufacturing truck campers under the name Roadrunner Manufacturing Company. In 1966, the Company changed its name to Cavalier Manufacturing Company and it incorporated in 1968. In 1974, the Company changed its name to Cavco Industries, Inc.

In November 1986, the Company began manufacturing relocatable commercial modular structures for sale or lease, marketed by a division of the Company doing business as CVC Leasing ("CVC"). In August 1994, the Company sold the relocatable commercial modular structures business of CVC and founded National Security Containers, Inc. ("NSC") to market and lease security storage containers and trailer vans. The Company owns 100% of NSC's stock.

In March 1987 the Company founded Action Healthcare Management Services, Inc., ("Action," formerly known as Action Health Care, Inc.) to provide health care utilization management and other health care services. The Company owned approximately 93% of Action's stock. The Company sold the assets of Action on September 30, 1996.

In December 1991, the Company founded Sun Built Homes, Inc., ("Sun Built") to develop manufactured housing subdivisions and sell manufactured homes in established subdivisions. The Company owns 100% of Sun Built's stock.

The Company's executive office is located at 1001 N. Central, 8th Floor, Phoenix, Arizona 85004. Its telephone number is (602) 256-6263.

(b) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company operates principally in three industries: manufactured housing, leasing, and real estate development. Information with respect to net sales, operating profit (loss) and identifiable assets by industry segment is set forth in Note 11 of the Notes to Consolidated Financial Statements in Part II of this Form 10-K.

(c) NARRATIVE DESCRIPTION OF BUSINESS

I. MANUFACTURED HOUSING

DESCRIPTION OF BUSINESS

The Company is a manufacturer of quality residential and recreational manufactured housing. Cavco's manufactured housing products are manufactured in one of three facilities located in Arizona and transported in one or more sections for installation utilizing their own chassis on either temporary or permanent foundations. Although Cavco's manufactured housing products are designed to be transportable, fewer than five percent are ever moved from their original site after installation.

The Company is subject to the regulations of federal and state agencies which dictate building codes for manufactured housing. In manufacturing its homes, Cavco implements efficient assembly line techniques and uses materials similar to those used in site-built homes. The Company purchases components from outside sources, installs electrical, plumbing and heating systems and fabricates sub-floors, walls and cabinets. Interior walls are constructed with a drywall material and exterior walls from wood products, vinyl lap, aluminum or anodized steel; roof construction utilizes asphalt shingles or galvanized steel.

Cavco's housing products are distributed under various trademarks, with models available in a variety of floorplans ranging in size of approximately

399 square feet for a recreational/retirement park home to a range of 546 to 2,026 square feet for a residential home. A typical home includes a living room, dining room, one or two baths and one or more bedrooms. The base price of the Company's homes includes carpeting, major appliances, draperies and forced air furnaces. The Company offers numerous options and customizes models to meet the needs of different geographical areas. Retail prices of the Company's homes range from $19,000 to $100,000. The average price of a recreational/retirement park home is approximately $28,000, and the average price of a residential home is approximately $40,000.

METHOD OF DISTRIBUTION

The Company sells its manufactured homes through a network of independent dealers and generally does not sell products directly to the general public, except for sales in certain subdivisions developed by the Company's Sun Built subsidiary. See "Description of Business -- Real Estate Development." The retail prices of the Company's manufactured homes are set by

individual dealers and not by the Company. Many of the Company's independent dealers operate more than one retail outlet. The Company presently has approximately 200 outlets in 10 states, Canada and Japan, of which there are approximately 103 in Arizona, 27 in New Mexico, 20 in Colorado, 15 in Utah, 6 in Texas, 4 each in Nevada and Washington, 3 in California, 2 in Idaho, 1 in Oregon, 7 in Canada and 8 in Japan. Most of the Company's dealers sell competing products, although from time to time the Company also may enter into exclusive agreements with certain dealers.

The Company's dealers finance their purchase of manufactured homes through floor plan financing arrangements with third-party lenders. Generally, the Company receives a commitment from the dealer's lender for each order, which is earmarked for the home ordered, identified by its serial number. The Company then manufactures the home and ships it to the dealer. The dealer is responsible for all shipping costs. Payment is due from the third party floor plan lender upon the dealer's notice of delivery and acceptance of the product. The length of time it takes to manufacture and ship a home after an order is placed varies according to the Company's backlog.

The Company is contingently liable under terms of repurchase agreements with the third party lenders that provide dealer floor plan financing arrangements. These arrangements, which are customary in the industry, provide for the repurchase of the manufacturer's products in the event the dealer defaults on payments. The risk of loss is spread over numerous dealers and financing institutions and is further offset by the resale value of repurchased units. The Company has not incurred any significant losses from these arrangements since its inception.

The Company extends a limited warranty to original retail purchasers of manufactured housing products. The Company warrants structural components for 12 months and nonstructural components for 90 days. The Company's warranty does not extend to installation, setup or appliances. Appliances are warranted by their original manufacturer.

SOURCES AND AVAILABILITY OF RAW MATERIALS

The Company has not experienced any material difficulty in purchasing its raw materials or component parts. The Company buys wood, wood products, aluminum, steel, tires, hardware, windows and doors from manufacturers and distributors located primarily in California and Arizona. Approximately 39 percent of the unit cost of the Company's manufactured homes is attributable to raw wood products. The majority of the other component parts of the Company's homes are purchased manufactured components.

PATENTS, TRADEMARKS AND LICENSES

The Company does not own any material patents, licenses, franchises, trademarks or concessions in connection with its manufactured housing business. The Company does not sell or grant franchises to its dealers.

SEASONALITY

The Company's manufactured housing business is not seasonal.

INVENTORY

The Company does not maintain a significant finished product inventory.

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CUSTOMERS

The Company currently has approximately 200 independent dealer outlets. No dealer exceeded 10% of the Company's sales volume for the year ended September 30, 1996. The Company does not believe that the loss of any dealer would have a material adverse effect on the Company.

BACKLOG

The Company's backlog of firm orders for manufactured homes as of September 30, 1996 was approximately $11,500,000 (710 floors) as compared with September 30, 1995, when the backlog was approximately $19,300,000. The Company currently requires approximately six to eight weeks to fill an order. The Company presently anticipates that the entire backlog at September 30, 1996 will be filled during the 1997 fiscal year.

GOVERNMENT CONTRACTS

None of the Company's business is subject to renegotiation of profits or termination of contracts at the election of the government.

COMPETITION

The Company sells its manufactured housing products through independent dealers located in the states of Arizona, New Mexico, Colorado, Utah, Texas, Nevada, Washington, California, Idaho, Oregon, as well as Canada and Japan. The Company estimates that there are approximately 7 other manufacturers competing for a significant share of the Arizona market. The Company believes that its business represents an approximate 31% share of the Arizona market and a small share of the market in such other states. The largest competitors of the Company are Fleetwood Enterprises, Palm Harbor Homes, Inc., Schult Homes Corporation and Champion Enterprises, Inc. Most of these competitors have manufacturing facilities in Arizona and all have significantly greater financial, manufacturing and marketing resources than Cavco. The Company believes that competition in the manufactured housing industry is being affected by consolidation and by increasing competition from geographically diversified companies and vertically integrated competitors that combine manufacturing operations with other complementary services and operations, such as a retail sales network, mortgage financing, insurance and other services. The Company believes the principal factors affecting competition in the manufactured housing market are price, product quality and reliability, reputation and service.

RESEARCH AND DEVELOPMENT

During the last two fiscal years, the amount the Company has spent on research and development was immaterial.

ENVIRONMENTAL CONTROLS

The Company believes that compliance with federal, state and local environmental protection regulations will not have a material adverse effect on its capital expenditures, earnings or competitive position.

EMPLOYEES

The Company employs approximately 1,056 people in its manufacturing segment. Of these, 93 are salaried managerial, office and clerical workers; 946 are hourly production workers, and 17 are commissioned salespeople.

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FOREIGN OPERATIONS

The Company does not have any foreign operations.

II. LEASING OPERATIONS

DESCRIPTION OF BUSINESS

The Company sells and leases security storage containers ("containers") and trailer vans ("vans") through its NSC subsidiary. The containers are used ocean cargo containers, previously used for secure overseas shipment of packaged

goods. The Company purchases the containers from various vendors and refurbishes them at its own fabricating facility or by using various outside contractors. The Company patches, sands, repaints and installs its patented locking units on the containers before transferring them to its leasing branch offices. The vans are purchased from various transportation companies usually through brokers, transported to the Company's leasing branches and refurbished at its own facilities or using outside contractors. Generally, the vans leased by the Company are used for ground transportation of goods.

METHOD OF DISTRIBUTION

NSC currently sells or leases containers and vans directly to customers through nine offices located in Arizona, Texas, Colorado, Louisiana and Tennessee. At the customer's request, NSC will contract or use its own equipment to deliver the container or van to the customer's site. Pricing is dependent upon competition and demand within each geographical area.

SOURCES AND AVAILABILITY OF PRODUCTS

NSC has not experienced, and does not anticipate, any significant difficulty in purchasing containers or trailer vans in sufficient quantity to supply its business.

PATENTS, TRADEMARKS AND LICENSES

NSC owns a patent on a single lever locking system designed to secure its containers. The patent expires in June 2014.

GOVERNMENT CONTRACTS

None of NSC's business is subject to renegotiation of profits or termination of contracts at the election of the government.

COMPETITION

Competition in the container and van leasing business in the Company's markets consists primarily of privately owned companies that concentrate on container sales. The Company believes that the principal factors affecting competition in the leasing business are price and service.

RESEARCH AND DEVELOPMENT

During the year, the amount NSC has spent on research and development was immaterial.

CUSTOMERS; SEASONALITY

NSC sells or leases containers and vans directly to any business with a need for additional storage space. Typical customers include retail stores, construction companies, and educational and government institutions. NSC experiences seasonal upturns during holiday periods, when retailers require storage space for extra merchandise. The terms of the leases generally range from

one month to three years, with an average rental period of six months. The Company believes that there is increasing demand throughout the business community for secure storage due to increasing theft and vandalism. The business of NSC is not dependent upon any one customer.

ENVIRONMENTAL CONTROLS

The Company believes that compliance with federal, state and local environmental protection regulations will not have a material adverse effect on the capital expenditures, earnings or competitive position of NSC.

EMPLOYEES

NSC has approximately 71 employees. Of these, approximately 6 are executives or managers, 10 are branch managers, 14 are sales representatives, 29 are hourly production and transportation workers, and 12 are office and clerical workers.

FOREIGN OPERATIONS

NSC does not have any foreign operations.

III. REAL ESTATE DEVELOPMENT

DESCRIPTION OF BUSINESS

The Company organized its Sun Built subsidiary in December 1991, to develop manufactured housing subdivisions, purchase developed lots and to sell manufactured homes in established subdivisions. The Company has generally sought to acquire land with the intent to complete the sale of housing units within 36 to 60 months from the date of acquisition. Generally, this involves acquiring land that is properly zoned and is either ready for development or already developed. Homes sold by Sun Built are manufactured by the Company at the Company's existing manufacturing plants. The average size of these homes ranges from 576 to 1,800 square feet, with retail selling prices ranging from $30,200 to $86,800, excluding the land. Competition is intense in the residential development market. Pricing is dependent upon competition and demand within each geographical area.

METHOD OF DISTRIBUTION

Sun Built sells lots in its subdivisions and manufactured homes directly to the consumer. Sun Built does not provide financing to its customers, but may from time to time assist customers in obtaining third party lender financing. Sun Built distributes its products through fully developed subdivisions in which Sun Built either has an agreement to sell the homes or may have a percentage of ownership.

SOURCES AND AVAILABILITY OF PRODUCTS

Sun Built has not experienced, and does not anticipate, any problems in purchasing its manufactured homes, all of which are produced by the Company.

PATENTS, TRADEMARKS AND LICENSES

Sun Built does not own any materially significant patents, licenses, franchises, trademarks or concessions. Sun Built does not sell or grant franchises.

GOVERNMENT CONTRACTS

None of Sun Built's business is subject to renegotiation of profits or termination of contracts at the election of the government.

COMPETITION

Sun Built competes with a large number of firms, most of which have substantially greater financial, marketing and development resources than Sun Built. To date, all of Sun Built's development and sale of lots and manufactured homes has been made in Arizona. The residential housing industry is essentially a local business and is intensely competitive. The industry is cyclical and is affected by changes in local economic conditions, long-term and short-term interest rates, federal mortgage financing programs and, to a lesser extent, changes in property taxes and energy costs, federal income tax laws and various demographic factors. The Company believes the main competitive factors affecting Sun Built's operations are price, location, quality and design of homes, availability and cost of land, development and product acquisition cost, marketability and reputation.

RESEARCH AND DEVELOPMENT

During the last fiscal year, the amount Sun Built has spent on research and development was immaterial.

ENVIRONMENTAL CONTROLS

The Company believes that compliance with federal, state and local environmental protection regulations will not have a material adverse effect on the capital expenditures, earnings or competitive position of Sun Built.

EMPLOYEES

Sun Built has 2 employees: 1 project manager and 1 salesperson.

FOREIGN OPERATIONS

Sun Built does not have any foreign operations.

ITEM 2: PROPERTIES

I. MANUFACTURED HOUSING

The Company's executive, accounting and engineering offices are located at 1001 N. Central Avenue, Suite 800, Phoenix, Arizona. In June, 1996, the Company entered into a 5-year lease for 20,188 square feet of office space. Approximately 5,000 square feet is occupied by offices of NSC. Lease payments total $18,506 per month for the first two years, $18,926 for the third year, and $19,347 for the fourth and fifth years. The Company may exercise two 5-year options on the property.

The Company entered into a 5-year lease in February, 1993, consisting of approximately 188,000 square feet which are primarily production facilities with some office space, located at 1300 S. Litchfield Road, Goodyear, Arizona. In December, 1993, The Company added 5,860 square feet to the lease. The Company produces manufactured homes on this property. The cost

of the lease is $18,423 per month. The Company has three 5-year options it may exercise on this property.

The Company acquired the manufacturing facilities located at 2502 W. Durango, Phoenix, Arizona in August, 1988. On this property are buildings totaling approximately 75,000 square feet, which are primarily production facilities with some office space. The Company produces manufactured homes on this property. The loan on this property is amortized over a 13 year term. A payment of $8,070, plus interest at prime plus 1%, is due monthly, with the balance due and payable in August, 2002. Debt secured by the property totaled $1,154,068 and $1,250,913 at September 30, 1996 and 1995, respectively.

The Company leases approximately 4.7 acres of property at 1700 S. 27th Avenue, Phoenix, Arizona. The property is used as a holding yard for finished homes until they are shipped to dealers. The original terms of the lease run from February 1, 1994 to January 31, 1999, with monthly rent at $1,721. The lease provides for two 5-year extension options, and a purchase option of $256,000 at the effective date of the lease, escalating at 4% per year.

The Company owns manufacturing facilities located at 3502 W. Lower Buckeye Road, Phoenix, Arizona. On this property are buildings which contain approximately 60,000 square feet, primarily production facilities with some office space. The Company produces recreational and residential homes on this property. There is no mortgage on this property.

In September, 1996 the Company purchased approximately 22 acres of land located at 80 Don Luis Trijello Blvd., Belen, New Mexico. The Company is building a 140,000 square foot production facility on this property, which will include 8,000 square feet of office space. Total construction costs will approximate $4.8 million. The facility will be used to produce manufactured homes. Production is scheduled to begin in fiscal 1997, under a newly formed subsidiary, Cavco Industries of New Mexico, Inc.

All of the properties on which the Company's plants are located contain sufficient room to expand production, if necessary. The Company believes its plants, equipment and offices are in good condition and are adequate for the Company's foreseeable business requirements.

II. LEASING OPERATIONS

NSC's executive and accounting offices are located at 1001 N. Central Avenue, Suite 800, Phoenix, Arizona. See first paragraph of Manufactured Housing section above.

NSC's Phoenix branch is located at 2229 W. Roosevelt, Phoenix, Arizona. In June, 1994, NSC entered into a 3-year lease, commencing September 1, 1994 for a 2.5 acre lot with a 2,100 square foot building. Monthly lease payments are $2,500. NSC uses the property for its leasing and sales office, and to store unleased containers.

NSC's Tucson branch is located at 7011 N. Camino Martin, Tucson, Arizona. In October, 1996 NSC entered into a 3-year lease. Monthly lease payments are $915. NSC uses the property for its leasing and sales office, and to store unleased containers.

NSC has a leasing and sales location on rented property at 15960 East Colfax Avenue, Aurora, Colorado. The lease is effective December 1, 1995 and expires November 30, 2000. Monthly rent is $2,250. NSC uses the property for its leasing and sales office, and to store unleased containers.

In January, 1996 NSC became the assignee of a lease for premises at 1819 W. Northwest Highway, Dallas, Texas. The property consists of approximately 8.16 acres of land with office and warehouse space. NSC uses the property for its leasing and sales office, as well as for storage of unleased containers and trailer vans. The lease terminates on December 31, 2000 and requires rent payments of $4,500 per month.

NSC entered into a 5-year lease, commencing August 1, 1994 for approximately 2.25 acres of fenced-in land with a 2,400 square foot office building and a 2,800 square foot maintenance building. The property is located at 13390 I-35 South, Von Orney, Texas. One of the buildings is used as a leasing and sales office for NSC's San Antonio branch. The other building is used for repair and maintenance of containers. The land is also used to store unleased containers and trailer vans. Monthly rent on the property totals $2,250. NSC has an option to renew the lease for an additional 5-year term.

NSC relocated its Houston branch to 11827 Eastex Freeway, Houston, Texas. The property consists of approximately 8.81 acres of land, which will be used for storage of unleased containers and trailer vans. NSC purchased a modular office building to use as a leasing and sales office at this location. The lease term of the property is 36 months, commencing December 1, 1995, with monthly rent of $4,000.

NSC's Houston branch was formerly located at 12350 Amelia, Houston, Texas. NSC leased a building and a 2.055 acre tract of land. The lease continues through June 10, 1999. Rent on the property is $1,200 per month.

Also in Houston, NSC leases a building and a one acre tract of land in the James Hamilton Survey No. 53 in Harris County, Texas. On these premises, NSC refurbishes and stores purchased containers before they are transferred to the leasing branches. Current monthly rent is $1,900 and increases to $2,000 per month in August 1996. The lease commenced August 1, 1994 and terminates July 31, 1997.

In May, 1995, NSC purchased 8 acres of land at 7180 Copper Queen, El Paso, Texas. The Company constructed a maintenance facility on the property for refurbishment and repair of its lease fleet. The facility is approximately 7,500 square feet and includes 2,688 square feet of office and warehouse space.

NSC leases a 10 acre parcel of land at Lot #D, Block 4, Copperfield Industrial Park, El Paso, Texas. The Company uses the land for storage of its trailer vans. Monthly rent payments are $4,400. The lease commenced in November, 1996 and terminates in May, 1997, at which point it continues on a month-to-month basis.

III. REAL ESTATE DEVELOPMENT

A Sun Built sales office is located at 496 W. Windham Blvd., Green Valley, Arizona, in a model home at its Canyon View subdivision. The home is 1,010 square feet. The home and land were purchased by Sun Built for approximately $91,000.

ITEM 3: LEGAL PROCEEDINGS

The Company is subject to certain legal proceedings and claims that arise in the conduct of its business. In the opinion of management, the amount of liability, if any, as a result of these claims and proceedings is not likely to have a material effect on the financial condition or results of operations of the Company.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the shareholders of the Company during the fourth quarter of the 1996 fiscal year.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The Registrant's stock is traded over the counter through the National Association of Securities Dealers under the symbol CVCO. The following quotations reflect inter-dealer prices without retail mark-up or mark-down or commission and may not necessarily represent actual transactions. All prices have been adjusted (rounded to nearest 1/8) to reflect a three-for-two stock split effective December 1994.

Year Ended September 30, 1996

<TABLE>
<CAPTION>

	Bid		Asked	
	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>
First Quarter	12-1/8	9-3/4	12-3/4	10-1/2
Second Quarter	14-3/4	11-1/2	15-1/4	12-1/4
Third Quarter	18	13	18-1/4	13-3/4
Fourth Quarter	19-3/4	13-5/8	20-3/8	14-3/8

</TABLE>

Year Ended September 30, 1995

<TABLE>
<CAPTION>

	Bid		Asked	
	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>
First Quarter	13-5/6	10-5/6	14-1/2	11-1/2
Second Quarter	12	9-3/4	13	10-1/4
Third Quarter	11-3/4	8-1/2	12-3/4	9
Fourth Quarter	10-3/8	8-3/4	11-1/4	9-3/4

</TABLE>

(The source of the above quotation is NASDAQ.)

(b) As of September 30, 1996, there were approximately 241 record holders of the Company's Common Stock.

The Company has never paid dividends and has no plans to pay dividends in the foreseeable future in the event that the transactions contemplated by the Merger Agreement are not consummated for any reason. Certain financial covenants in loan agreements to which the Company is a party restrict the payment of dividends. See Note 5 of Notes to Consolidated Financial Statements. In the event that the transactions contemplated by the Merger Agreement are consummated, or alternatively, in the event that the Merger Agreement is terminated in certain circumstances, the Shareholder Parties and CREC have entered into certain agreements to cause the Company to pay dividends in certain circumstances. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this Form 10-K.

ITEM 6: SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein. The selected financial data presented below have been derived from the Company's consolidated financial statements which have

been audited by Arthur Andersen LLP, independent public accountants, whose report covering the consolidated balance sheets as of September 30, 1996 and 1995 and the related consolidated statements of earnings and cash flows for each of the three years in the period ended September 30, 1996 also is included elsewhere herein. The consolidated statement of earnings data for the years ended September 30,1993 and 1992 and the consolidated balance sheet data as of September 30, 1994, 1993, and 1992 are derived from audited financial statements not included herein.

<TABLE>
<CAPTION>

	Five Year Summary of Financial Data Years Ended September 30,				
	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Earnings Statement Data:					
Net sales	$130,105,136	112,682,132	90,596,038	56,326,371	41,622,896
Net income from continuing operations	$ 6,932,958	4,643,662	3,897,192	1,897,160	1,371,055
Income per share from continuing operations	$ 2.05	1.37	1.15	.56	.41
Balance Sheet Data:					
Total assets	$ 65,445,890	51,811,939	41,878,513	30,703,330	25,875,595
Long term obligations	$ 17,149,739	13,970,960	6,013,047	7,853,985	7,209,131
Net stockholders' equity	$ 28,670,656	22,383,195	18,145,544	11,467,392	9,325,115

</TABLE>

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RECENT DEVELOPMENTS: PROPOSED MERGER

On December 4, 1996, Cavco entered into the Merger Agreement by and among Cavco, CREC, the Holding Company, the Merger Subsidiary and the Shareholder Parties. The Shareholder Parties are Al R. Ghelfi, the Chairman of Cavco, his spouse, Janet M. Ghelfi and Janal, an Arizona limited partnership. The general partners of Janal are trusts of which Al R. Ghelfi and Janet M. Ghelfi are the sole trustees. Janal is the holder of 1,650,000 shares of Cavco common stock, representing approximately 48.7% of the outstanding shares. Al R. Ghelfi and Janet M. Ghelfi individually hold, as their community property, an additional 180,729 shares of Cavco common stock, representing approximately 5.32% of the outstanding shares.

The purpose of the Merger Agreement is to effect the acquisition by CREC, through its ownership of shares in the Holding Company, of approximately 78% of the equity interest in Cavco, with the remaining approximately 22% equity interest to be retained by the Shareholder Parties through their ownership of shares in the Holding Company. If the transactions contemplated by the Merger Agreement are consummated, all shares of Cavco Common Stock held by shareholders of Cavco other than the Shareholder Parties, together with 1,047,288 shares of Cavco Common Stock held by the Shareholder Parties, will be converted into the right to receive $26.75 in cash (or in the case of shareholders who exercise appraisal rights, the amount determined under applicable law), as more particularly described below.

Consummation of the transactions set forth in the Merger Agreement is conditioned, among other things, upon the Merger Agreement being approved and adopted by the holders of a majority of the outstanding shares of Cavco Common Stock, expiration of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act, absence of any injunction or certain other legal matters restraining or prohibiting such transactions, the truth and accuracy of certain representations and warranties, compliance with certain covenants contained in the Merger Agreement and other usual and customary closing conditions.

If the transactions contemplated by the Merger Agreement are consummated, the Merger Subsidiary will merge with and into Cavco (the "Merger"), the Shareholder Parties will contribute 783,441 shares of Cavco Common Stock to the Holding Company in exchange for Holding Company shares, and all other shares of Cavco Common Stock (other than shares held by shareholders

who exercise appraisal rights under Arizona law) will be converted into the right to receive $26.75 per share in cash (the "Merger Consideration"). In exchange for Holding Company shares, CREC will contribute cash to the Holding Company in an amount sufficient to pay the Merger Consideration and any amounts payable to dissenting shareholders. Each Merger Subsidiary share that is outstanding will be converted into the right to receive one share of common stock in Cavco, as the surviving corporation, and the corporate existence of the Merger Subsidiary will cease.

Upon consummation of the transactions contemplated by the Merger Agreement, Cavco, as the surviving corporation, will be a wholly owned subsidiary of the Holding Company. CREC will hold approximately 78% of the common stock of the Holding Company, and the Shareholder Parties will hold the remaining approximately 22% of such common stock. CREC, the Holding Company and the Shareholder Parties have agreed to enter into a Shareholders'

Agreement upon consummation of the Merger, pursuant to which all of their shares will be subject to certain transfer restrictions, and the shares held by the Shareholder Parties will be subject to certain put options (beginning in 2000) and certain call options (beginning in 2002) whereby CREC may acquire all of the Shareholder Parties' interest in the Holding Company on the terms and conditions set forth therein (the "Holding Company Shareholders' Agreement"). The Holding Company Shareholders' Agreement also provides for certain rights of the Shareholder Parties and CREC to designate directors, super-majority board approval requirements for significant actions and transactions and agreements relating to the payment of dividends. The descriptions set forth in this Report of the transactions contemplated by the Merger Agreement and the proposed Holding Company Shareholders' Agreement are qualified in their entirety by reference to the Merger Agreement, a copy of which is incorporated herein by reference as an Exhibit to this Report, and to the Holding Company Shareholders' Agreement, a copy of which is attached as Exhibit D to the Merger Agreement.

The Merger Agreement provides that the Merger Agreement may be terminated by the parties in certain circumstances, including by mutual consent, or by either party in the event of (i) regulatory, governmental or judicial actions restraining or prohibiting the transaction, (ii) failure to obtain the required shareholder approval, (iii) a material violation or breach by the other party of the representations, warranties and covenants contained in the Merger Agreement, or (iv) failure to consummate the Merger by December 31, 1997. In addition, either party may terminate the Merger Agreement in the event the Board of Directors of Cavco shall have authorized Cavco to enter into an agreement with a third party with respect to an alternative acquisition proposal meeting certain conditions specified in the Merger Agreement, as summarized below.

Cavco has agreed that, upon execution of the Merger Agreement and until the transactions contemplated thereby have been consummated (or until the Merger Agreement is terminated), neither Cavco nor its representatives will initiate any contact with, solicit, encourage or enter into or continue any discussions, negotiations, understandings or agreements with any third parties with respect to any other acquisition proposal or disclose any non-public information regarding Cavco or any of its businesses to such third parties. Notwithstanding the foregoing, to the extent that the Board of Directors of Cavco (or a committee thereof) reasonably determines based on the advice of its counsel that it is required to do so by virtue of its fiduciary obligations under applicable law, the Company may furnish and discuss non-public information concerning Cavco or its businesses in response to unsolicited requests therefor and may participate in discussions and negotiations and enter into agreements regarding an alternative transaction, provided certain conditions are met. In general, Cavco may furnish and discuss such information with any third party the Board of Directors reasonably determines is financially qualified to consummate a proposed transaction and may enter into negotiations with such a third party if (i) the consideration to be paid to the shareholders other than the Shareholder Parties under the alternative transaction exceeds by at least $1,000,000 the amount payable to such shareholders under the Merger Agreement; (ii) the alternative transaction is not subject to any conditions or limitations which make it not likely to be consummated; (iii) the terms and conditions of the alternative transaction are no less favorable to such shareholders than the transactions contemplated by the Merger Agreement, (iv) Cavco shall have timely notified CREC of the alternative transaction and (v) CREC shall not have delivered to Cavco a counteroffer topping such alternative transaction by at least $1,000,000 in consideration to the shareholders other than the Shareholder Parties (a "Topping Offer"). In general, Cavco may enter into an agreement with a third party with respect to such transaction if (i) the foregoing

conditions are met, (ii) the third party offer has not been materially and adversely modified, (iii) at least ten days shall have passed since CREC was notified, and CREC shall not have responded with a Topping Offer and (iv) Cavco has paid to CREC certain termination fees and expenses described below.

The Merger Agreement provides for payment to CREC by Cavco of a termination fee of $2,500,000 and reimbursement of certain expenses in an amount up to $300,000 in the event that the Merger Agreement is terminated by Cavco in order to accept an alternative proposal from a third party as described above, or if the Merger Agreement is terminated for any other reason, other than (i) by mutual consent; (ii) certain governmental actions restraining or prohibiting the transaction; (iii) because the Merger has not been consummated by December 31, 1997 and CREC elects to terminate; or (iv) because Cavco and the Shareholder Parties have elected to terminate due to a material violation or breach by CREC. The Merger Agreement also provides for the payment to Cavco by CREC of a termination fee and reimbursement of expenses, in the same amounts, in the event that the Merger Agreement is terminated because (i) the Merger has not been consummated by December 31, 1997 and CREC elects to terminate, or (ii) Cavco and the Shareholder Parties elect to terminate due to a material violation or breach by CREC.

The foregoing descriptions of certain provisions of the Merger Agreement are qualified in their entirety by reference to the Merger Agreement, a copy of which is incorporated herein by reference as an Exhibit to this Report.

As stated above, one of the conditions for consummation of the transactions set forth in the Merger Agreement is the approval of the holders of a majority of the outstanding shares of Cavco common stock. On December 4, 1996, the Shareholder Parties entered into a Voting Agreement with CREC, whereby the Shareholder Parties agreed to vote all 1,830,729 shares of Cavco common stock owned by them (representing approximately 54% of the total shares presently outstanding) in favor of the Merger Agreement and against any inconsistent transactions. In addition, the Shareholder Parties have agreed to restrict their ability to sell or transfer any such shares or to grant any proxies or to enter into any other voting arrangements with respect to such shares. The descriptions set forth in this Report of the terms of the Voting Agreement are qualified in their entirety by reference to the Voting Agreement, a copy of which is incorporated herein by reference as an Exhibit to this Report.

Also on December 4, 1996, the Shareholder Parties entered into a Stock Purchase Agreement with CREC, whereby the parties have agreed that in the event the Merger Agreement is terminated for any reason other than (i) by mutual consent, (ii) because the Merger has not been consummated by December 31, 1997 and CREC elects to terminate, or (iii) because of a material violation or breach by CREC, the Shareholder Parties will sell to CREC, and CREC will purchase from the Shareholder Parties, an aggregate of 1,047,288 shares of Cavco Common Stock (representing approximately 31% of the total shares presently outstanding) (the "Subject Share Purchase"). If the transactions contemplated by the Stock Purchase Agreement are consummated, the Shareholder Parties and CREC have agreed to enter into a Shareholders' Agreement with regard to their shares of Cavco Common Stock (the "Cavco Shareholders' Agreement") and to use their best efforts to cause the Company to become a party thereto. The Cavco Shareholders' Agreement provides for certain transfer restrictions on the Cavco Common Stock held by CREC and the Shareholder Parties and provides that such shares will be subject to certain put options (beginning in 2000) and certain call options (beginning in 2002) whereby CREC may acquire all of the Shareholder Parties' Cavco common stock on the terms and

conditions set forth therein. The Cavco Shareholders' Agreement also provides certain agreements among the Shareholder Parties and CREC with respect to the election of directors, super-majority board approval requirements for significant actions and transactions and agreements relating to the payment of dividends. The descriptions set forth in this Report of the terms of the Stock Purchase Agreement and the proposed Cavco Shareholders' Agreement are qualified in their entirety by reference to the Stock Purchase Agreement, a copy of which is incorporated herein by reference as an Exhibit to this Report and to the Cavco Shareholders' Agreement, the form of which is attached as Exhibit B to the

Stock Purchase Agreement.

LIQUIDITY AND CAPITAL RESOURCES

The Company ended fiscal 1996 with working capital of $9,381,984 compared to $8,168,792 at the end of fiscal 1995. The Company's cash position improved as a result of cash generated from operations and the receipt of proceeds from its long term funding source for additions to NSC's lease fleet.

Uses of cash 1996 included capital expenditures of $13.8 million, increases in notes receivable of $.4 million and additions to investments in partnerships of $.1 million. The Company increased its NSC lease fleet by $11.8 million and spent $2 million on property, plant and equipment additions. Property, plant and equipment additions include $590,000 spent on land and a building for NSC's El Paso location. Another $210,000 was used to purchase delivery vehicles for NSC. The Company also spent approximately $520,000 on various computer programs, network and communication systems.

The Company has a $4 million revolving bank line of credit that may be used from time to time to fund working capital needs. The Company borrowed and repaid $800,000 on this line during the year. Available borrowings are subject to a borrowing base formula based on inventories and accounts receivable. The Company had no amounts outstanding under the line of credit at the end of fiscal 1996. Sun Built has a $1,400,000 line of credit that is used to finance purchases of manufactured homes for its subdivisions. Repayments are made from proceeds on the sales of the homes. During fiscal 1996, Sun Built borrowed $1,977,776 and repaid $2,296,958 on its line of credit and approximately $700,000 remained available for borrowing at the end of fiscal 1996. NSC has a $15 million line of credit arrangement to support its lease fleet expansion. The lending institution advanced $7,000,000 during 1996. The Company repaid $2,333,323 on this line during 1996. The remaining $1,036,216 of long term debt repayments in fiscal 1996 were for mortgages and other loans of the Company. The Company received $1.2 million of proceeds from the sale of lease fleet units and $1.7 million of proceeds from collections on notes receivable in the normal course of its business during fiscal 1996.

The Company plans capital expenditures in fiscal 1997 of approximately $4.8 million budgeted for construction of a new manufacturing facility in Belen, New Mexico, to be financed in part through industrial revenue bond financing currently under negotiation. The Company also plans to invest up to $500,000 in fiscal 1997 for computer software and system hardware upgrades. The Company believes that its existing cash, available borrowings, lines of credit, and cash generated from operations will be sufficient to meet capital expenditure, debt service and other liquidity requirements for the next fiscal year.

During the past three years, inflation has not had a significant impact on the Company's operations. The Company has demonstrated its ability to adjust the manufacturing costs of its products through engineering changes and effective price negotiations, and has been able to adjust the selling price of its products in response to changing costs.

RESULTS OF OPERATIONS

FISCAL 1996 COMPARED TO FISCAL 1995

Sales for fiscal 1996 were $130,105,136, an increase of $17,423,004 or 15.5% over the $112,682,132 reported for 1995. Manufacturing operations accounted for $11.3 million of the increase primarily as a result increased capacity due to plant expansion, improved productivity and improved market conditions. The leasing subsidiary contributed $3.3 million of the increase, as a result of expanding its lease fleet and adding 4 new branch locations. The real estate development subsidiary provided $2.8 million of the increase, as a result of completion of development activity, increased sales at its subdivisions and the sale of 50 homes to a customer in December 1995.

Gross profit margins increased to 21.0% compared to 18.8 percent in 1995. Margins in the manufacturing operations increased to 19.2% in 1996 from 17.4% in 1995. Improved efficiencies and higher sales volumes lended to this increase. In addition, prior year margins were unfavorably affected by a low margin manufactured home model offered in the spring of 1995. The leasing operations achieved a 50.1% gross margin in fiscal 1996, compared to 51.4% in fiscal 1995. The real estate development operations had a gross margin of 15.4% in fiscal 1996, compared to 14.4% in fiscal 1995.

Selling, general and administrative expenses increased overall by

$2,298,858, or 18%, in fiscal 1996. Approximately $1.4 million of the increase is attributable to the leasing operations, due to increases in wages, rent and other office costs as the subsidiary continues to develop its corporate office and open additional branch locations. Selling, general and administrative expense increases of $720,965, in the manufactured housing segment resulted primarily from increased employee bonuses, which are based on the pre-tax operating profits of the Company. The $594,502 increase in interest expense in fiscal 1996 reflects increased finance costs incurred for expansion of the lease fleet.

In fiscal 1996, net income was $6,237,461 or $1.84 per share, compared to $4,237,651 or $1.25 per share in fiscal 1995, an increase of approximately 47%. The increase in net income was a result of improved sales and gross margins and increased efficiencies. Income from continuing operations in fiscal 1996 was $6,932,958 or $2.05 per share, an approximately 49% increase of $2,289,296 or $.68 per share, over the $4,643,662, or $1.37 per share, reported in fiscal 1995. Losses from discontinued operations in fiscal 1996 totaled $695,497 ($339,942 from Action, $355,555 from CVC), compared to $406,011 in 1995 ($110,130 from Action, $295,881 from CVC).

FISCAL 1995 COMPARED TO FISCAL 1994

Sales for fiscal 1995 were $112,682,132, an increase of $22,086,094, or 24.4% sales of $90,596,038 in fiscal 1994. The leasing subsidiary provided approximately $5,000,000 in sales, or 23% of the increase. The manufactured housing operations accounted for the remaining

increase. Plant expansions and upgrades to machinery allowed production levels to increase at all facilities. The new manufacturing facility added in May 1993 had the most significant favorable impact.

Gross profit margins increased to 18.8% in fiscal 1995, compared to 18.1% in fiscal 1994. Margins in the manufactured housing operations decreased from 18.2% in fiscal 1994 to 17.4% in fiscal 1995, primarily due to the Company's offering of a series of low cost, low margin special floor plans in the spring. The decrease in manufacturing margins was more than offset in fiscal 1995 by the achievement of a 51.4% gross profit margin in the leasing operations.

Selling, general and administrative expenses increased overall by $3,064,564, or 31%, in fiscal 1995. Most of the increase was due to expansion of the leasing operations in fiscal 1995. The $542,237 increase in interest expense reflects increased finance costs incurred from the Company's use of its lines of credit.

In fiscal 1995, net income was $4,237,651 or $1.25 per share, compared to $6,605,678 or $1.95 per share in fiscal 1994, a decrease of approximately 36%. The decrease in net income was a result of the gain from the sale of discontinued leasing operations in fiscal 1994. Income from continuing operations in fiscal 1995 was $4,643,662 or $1.37 per share, an approximately 19% increase of $746,470 or $.22 per share, over the $3,897,192, or $1.15 per share, reported in fiscal 1994. Income from discontinued operations and from the gain on the sale of discontinued leasing operations in fiscal 1994 was $436,167 and $2,272,319, respectively, compared to a loss from discontinued operations in 1995 of $406,011.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Index to Consolidated Financial Statements

<TABLE>
<CAPTION>

</TABLE>

Note: Schedules are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Cavco Industries, Inc.:

We have audited the accompanying consolidated balance sheets of CAVCO INDUSTRIES, INC. (an Arizona corporation) and subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of earnings and cash flows for the three years in the period ended September 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cavco Industries, Inc. and subsidiaries as of September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Phoenix, Arizona,
December 4, 1996.

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CAVCO INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 1996 and 1995

Assets

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Current Assets		
Cash and cash equivalents	$13,298,107	8,140,730
Receivables		
Trade accounts, net of $969,000 and $280,000 reserve for uncollectible accounts in 1996 and 1995, respectively	2,412,340	3,164,862
Notes, net of $332,000 reserve in 1996	627,241	511,302
Other	145,714	509,369
Total receivables	3,185,295	4,185,533

Inventories		
Manufacturing:		
Work in process	852,716	807,949
Raw materials	3,869,300	2,971,581
Real estate held for sale	6,156,056	6,133,089
Total inventories	10,878,072	9,912,619
Prepaid expenses	619,791	834,713
Deferred tax charge	1,026,214	552,981
Total current assets	29,007,479	23,626,576
Notes receivable, net of current portion	1,501,685	1,162,415
Property, plant and equipment, at cost	15,241,264	14,285,539
Less accumulated depreciation	5,246,987	4,666,351
Net property, plant and equipment	9,994,277	9,619,188
Assets under lease	22,188,592	14,366,138
Less accumulated depreciation	876,594	596,007
Net assets under lease	21,311,998	13,770,131
Investment in partnerships	2,644,075	2,534,703
Other assets	986,376	1,098,926
	$65,445,890	51,811,939

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

CAVCO INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 1996 and 1995

Liabilities and Stockholders' Equity

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Current liabilities		
Notes payable	$ 703,682	1,022,864
Current installments of long term debt	3,409,763	2,444,248
Accounts payable	4,990,907	5,009,125
Accrued expenses	7,957,659	6,939,129
Income taxes	2,563,484	42,418
Total current liabilities	19,625,495	15,457,784
Long term debt, excluding current installments	15,479,607	12,692,661
Deferred income taxes	1,670,132	1,278,299
Stockholders' equity		
Common stock, $.05 par value; 8,000,000 shares authorized; 3,387,968 and 3,382,968 shares issued and outstanding in 1996 and 1995, respectively	169,399	169,149
Capital in excess of par value	361,804	312,054
Retained earnings	28,139,453	21,901,992
Net stockholders' equity	28,670,656	22,383,195

	$65,445,890	51,811,939

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

CAVCO INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings
Years Ended September 30, 1996, 1995 and 1994

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Net sales	$130,105,136	112,682,132	90,596,038
Cost of sales	102,801,345	91,469,469	74,238,342
Gross profit	27,303,791	21,212,663	16,357,696
Selling, general and administrative expenses	15,197,212	12,898,354	9,833,790
Operating income	12,106,579	8,314,309	6,523,906
Other income (expense):			
Interest income	519,802	287,385	175,957
Interest expense	(1,590,054)	(995,552)	(453,315)
Miscellaneous	521,431	152,940	156,444
	(548,821)	(555,227)	(120,914)
Income from continuing operations before income taxes	11,557,758	7,759,082	6,402,992
Income taxes	4,624,800	3,115,420	2,505,800
Income from continuing operations	6,932,958	4,643,662	3,897,192
Discontinued operations:			
Income (loss) from operations of Action (less income taxes of ($188,200), ($73,420) and $21,300 for 1996, 1995 and 1994, respectively)	(282,202)	(110,130)	31,660
Loss on sale of Action (less income taxes of ($38,500))	(57,740)	--	--
Income (loss) from operations of CVC Leasing (less income taxes of ($237,100), ($194,000) and $260,800 for 1996, 1995 and 1994, respectively)	(355,555)	(295,881)	404,507
Gain on sale of CVC (less income taxes of $ 1,465,000)	--	--	2,272,319
Net income	$ 6,237,461	4,237,651	6,605,678
Income per share from continuing operations	$ 2.05	1.37	1.15
Income (loss) per share from operations of discontinued Action subsidiary	(.08)	(.03)	.01
Loss per share from sale of Action subsidiary	(.02)	--	--
Income (loss) per share from operations of discontinued CVC division	(.11)	(.09)	.12
Income per share from gain on sale of CVC division	--	--	.67

Net income per share	$ 1.84	1.25	1.95

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

CAVCO INDUSTRIES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended September 30, 1996, 1995 and 1994

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 6,237,461	6,605,678	
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of CVC Leasing division	--	--	(3,737,319)
Depreciation and amortization expense	1,818,825	1,727,696	
Provision for losses on receivables	688,675	280,000	--
Provision for deferred income taxes	(81,400)	703,929	(455,900)
(Gain) loss on sales of assets under lease	1,278,990	(389,409)	(118,512)
Change in assets and liabilities:			
(Increase) decrease in receivables	63,847	1,160,874	(581,448)
(Increase) decrease in manufacturing inventories	(942,486)	(641,325)	(3,739,014)
(Increase) decrease in real estate held for sale	99,033	(1,067,249)	(2,833,311)
(Increase) decrease in prepaid expenses	214,922	(373,198)	117,989
(Increase) decrease in other assets	17,777	(241,244)	(481,330)
Increase (decrease) in accounts payable	(18,218)	(83,062)	1,305,794
Increase (decrease) in accrued expenses	1,018,530	466,753	2,252,398
Increase (decrease) in income taxes	2,521,066	(2,583,262)	2,313,896
Increase (decrease) in lease deposits and other liabilities	--	(97,309)	190,682
Net cash provided by operating activities	12,917,022	3,100,845	2,215,136
Cash flows from investing activities:			
Purchases of property, plant and equipment	(2,014,579)	(2,292,217)	(1,962,510)
Proceeds from sales of property, plant and equipment	297,466	111,254	--
Additions to assets under lease	(11,782,166)	(11,292,377)	(8,182,092)
Proceeds from sales of assets under lease	1,231,099	2,713,985	773,288
Increase in notes receivable	--	(78,500)	
Proceeds from collections on notes receivable	1,676,128	1,352,273	420,328
Additions to investment in partnerships	(109,372)	(1,212,979)	(1,298,172)
Net proceeds from sale of CVC Leasing division	--	--	10,464,504
Net cash provided by (used for) investing activities	(11,120,924)	(10,620,061)	136,846
Cash flows from financing activities:			
Borrowing under lines of credit	2,777,776	7,989,543	7.442,376
Repayment of lines of credit	(3,096,958)	(8,621,169)	(6,990,149)
Proceeds from long-term debt	7,000,000	8,603,857	5,598,713
Repayment of long-term debt	(3,369,539)	(1,318,885)	(775,126)
Proceeds from issuance of common stock	50,000	--	--
Net cash provided by financing activities	3,361,279	6,653,346	5,275,814
Increase (decrease) in cash and cash equivalents	5,157,377	(865,870)	7,627,796
Cash and cash equivalents at beginning of year	8,140,730	9,006,600	1,378,804
Cash and cash equivalents at end of year	$ 13,298,107	8,140,730	9,006,600

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

CAVCO INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
September 30, 1996, 1995, and 1994

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements of Cavco Industries, Inc. (the Company) for 1996, 1995 and 1994 include the accounts of Cavco Industries, Inc. and its wholly-owned subsidiaries, Sun Built Homes, Inc. (Sun Built) and National Security Containers, Inc. (NSC). In July, 1996 the Company formed a new subsidiary, Cavco Industries of New Mexico, Inc. The Company is building a manufacturing facility, which is scheduled to begin production in fiscal 1997. All material intercompany transactions have been eliminated in the consolidation.

(b) Inventories

Inventories are stated at the lower of cost or market (net realizable value). Cost is determined by using standard cost (which approximates actual cost on a first-in, first-out basis) for finished goods and work-in process and actual cost on a first-in, first-out basis for raw materials.

(c) Product Warranty

The Company's products carry a one-year warranty on structural components to the original retail customer. The Company also warrants certain nonstructural components for 90 days. The warranty covers defective materials and workmanship. The Company's experience allows it to reasonably estimate the amount of warranty expense expected to be incurred for products sold. Warranty expense for the years ended September 30, 1996, 1995 and 1994 was $2,017,788, $1,946,297 and $1,664,204, respectively.

(d) Real Estate Held for Sale

Real estate held for sale consists primarily of land purchased by Sun Built and homes manufactured by the Company for sale in residential subdivisions. Sun Built capitalizes certain interest costs incurred with developing the land, and such interest will be included in cost of sales as property is sold to the buyer. The amount of interest capitalized during the years ended September 30, 1996 and 1995 was $56,997 and $127,732, respectively.

In most cases, the customer obtains financing from an outside source and pays cash for the purchase. In accordance with rules established by Statement of Financial Accounting Standards No. 66 (Accounting for Sales of Real Estate), revenues are recognized upon close of sale, when the property has transferred to the buyer.

(e) Investment in Partnerships

In November, 1992, the Company formed PDG/Prescott Development Group, L.L.C., a limited liability company, with another company for the purpose of developing a manufactured housing subdivision. The Company is a 50% partner in the LLC and accounts for its investment on the equity method. The Company's investment in the LLC was $2,370,461 and $2,275,313 at September 30, 1996 and 1995, respectively.

(1) Summary of Significant Accounting Policies (continued)

(e) Investment in Partnerships (continued)

In August, 1994, Sun Built formed Rural Southwest, L.L.C., a limited liability company, with another company. Sun Built is a 50% owner in a LLC formed in August, 1994, to develop a manufactured housing subdivision. Sun Built accounts for its investment on the equity method. Its investment was $273,614 and $259,390 at September 30, 1996 and 1995, respectively.

(f) Revenue Recognition

The Company recognizes product revenue upon shipment of product. Revenue from services is recognized when services are performed. Lease income is recognized over the terms of the leases.

(g) Statement of Cash Flows

For purpose of these statements, cash and cash equivalents include cash on hand and cash in short-term investments with original maturities of less than three months (primarily money market funds). Information that does not result in cash receipts or cash payments in the period, but which affects the financing and investing activities of the Company is included in supplemental disclosures as follows.

Supplemental Disclosures of Non-cash Investing and Financing Activities:

In 1996, the Company sold $1,238,182 of lease assets for notes receivable. The Company purchased $122,000 of real estate held for sale, financed by long term debt. Also in 1996, the Company sold the majority of the assets of its Action subsidiary and received a $442,000 note.

In 1995, the Company sold $523,276 of lease assets for notes receivable. The Company purchased $541,600 of real estate held for sale, financed by long term debt. Inventory held for sale or lease of $2,207,197 was transferred into assets under lease.

In 1994, the Company sold $1,015,133 of lease assets for notes receivable. The Company purchased $470,118 of lease assets financed by notes payable. The Company purchased $818,784 of real estate held for sale, assuming $414,384 in notes payable and financing $404,400 by long term debt. Also in 1994, the Company sold its CVC Leasing division. See Note 13 for detail of non-cash items.

Supplemental disclosure of Cash Flow information:

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Cash paid during the year for:			
Interest	$1,622,675	1,020,766	1,109,739
Income Taxes	$1,720,234	2,540,433	2,394,904

</TABLE>

(1) Summary of Significant Accounting Policies (continued)

(h) Depreciation of Assets Under Lease

During 1996 the Company completed a review of its depreciation estimates for assets under lease. The Company determined that the actual lives of the assets were generally longer than the useful lives used for depreciation purposes. The Company also recognized that the assets retained a salvage value. Therefore, the Company extended the estimated useful lives of the assets under lease and incorporated a salvage value. The effect of this change in estimate reduced depreciation expense for the year ended September 30, 1996 by $531,366 and increased net income from continuing operations by approximately $318,800, or $.09 per share.

(i) Accounting Statements

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards ("SFAS"), No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which the Company will be required to implement effective for the fiscal year ending September 30, 1997. SFAS No. 121 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) from an asset to be held and used is less than the carrying value of the asset, an impairment loss must be recognized in the amount of the difference between the carrying value and fair value. Assets to be disposed of must be valued at the lower of carrying value or fair value less costs to sell. Management of the Company believes that if SFAS No. 121 were implemented currently, no material impairment loss would be recognized.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at September 30, 1996 and 1995, and the reported amounts of revenues and expenses during the three years in the period ended September 30, 1996. Actual results could differ from those estimates.

(j) Reclassifications

Certain amounts from prior years' financial statements have been reclassified to conform to the current year presentation.

(2) Accounts and Notes Receivable

Notes receivable include amounts due under finance leases ($1,780,686 and $1,633,607 at September 30, 1996 and 1995, respectively) and amounts due from sales of real estate held for sale ($200,000 and $16,610 at September 30, 1996 and 1995, respectively). The finance leases are secured by the related assets under lease, and the notes on real estate sales are secured by deeds of trust. Also included in notes receivable is the balance on a line of credit extended to a dealer ($38,240 and $23,500 at September 30, 1996 and 1995, respectively) and the $110,000 net book value of a note receivable ($442,000 less a reserve of $332,000) related to the sale of Action in 1996.

(2) Notes Receivable (continued)

The aggregate maturities of the notes receivable for the five years subsequent to September 30, 1996 are as follows:

<TABLE>
<S> <C>

1997	$ 959,241
1998	612,326
1999	259,555
2000	179,351

2001	144,446
Thereafter	306,007
	$2,460,926

</TABLE>

The Company's customer base is widely dispersed geographically. No single customer accounts for over 10% of the receivables balance at September 30, 1996.

(3) Property, Plant and Equipment

Depreciation of property, plant and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over their estimated useful lives or the terms of the respective leases, whichever is shorter. Repair and maintenance costs are expensed as incurred. A summary of property, plant and equipment, at cost, follows:

<TABLE>
<CAPTION>

	Average Depreciable Lives (Years)	September 30, 1996	1995
<S>	<C>	<C>	<C>
Land	-	$ 2,759,158	2,455,801
Buildings	15-30	2,500,201	2,115,744
Plant equipment	5-10	3,287,115	3,035,233
Office equipment	3-10	1,596,623	1,909,801
Automotive equipment	3	1,693,223	1,868,784
Building and leasehold improvements	3-20	3,001,618	2,892,126
Construction in progress	-	403,326	8,050
		$15,241,264	14,285,539

</TABLE>

(4) Notes Payable

The Company has a $4,000,000 revolving line of credit with a bank, with an interest rate of prime plus 1/2%, expiring on January 31, 1997. This line of credit is secured by the Company's inventories and accounts receivable.

Sun Built has a $1,400,000 line of credit with a financial institution, with an interest rate of prime plus 1%, expiring in January 1997. This line of credit is secured by certain real estate held for sale.

(4) Notes Payable (continued)

During 1995 NSC utilized a temporary line of credit to fund additions to assets under lease. The maximum borrowed during the year was $2,750,000 at an average interest rate of 9.40%. The line was paid off in June 1995.

Pertinent information with respect to the bank lines of credit is as follows:

<TABLE>
<CAPTION>

Company line of credit:	September 30, 1996	1995	1994
<S>	<C>	<C>	<C>
Outstanding balance at year end	--	--	--
Interest rate at year end	8.75%	9.25%	8.25%
Maximum credit available	4,000,000	4,000,000	3,500,000
Maximum borrowing during year	800,000	3,750,000	3,500,000

Average outstanding borrowings (a)	10,959	1,220,000	1,539,726
Average yearly interest rate (a)	9.25%	9.5%	7.3%

(a) The average outstanding borrowings during the periods were calculated by dividing the weighted average daily balance by 365. The average yearly interest rate during the period was calculated by dividing the interest expense by the average outstanding borrowings.

Sun Built line of credit:	September 30,		
	1996	1995	1994
Outstanding balance at year end	703,682	1,022,864	1,184,372
Interest rate at year end	9.75%	9.75%	9.5%
Maximum credit available	1,400,000	1,375,000	1,184,372
Maximum borrowing during year	1,389,364	1,360,570	1,184,372
Average outstanding borrowings (b)	1,062,850	1,178,397	597,614
Average interest rate for year (b)	9.16%	10.32%	8.15%

(b) Average outstanding borrowings during the periods were calculated by dividing the month-end balances (including beginning of year) by 13. Average yearly interest rates were calculated by dividing the interest expense by the average outstanding borrowings.

CAVCO INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Long-Term Debt

A summary of long-term debt is as follows:

	September 30,	
	1996	1995
Notes payable to a financial institution, due in monthly installments of $216,667 plus interest ranging from 8.63% to 9.06%, secured by assets under lease and related accounts receivable of NSC. The notes are amortized over a five year period and are due and payable in July 2000, January 2001 and October 2001. (See (b) below).	$12,266,658	7,599,981
Convertible note trust, interest payable quarterly at 8%, unsecured, balance due and payable in April 1999. (See (a) below)	4,100,000	4,100,000
Mortgage note payable, due in monthly installments of $8,070 plus interest at prime plus 1%, (9.25% at September 30,1996) secured by deed of trust on real estate. The mortgage is amortized over a 13-year term, with the balance due and payable in August 2002. (See (b) below).	1,154,068	1,250,913
Notes payable to a title company, due in monthly installments of $5,555 including interest at 10%, secured by real estate held for sale, balances due and payable ranging from March 1997 to January 1999.	489,459	589,268

Note payable to bank, due in monthly installments of $19,259 including interest at 9.755%, secured by plant equipment, due and payable in September, 1998.	402,522	584,598
Note payable due in monthly installments of $2,601, including interest at a rate of 9%, secured by a deed of trust. The note is amortized over a 30-year term and is due and payable in July, 2011.	287,989	293,009
Note payable due in monthly installments of $3,416, including interest at a rate of 13% secured by a deed of trust. The note is amortized over a 15-year term and is due and payable in November, 2000.	131,347	153,663

(5) Long-Term Debt (continued)

Notes payable to finance companies, due in monthly installments totaling $2,447, including interest at various rates ranging between 6.6% and 11.5%, balances due and payable ranging from January 1997 to October 1998, secured by automotive and office equipment.	29,584	88,205
Note payable to bank, due in monthly installments of $27,778 plus interest at prime plus 1/2%, (8.75% at September 30, 1996) secured by plant equipment, due and payable in October, 1996.	27,743	361,088
Note payable to bank, paid in Sept. 1996.	--	116,184
	18,889,370	15,136,909
Less current portion	3,409,763	2,444,248
Long term debt, net of current portion	$15,479,607	12,692,661

(a) At any time during the term of the note, all or any portion of the principal balance is convertible, at the Company's option, into shares of the Company's Common Stock at $16 per share, if the trading price of Common Stock exceeds $20 per share for a period of at least 20 trading days prior to the conversion. The Company also has an option to prepay up to one half of the outstanding principal balance of the loan after October, 1995. Such prepayment can be made in Common Stock, at $16 per share, if the stock price exceeds $16 per share for a period of at least 20 trading days prior to the payment date. See Note 16 of Notes to Consolidated Financial Statements -- "Subsequent Events."

(b) Certain of the Company's loan agreements require compliance with financial covenants, the most significant of which specify a minimum current ratio, minimum owner's equity, working capital, debt coverage ratio, debt service coverage ratio, and minimum tangible net worth. The agreements also state that any dividends to stockholders must be approved by the lending institution. At September 30, 1996, the Company was not in compliance with the covenant related to debt service coverage ratio for one of its subsidiaries. The Company obtained a waiver from the bank.

The aggregate maturities of long-term debt for the five years subsequent to September 30, 1996 are as follows:

1997	$ 3,409,763
1998	3,685,009
1999	7,350,292
2000	2,608,159
2001	911,427
Thereafter	924,720
	$18,889,370

</TABLE>

CAVCO INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Income Taxes

Components of income tax expense are as follows:

<TABLE>
<CAPTION>

		Current	Deferred	Total
1996:	Federal	$3,202,500	63,900	3,266,400
	State	877,100	17,500	894,600
		$4,079,600	81,400	4,161,000
1995:	Federal	$1,683,500	552,800	2,236,300
	State	460,500	151,200	611,700
		$2,144,000	704,000	2,848,000
1994:	Federal	$3,696,400	(357,900)	3,338,500
	State	1,012,400	(98,000)	914,400
		$4,708,800	(455,900)	4,252,900

</TABLE>

Income tax expense amounted to $4,161,000 for the year ended September 30, 1996 (an effective rate of 40.0%) $2,848,000 for the year ended September 30, 1995 (an effective rate of 40.1%) and $4,252,900 for the year ended September 30, 1994 (an effective rate of 39.2%). The actual tax expense differs from the "expected" tax expense (computed by applying the U.S. Federal corporate tax rates to earnings before income tax) as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Federal corporate tax rate	34.0 %	34.0	34.0
State income taxes, net of federal income tax benefit	6.1	6.1	6.1
Other	(0.1)	--	(0.9)
Effective tax rate	40.0 %	40.1	39.2

</TABLE>

Deferred tax assets and liabilities represent the estimated future tax effects attributable to timing differences in the recognition of revenue and expense items for financial statement and tax return purposes. The components of the Company's deferred income tax benefits and liabilities follows:

<TABLE>
<CAPTION>

September 30,

	1996	1995
Current:		
Accrued warranty expense	$ 404,545	355,104
Reserve for uncollectible accounts	515,272	110,924
Deferred rent	17,723	48,011
Accrued vacation and holiday	47,382	40,471
Accrued bonuses	21,438	15,067
Accrued state tax deduction	19,854	(16,596)
Deferred tax charge	$1,026,214	552,981

(6) Income Taxes (continued)

Long-term:		
Excess of tax over book depreciation	$(1,774,067)	(1,310,517)
Loss in partnership	(33,221)	(43,827)
Advance rents received		(16,709)
Excess of tax over book amortization of intangibles	57,806	30,862
Excess of book gain over tax gain on sale of assets	61,892	61,892
Loss on marketable securities	17,458	--
Deferred tax liability	$(1,670,132)	(1,278,299)

(7) Employee Benefit Plans

The Company's profit sharing plan is a defined contribution plan which covers all employees. After two years of service have been completed, employees begin participation on the first day of the sixth month or the first day of the plan year, whichever is earlier. Participants are 100% vested immediately upon entry into the Plan. The Plan was designed to comply with the requirements of ERISA. Contributions to the Plan are determined annually by the Board of Directors. The Company contributed $100,000 and $200,000 to the Plan for the years ended September 30, 1995 and 1994, respectively. There was no contribution to the Plan for the year ended September 30, 1996.

The Company adopted a 401(k) plan in January, 1995. All employees are eligible to participate after completing four months of service, and may begin participation on the following January 1 or July 1, whichever is earlier. Participants may defer and contribute up to 15% of annual compensation (subject to limits set by the Internal Revenue Service) to the 401(k) plan. The Company matches 25% of the employee's contribution, up to 6% of his or her compensation. The Company contributed $120,631 to the 401(k) plan for the year ended September 30, 1996 and $68,924 for the year ended September 30, 1995.

(8) Stockholders' Equity

The number of shares used in computing earnings per common share was 3,383,173 for 1996 and 3,382,968 for 1995 and 1994. The number of shares reflects a three-for-two stock split effective December, 1994. Fully diluted earnings per share are the same as primary earnings per share.

In August 1995, the Company entered into a qualified stock option purchase agreement with an employee. The agreement allows the employee to purchase up to 50,000 shares of the Company's Common Stock at $10 per share (fair market value at the date of the grant). The options vest at 10% per year, beginning on September 1, 1996. In September 1996, the employee exercised his vested options and purchased 5000 shares for $50,000.

CAVCO INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Financing Arrangements and Commitments

The Company is contingently liable under terms of repurchase agreements covering dealer floor plan financing arrangements. These arrangements, which are customary in the industry, provide for the repurchase of products sold to dealers in the event of default on payments by the dealer. The risk of loss is spread over numerous dealers and financing institutions and is further offset by the resale value of repurchased units. The Company has not incurred any significant losses from these arrangements since inception.

During 1996 and 1995, the Company entered into financing arrangements whereby certain dealers would be assisted in obtaining financing for purchases of Cavco manufactured homes. The Company has guaranteed the flooring lines extended to the dealers by the financing institutions. The Company's maximum liability to financial institutions was $500,000 in 1996 and $6,500,000 in 1995.

The Company is the guarantor on a loan agreement which allowed PDG/Prescott Development Group, L.L.C. formed in November, 1992 (see Note 1) to borrow $3,750,000 from investors. The loan is paid out over five years, based on scheduled sales of lots. The amount guaranteed by the Company has been offset by proceeds received on the lot sales, leaving a balance of $2,720,145 and $3,177,285 at September 30, 1996 and 1995, respectively.

(10) Leases

The Company occupies certain land and office buildings and uses certain equipment under lease arrangements classified as operating leases. Real estate taxes, insurance and maintenance expenses are obligations of the Company.

At September 30, 1996, future minimum lease payments due under noncancellable operating leases, excluding executory costs, are as follows:

<TABLE>
<CAPTION>

Year Ending September 30	Amount
<S>	<C>
1997	$ 902,414
1998	492,837
1999	246,848
2000	139,767
2001	29,208
Total	$1,811,074

</TABLE>

Total rental expense for 1996, 1995 and 1994 was $1,112,787, $1,051,884 and $902,332, respectively.

(11) Industry Segment Information

The Company operates principally in three industries: Manufactured Housing, Leasing, and Real Estate Development. Operations are conducted in Arizona and, to a much lesser extent, the Company operates or sells to dealers for resale in Nevada, Colorado, Idaho, California, Utah, Washington, New Mexico, Oregon, Texas, Canada and Japan. Operating profit consists of total revenue less cost of sales and operating expenses. None of the following have been included in the computation of gross operating profit: general corporate expenses, non-operating income and expenses and income taxes.

CAVCO INDUSTRIES, INC. AND SUBSIDIARIES

(11) Industry Segment Information (continued)

Identifiable assets are those assets used in the operations of each industry segment. General corporate assets primarily consist of cash, temporary investments, deferred tax benefits and other current assets. Information with respect to industry segments as of September 30, 1996, 1995 and 1994 is set forth as follows:

<TABLE>
<CAPTION>

	Manufactured Housing	Leasing Operations	Real Estate Develop't	General Corporate	Total
<S>	<C>	<C>	<C>	<C>	<C>
1996					
Sales to unaffiliated customers	$114,833,294	8,315,739	6,906,103	--	130,105,136
Operating profit (loss)	13,052,622	650,242	262,198	(1,858,483)	12,106,579
Identifiable assets	12,090,632	28,309,303	7,164,970	17,880,985	65,445,890
Depreciation and amortization	732,204	840,783	25,118	220,720	1,818,825
Capital expenditures	485,464	13,262,338	--	48,943	13,796,745
1995					
Sales to unaffiliated customers	$103,560,443	5,037,282	4,084,407	--	112,682,132
Operating profit (loss)	9,439,956	421,795	15,213	(1,562,655)	8,314,309
Identifiable assets	11,914,234	19,416,794	7,026,052	13,454,859	51,811,939
Depreciation and amortization	674,658	786,370	35,678	230,990	1,727,696
Capital expenditures	1,089,116	12,438,891	28,507	28,080	13,584,594
1994					
Sales to unaffiliated customers	$ 85,969,747	--	4,626,291	--	90,596,038
Operating profit (loss)	7,692,540	--	177,379	(1,346,013)	6,523,906
Identifiable assets	10,501,021	13,175,553	5,448,625	12,753,314	41,878,513
Depreciation and amortization	521,786	661,824	29,049	162,874	1,375,533
Capital expenditures	1,181,074	8,665,060	137,846	160,622	10,144,602

</TABLE>

No customers accounted for more than 10% of sales for the year ended September 30, 1996. Sales to one manufactured housing customer amounted to $18,129,289, or 15.5% of sales for the year ended September 30, 1995. Sales to two manufactured housing customers amounted to $17,388,700 and $10,999,677 (18.9% and 11.9% of sales, respectively) for the year ended September 30, 1994.

Results for leasing operations in 1994, under CVC Leasing, are included in discontinued operations. Leasing operations for 1995 and 1996 reflect the results of NSC.

(12) Accrued Expenses

A summary of accrued expenses follows:

<TABLE>
<CAPTION>

	September 30,	
	1996	1995
<S>	<C>	<C>
Wages	$1,126,611	964,821
Sales promotion programs	2,923,682	2,427,033
Accrued warranty	1,021,172	896,372
Industrial insurance	1,422,566	1,308,813
Property taxes	458,113	326,315

Other	1,005,515	1,015,775
	$7,957,659	6,939,129

</TABLE>

(13) Discontinued Operations

On August 1, 1994, the Company sold the relocatable mobile and modular commercial structures and related buildings and equipment of its CVC leasing division for $20.1 million, to an unrelated company. Approximately $8.0 million was used to pay off notes payable associated with the assets sold; a $1.2 million note receivable was due from the purchaser; net cash proceeds totaled $10.9 million. The net value of assets sold, plus other costs related to the sale, amounted to $16.4 million, resulting in a net gain of $3.7 million.

Net income (loss) from CVC leasing operations is included in the consolidated statements of income under "discontinued operations". Revenues from such operations were $15,000 for 1996, $2,072,569 for 1995 and $8,253,530 for 1994. Revenues in 1995 and 1996 were produced from the sales of jobs that were in progress when the division was sold.

Assets and liabilities related to CVC remaining on the balance sheet as of September 30, 1996 include trade accounts receivable ($280,322), balance remaining from purchaser of CVC ($72,568) and rent due on CVC properties ($44,738). Assets and liabilities related to CVC remaining on the balance sheet as of September 30, 1995 include trade accounts receivable ($378,406), balance remaining from purchaser of CVC ($509,369), and rent due on CVC properties ($121,191).

On September 30, 1996, the Company sold the accounts receivable, related service contracts and office equipment of its subsidiary, Action Healthcare Management Systems, Inc. (Action), to an unrelated company for $442,000. The net value of assets sold, plus other costs related to the sale, amounted to $538,240, resulting in a pretax loss of $96,240. The purchaser issued a $442,000 note to the Company, to be paid over 10 years, at an interest rate of 8%, balance due and payable in March 2005.

Net income (loss) from Action is included in the consolidated statements of income under "discontinued operations". Revenues from Action were $576,991 for 1996, $1,026,230 for 1995 and $1,465,525 for 1994. Other than the $442,000 note receivable from the purchaser, there are no material assets or liabilities related to Action remaining on the balance sheet as of September 30, 1996.

(14) Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, accounts payable, accrued expenses and other payables approximate fair value because of the short maturity of these financial instruments. Notes payable bear interest at market rates, therefore the carrying amounts of the outstanding borrowings approximate fair value.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

(15) Supplemental Financial Data (unaudited)

Selected quarterly financial data for the years ended September 30, 1996 and 1995 is set forth below. Earnings per share were adjusted to reflect the three-for-two stock split effective December 1994. Amounts differ from amounts previously reported on the Company's Form 10-Q Reports due to reclassification of discontinued operations of the Company's Action subsidiary.

<TABLE>
<CAPTION>

	First	Second	Third	Fourth

<S>	<C>	<C>	<C>	<C>
1996				
Net sales	$30,689,331	33,341,439	33,016,732	33,057,634
Gross profit	$ 6,484,942	6,126,555	5,930,941	8,761,353
Net income from continuing operations	$ 1,722,501	1,355,685	1,424,925	2,429,847
Income per share from continuing operations	$. 51	.40	.42	.72
1995				
Net sales	$30,140,661	28,506,700	25,914,959	29,146,042
Gross profit	$ 6,042,484	4,984,232	3,972,700	6,495,106
Net income from continuing operations	$ 1,628,149	956,026	499,164	1,450,193
Income per share from continuing operations	$. 48	.28	.15	.43

</TABLE>

(16) Subsequent Events

On December 5, 1996, the Company announced that it has entered into a Merger Agreement which provides for the sale of approximately 78% of the equity interest in the Company to an unrelated company. The Merger Agreement has been approved by the Boards of Directors of both companies. The Merger Agreement is subject to approval by Cavco shareholders, certain regulatory filings and other conditions. The Company expects the Merger to be completed by the end of its second fiscal quarter. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information concerning the transactions contemplated by the Merger Agreement.

In November 1996, the Company made a cash prepayment of $2,050,000 of the $4,100,000 unpaid principal balance of the Convertible Note due April 1, 1999, as permitted by the terms of the Note. See Note 5 above.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with the Company's independent accountants on accounting and financial disclosure matters.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company's directors and executive officers as of September 30, 1996 are as follows:

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

<TABLE>
<CAPTION>

Name	Age	Position
<S>	<C>	<C>
Al R. Ghelfi	57	Chairman of the Board, Chief Executive Officer, Director
Brent Ghelfi	35	Executive Vice President and Chief Operating Officer, Director
Ruth Smith	66	Secretary and Director
Robert Wold	78	Director
William Blandin	47	Director
Stephen H. Kleemann	52	Director

Robert Ward	46	Vice President, Treasurer and Chief Financial Officer
Wendell Hargis	41	Vice President of Manufacturing Operations
James Samuel Parlette	43	Vice President of Sales and Marketing

</TABLE>

AL R. GHELFI is the Chairman of the Board of Directors and served as President and Chief Executive Officer of the Company from 1974 through October 1996. In 1968, when the Company was formed, through 1973, Mr. Ghelfi was Vice President, Secretary and Treasurer of the Company. He has served as a Director since inception. He works full-time for the Company. Mr. Ghelfi is also the Chairman of the Board of Directors of Sun Built and NSC. Al Ghelfi is the father of Brent Ghelfi.

BRENT GHELFI served as Executive Vice President and Chief Operating Officer during fiscal 1996 and was named President and Chief Executive Officer of Cavco in October 1996. Mr. Ghelfi has served as a Director of the Company since February 1995. He previously served the Company as Vice President and General Counsel. He has been employed by the Company since January 1995 and works full time for the Company. In addition to his duties as President and Chief Executive Officer for Cavco, he is also the President of Sun Built. Prior to joining Cavco, he was a partner with the Phoenix law firm of Meyer, Hendricks, Victor, Osborn &

Maledon, specializing in corporate litigation and labor law. He was with the law firm for more than six years. Brent Ghelfi is the son of Alfred R. Ghelfi.

RUTH SMITH has been the Secretary and a Director of the Company since 1974. She came to the Company in 1968 and, except for one year, has been with the Company since that time. She now works part-time for the Company.

ROBERT WOLD has been a Director of the Company since 1991. Mr. Wold is the president of Manufactured Housing Counselors, Inc., a management consulting firm specializing in manufactured buildings. The Company retains Manufactured Housing Counselors, Inc. as an operations consultant.

WILLIAM R. BLANDIN has been a Director of the Company since 1985. He also served as Executive Vice President of the Company from 1984 through October 1996.

STEPHEN H. KLEEMANN has been a Director of the Company since 1984. Mr. Kleemann is a principal in Kleemann Capital Management, Inc., a financial consulting company in Santa Barbara, California. The Company retains Kleemann Capital Management, Inc. as a financial consultant.

ROBERT WARD is Vice President, Treasurer and Chief Financial Officer of the Company. He has been employed by the Company since 1978. He works full-time for the Company. He became Treasurer of the Company in 1984 and Vice President and Chief Financial Officer in 1990. Mr. Ward also serves as Secretary, Treasurer and a director of Sun Built and NSC.

WENDELL HARGIS was named Executive Vice President of the Company in October 1996. He has been employed by the Company since 1988 and held the position of Vice President of Manufacturing Operations from 1992 through October 1996. He works full-time for the Company.

JAMES SAMUEL PARLETTE is the Vice President of Sales and Marketing, a position he has held since March 1996. Formerly the General Sales Manager of the Company's Litchfield division, Mr. Parlette has been with the Company since 1993. Prior to joining Cavco, Mr. Parlette was a division manager for Universal Forest Products at its Chandler, Arizona division from 1988 to 1993 and a general sales manager for Palm Harbor Homes, Inc. at its Austin, Texas facility from 1982 to 1988.

ITEM 11: EXECUTIVE COMPENSATION

SUMMARY OF EXECUTIVE COMPENSATION

The following table sets forth information with respect to the cash compensation paid by the Company and its subsidiaries, as well as other compensation, during the Company's last three fiscal years, to the Company's Chief Executive Officer and each of the Company's four other most highly compensated executive officers ("Named Executive Officers") in all capacities in which they serve.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

		Annual Compensation			
Name and Principal Position	Fiscal Year Ended	Salary ($)	Bonus ($)	Securities Underlying Options (#)	All Other Compensation ($)(1)
<S>	<C>	<C>	<C>	<C>	<C>
Al R. Ghelfi	1996	149,932	384,420		112,369(2)
Chairman, Chief Executive	1995	146,276	281,407		
Officer, Director	1994	146,276	514,823		49,412
					51,723
William R. Blandin	1996	200,000	128,596		
Executive Vice President,	1995	79,420	495,324		6,347
Director	1994	70,928	635,009		13,573
					12,220
Robert Ward	1996	54,725	308,311		12,706
Vice President, Treasurer,	1995	53,341	225,584		11,430
Chief Financial Officer	1994	53,341	222,726		
					8,976
Brent Ghelfi					
Vice President-General	1996	78,000	391,144		4,754
Counsel, Chief Operating Officer	1995	52,500	149,064		--
Wendell Hargis	1996	72,700	467,663	50,000	28,618(3)
Vice President of	1995	70,928	247,434		9,283
Manufacturing Operations	1994	70,928	301,538		6,776
Samuel Parlette	1996	69,000	190,248		5,893
Vice President of	1995	40,000	95,588		--
Sales and Marketing	1994	40,000	94,143		--

</TABLE>

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(1) Includes profit sharing and 401(k) contributions, medical insurance payments, travel allowances, personal use of Company vehicles and charges for the portion of group life insurance premium paid by the Company.

(2) Includes $61,873 premiums on insurance policies with a $12,000,000 death benefit, paid by the registrant, in which the executive officer will receive an interest in cash surrender value under the policy.

(3) Includes $20,500 premiums on an insurance policy with a $60,000 death benefit, paid by the registrant, in which the executive officer will receive an interest in cash surrender value under the policy.

OPTION GRANTS, EXERCISES AND FISCAL YEAR-END VALUES

The following table sets forth certain information regarding stock option grants to the Named Executive Officers:

OPTION GRANTS

<TABLE>

<CAPTION>

	INDIVIDUAL GRANTS					
					POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM($)(3)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SHARE)(2)	EXPIRATION DATE	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Wendell Hargis	50,000(1)	100%	$10.00	08/18/05	$314,448	$796,873

</TABLE>

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(1) The options granted are incentive stock options issued in fiscal 1995, effective as of August 18, 1995 under the Company's 1985 Incentive Stock Option Plan (the "Plan"). Ten percent of these options become exercisable on August 18 in each year, beginning August 18, 1996. Under the Plan, the Company has the right to accelerate the vesting of these options in connection with certain mergers and other transactions, including but not limited to the Merger, in which case the options are cancelled if not exercised within 30 days. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments: Proposed Merger."

(2) The exercise price per share was equal to the fair market value of the Common Stock on the date of grant, as determined by the Board of Directors.

(3) Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date and are not presented to forecast possible future appreciation, if any, in the price of the Common Stock. The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise of the options or the sale of the underlying shares. The actual gains, if any, on the stock option exercise will depend on the future performance of the Common Stock, the optionee's continued employment through applicable vesting periods and the date on which the options are exercised.

AGGREGATED OPTION EXERCISES IN FISCAL 1996
AND FISCAL YEAR-END OPTION VALUES

<TABLE>
<CAPTION>

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED	VALUE OF UNEXERCISED
NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED($)(1)	OPTIONS AT FISCAL YEAR END (#)	IN-THE-MONEY OPTIONS AT FISCAL YEAR END ($)(2)
			EXERCISABLE/UNEXERCISABLE	EXERCISABLE/UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>
Wendell Hargis	5,000	$49,390	0/45,000	$0/$427,500

</TABLE>

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(1) The "Value Realized" reflects the appreciation on the date of exercise, based on the excess of the fair market value of the shares on the date of exercise over the exercise price. These amounts do not necessarily reflect cash realized upon the sale of those shares, as an executive officer may keep the shares exercised, or sell them at a different time and price.

(2) The "Value" set forth in this column is based on the difference between the fair market value at September 30, 1996 ($19.50 per share bid price as reported by the National Association of Securities Dealers) and the option exercise price, multiplied by the number of shares underlying the option.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Robert Wold, a member of the Company's compensation committee, is President of

Manufactured Housing Counselors, Inc., a management consulting firm specializing in manufactured buildings, which is retained by the Company as an operations consultant. The Company paid approximately $40,000 to Manufactured Housing Counselors, Inc. for consulting services in fiscal 1996. Stephen H. Kleemann, a member of the Company's compensation committee, is a principal in a financial consulting company known as Kleemann Capital Management, Inc., which is retained by the Company as a financial consultant. The Company paid approximately $48,000 to Kleemann Capital Management, Inc. for consulting services in fiscal 1996.

EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

On December 4, 1996, Cavco and Al Ghelfi, the Chairman of Cavco, agreed to enter into a Consulting Agreement, which will become effective upon the consummation of the transactions contemplated by the Merger Agreement or alternatively, upon consummation of the Subject Share Purchase, as the case may be. The term of the Consulting Agreement is five years; however, either party may accelerate the expiration date if CREC acquires all of the Shareholder Parties' Cavco common stock. During the term of the Consulting Agreement, Al Ghelfi has agreed to provide consulting services requested by the Board of Directors of Cavco in connection with its business. Upon effectiveness of the Consulting Agreement, Al Ghelfi will be entitled to receive consulting fees, reimbursement of expenses and certain group benefits, on the terms and conditions specified in the Consulting Agreement. The Consulting Agreement also provides that Al Ghelfi will not engage in certain activities competitive with the business of Cavco for a period of three (3) years following termination of the Consulting Agreement in certain circumstances. The description set forth in this Report of the terms of the Consulting Agreement is qualified in its entirety by reference to the Consulting Agreement, a copy of which is incorporated herein by reference as an Exhibit to this Report.

On December 4, 1996, Cavco and Brent Ghelfi, the President and Chief Executive Officer of Cavco, agreed to enter into a five-year Employment Agreement, which will become effective upon consummation of the transactions contemplated by the Merger Agreement or alternatively, upon consummation of the Subject Share Purchase, as the case may be. During the term of the Employment Agreement, Brent Ghelfi has agreed to continue to serve as Chief Executive Officer of the Company, subject to the direction of the Board of Directors. Upon effectiveness of the Employment Agreement, Brent Ghelfi will be entitled to receive salary and cash bonuses, reimbursement of expenses, and other specified individual and group benefits, pursuant to the terms and conditions set forth in the Employment Agreement, and in addition, will be entitled to receive certain options to purchase shares of common stock of Centex Corporation, the parent company of CREC. The Employment Agreement also provides that Brent Ghelfi will not engage in certain activities competitive with the business of Cavco for a period of three (3) years following termination of the Employment Agreement in certain circumstances. The description set forth in this Report of the terms of the Employment Agreement is qualified in its entirety by reference to the Employment Agreement, a copy of which is incorporated herein by reference as an Exhibit to this Report.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of this Report for additional information concerning the transactions contemplated by Merger Agreement.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

During the 1996 fiscal year, Wendell Hargis, then Executive Vice President of Manufacturing Operations, exercised an option to purchase 5,000 shares of Cavco Common Stock. A beneficial ownership report on Form 4 was not timely filed to report the exercise of such option. See "Executive Compensation." In February 1995, Brent Ghelfi was elected Vice President and Wendell Hargis was elected Vice President of Manufacturing Operations of the Company and in March 1996, James Samuel Parlette was elected Vice President of Sales and Marketing of the Company. An initial statement of beneficial ownership on Form 3 was not timely filed to report any of these events.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth information as of November 29, 1996, with respect to beneficial ownership of the Company's Common Stock by each person, including

any "group" as that term is used in Section 13(d) of the Securities Exchange Act of 1934, who is known by the Company to be the beneficial owner of more than 5% of the Company's Common Stock.

<TABLE>
<CAPTION>

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
<S>	<C>	<C>	<C>
$.05 Par Value Common Stock	Al R. Ghelfi 5655 N. Camelback Canyon Dr. Phoenix, AZ 85018	1,830,729 shares(2)	54.04%
$.05 Par Value Common Stock	Stephen H. Kleemann 526 Via Sinuosa Santa Barbara, CA 93110	272,025 shares	8.03%
$.05 Par Value Common Stock	FMR Corp. 82 Devonshire St. Boston, MA 02109	238,550 shares(3)	7.04%

</TABLE>

(b) SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth information as of November 29, 1996, with respect to beneficial ownership of the Company's Common Stock by each Named Executive Officer, each director, and all directors and officers as a group.

<TABLE>
<CAPTION>

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
<S>	<C>	<C>	<C>
$.05 Par Value Common Stock	Al R. Ghelfi 5655 N. Camelback Canyon Dr. Phoenix, AZ 85018	1,830,729 shares(2)	54.04%
$.05 Par Value Common Stock	Ruth Smith 19016 N. 88th Dr. Peoria, AZ 85382	42,340 shares(4)	1.25%

</TABLE>

<TABLE>

<S>	<C>	<C>	<C>
$.05 Par Value Common Stock	Stephen H. Kleemann 526 Via Sinuosa Santa Barbara, CA 93110	272,025 shares	8.03%
$.05 Par Value Common Stock	Wendell Hargis 1711 N. Lindsay Rd. Mesa, AZ 85213	5,000 shares(5)	*
$.05 Par Value Common Stock	Robert Ward 2953 E. Blackhawk Dr. Phoenix, AZ 85024	3,750 shares	*
$.05 Par Value Common Stock	All Executive Officers and Directors as a Group (9 persons)	2,153,844 shares	63.57%

</TABLE>

* Represents less than 1% of outstanding shares.

(1 Based on 3,387,968 shares of the Company's $.05 par value common stock issued and outstanding.

(2) Represents (i) 1,650,000 shares held by Janal Limited Partnership, the sole general partners of which are trust in which Al Ghelfi and his spouse, Janet M. Ghelfi, are the sole trustees, and (ii) 180,729 shares held by Al Ghelfi and Janet M. Ghelfi as community property.

(3) As reported on the February 14, 1996 Schedule 13G filed by FMR Corp.

(4) 38,840 of the shares shown are held in joint tenancy with spouse, Robert J. Smith.

(c) CHANGES IN CONTROL

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -Recent Developments: Proposed Merger" in Part II of this Form 10-K, incorporated herein by reference, for a description of arrangements known to the Company the operation of which may at a subsequent date result in a change of control of the Company

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments: Proposed Merger" in Part II of this Form 10-K and "Executive Compensation -- Employment Contracts, Termination of Employment and Change-in-Control Arrangements" and " -- Compensation Committee Interlocks and Insider Participation" in Part III of this Form 10-K, incorporated herein by reference.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. Financial statements - See Index to Consolidated Financial Statements at Item 8 of this Form 10-K.

2. Financial statement schedules - See Index to Consolidated Financial Statements at Item 8 of this Form 10-K.

3. Exhibits - The following Exhibits are filed herewith or incorporated herein by reference. The Company hereby agrees to furnish supplementally to the Commission a copy of any schedule omitted from any such Exhibit.

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated as of December 4, 1996, among Centex Real Estate Corporation, a Nevada corporation, MFH Holding Company, a Nevada corporation, MFH Acquisition Company, an Arizona corporation, Cavco Industries, Inc., an Arizona corporation, Al R. Ghelfi, Janet M. Ghelfi and Janal Limited Partnership, an Arizona limited partnership, incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated December 12, 1996 and filed with the Commission on December 16, 1996 (File No. 0-8822) (the "1996 Form 8-K").
3.1	Articles of Incorporation of the Company and amendments to the Articles of Incorporation attached as an Exhibit to the Company's Form 10 dated September 30, 1978, incorporated herein by reference.
3.2	Bylaws of the Company and amendments to Bylaws attached as an Exhibit to the Company's Form 10 dated September 10, 1978, incorporated herein by reference.
3.3.	Amended Articles of Incorporation and Bylaws dated March, 1981 attached as an Exhibit to the Company's Form 10-K for the fiscal year ended

September 30, 1981, incorporated herein by reference.

3.4	Amended Articles of Incorporation and Bylaws dated April, 1992 attached as an Exhibit to the Company's

	Form 10-K for the fiscal year ended September 30, 1992, incorporated herein by reference.
3.5	Amended Articles of Incorporation and Bylaws dated November 1994, attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1994, incorporated herein by reference.
10.1(2)	1985 Incentive Stock Option Plan, dated August 18, 1985, attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1985, incorporated herein by reference.
10.2	PDG/Prescott Development Group, L.L.C. Operating Agreement attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1993, incorporated herein by reference.
10.3	PDG/Prescott Development Group, L.L.C. Loan Agreement, attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1993, incorporated herein by reference.
10.4	PDG/Prescott Development Group, L.L.C. Irrevocable Guarantee attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1993, incorporated herein by reference.
10.5	Cavco Convertible Note Trust Agreement, Loan Agreement and Promissory Note dated April 12, 1994 attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1994, incorporated herein by reference.
10.6(1)(2)	Incentive Stock Option Agreement between the Company and Wendell Hargis dated August 18, 1995.

10.7(1)	Asset Purchase Agreement dated September 20, 1996 between Action Healthcare Management Services, Inc. and Vanilla, Inc.
10.8(1)(2)	Form of Indemnification Agreement between the Company and each of its directors dated as of December 2, 1996.
10.9(2)	Consulting Agreement dated as of December 4, 1996, by and between Cavco Industries, Inc., an Arizona corporation, and Al R. Ghelfi, incorporated herein by reference to Exhibit 99.3 to the 1996 Form 8-K.
10.10(2)	Employment Agreement dated as of December 4, 1996, by and between Cavco Industries, Inc., an Arizona corporation, and Brent M. Ghelfi, incorporated herein by reference to Exhibit 99.4 to the 1996 Form 8-K.
10.11(1)	Standard Industrial Lease - Multi-Tenant dated February 1, 1993 by and between Loral Corporation and Cavco Industries, Inc.
21(1)	Subsidiaries of the registrant
27	Financial Data Schedule
99.1	Voting Agreement dated as of December 4, 1996, between Centex Real Estate Corporation, a Nevada corporation, and Al R. Ghelfi, Janet M. Ghelfi and Janal Limited Partnership, an Arizona limited partnership, incorporated herein by reference to Exhibit 99.1 to the 1996 Form 8-K.
99.2	Stock Purchase Agreement dated as of December 4, 1996, between Centex Real Estate Corporation, a Nevada Corporation, and Al R. Ghelfi, Janet M. Ghelfi and Janal Limited Partnership, an Arizona limited partnership, incorporated herein by reference to Exhibit 99.2 to the 1996 Form 8-K.

---

(1) Filed herewith

(2) Management contract or compensatory plan

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(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the year ended September 30, 1996.

(c) Exhibits

The list of Exhibits required by Item 601 of Regulation S-K is included in Item 14(a)(3) above.

(d) Financial Statement Schedules

See Item 14(a)(2) above.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 27th day of December, 1996.

Cavco Industries, Inc.

By: /s/ Brent Ghelfi

Brent Ghelfi, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<TABLE>

<S>	<C>	<C>
By: /s/ Al Ghelfi --- Al Ghelfi	Chairman of the Board, Director	December 27, 1996
By: /s/ Brent Ghelfi --- Brent Ghelfi	President, Chief Executive Officer, Director	December 27, 1996
By: /s/ Ruth Smith --- Ruth Smith	Senior Vice President, Secretary, Director	December 27, 1996
By: /s/ Robert Ward --- Robert Ward	Vice President, Principal Financial and Accounting Officer	December 27, 1996
By: /s/ William Blandin --- William Blandin	Director	December 27, 1996

By: /s/ Stephen Kleemann — Director — December 27, 1996
Stephen Kleemann

By: /s/ Robert Wold — Director — December 27, 1996
Robert Wold
</TABLE>

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EXHIBIT INDEX

<TABLE>

Exhibit No.	Description	Page
<S>	<C>	<C>
2.1	Agreement and Plan of Merger dated as of December 4, 1996, among Centex Real Estate Corporation, a Nevada corporation, MFH Holding Company, a Nevada corporation, MFH Acquisition Company, an Arizona corporation, Cavco Industries, Inc., an Arizona corporation, Al R. Ghelfi, Janet M. Ghelfi and Janal Limited Partnership, an Arizona limited partnership, incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated December 12, 1996 and filed with the Commission on December 16, 1996 (File No. 0-8822) (the "1996 Form 8-K").	
3.1	Articles of Incorporation of the Company and amendments to the Articles of Incorporation attached as an Exhibit to the Company's Form 10 dated September 30, 1978, incorporated herein by reference.	
3.2	Bylaws of the Company and amendments to Bylaws attached as an Exhibit to the Company's Form 10 dated September 10, 1978, incorporated herein by reference.	
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3.4	Amended Articles of Incorporation and Bylaws dated April, 1992 attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1992, incorporated herein by reference.	
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10.1	1985 Incentive Stock Option Plan, dated August 18, 1985, attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1985, incorporated herein by reference.	
10.2	PDG/Prescott Development Group, L.L.C. Operating Agreement attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1993, incorporated herein by reference.	

</TABLE>

53

<TABLE>

Exhibit No.	Description	Page

<S>	<C>	<C>
10.3	PDG/Prescott Development Group, L.L.C. Loan Agreement, attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1993, incorporated herein by reference.	
10.4	PDG/Prescott Development Group, L.L.C. Irrevocable Guarantee attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1993, incorporated herein by reference.	
10.5	Cavco Convertible Note Trust Agreement, Loan Agreement and Promissory Note dated April 12, 1994 attached as an Exhibit to the Company's Form 10-K for the fiscal year ended September 30, 1994, incorporated herein by reference.	
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10.7(1)	Asset Purchase Agreement dated September 20, 1996 between Action Healthcare Management Services, Inc. and Vanilla, Inc.	
10.8(1)(2)	Form of Indemnification Agreement between the Company and each of its directors dated as of December 2, 1996.	
10.9(2)	Consulting Agreement dated as of December 4, 1996, by and between Cavco Industries, Inc., an Arizona corporation, and Al R. Ghelfi, incorporated herein by reference to Exhibit 99.3 to the 1996 Form 8-K.	
10.10(2)	Employment Agreement dated as of December 4, 1996, by and between Cavco Industries, Inc., an Arizona corporation, and Brent M. Ghelfi, incorporated herein by reference to Exhibit 99.4 to the 1996 Form 8-K.	
10.11(1)	Standard Industrial Lease - Multi-Tenant dated February 1, 1993 by and between Loral Corporation and Cavco Industries, Inc.	
21(1)	Subsidiaries of the registrant	
27	Financial Data Schedule	
99.1	Voting Agreement dated as of December 4, 1996, between Centex Real Estate Corporation, a Nevada corporation, and Al R. Ghelfi, Janet M. Ghelfi and Janal Limited Partnership, an Arizona limited partnership, incorporated herein by reference to Exhibit 99.1 to the 1996 Form 8-K.	
99.2	Stock Purchase Agreement dated as of December 4, 1996, between Centex Real Estate Corporation, a Nevada Corporation,	

</TABLE>

<TABLE>

Exhibit No.	Description	Page
<S>	<C>	<C>
	and Al R. Ghelfi, Janet M. Ghelfi and Janal Limited Partnership, an Arizona limited partnership, incorporated herein by reference to Exhibit 99.2 to the 1996 Form 8-K.	

</TABLE>

---

(1) Filed herewith

(2) Management contract or compensatory plan

EXHIBIT 10.6

INCENTIVE STOCK OPTION AGREEMENT

BY THIS INCENTIVE STOCK OPTION AGREEMENT ("Agreement") effective this 18th day of August, 1995 (the "Grant Date"), CAVCO INDUSTRIES, INC., an Arizona corporation, (the "Company") and WEN HARGIS, a key employee of the Company (the "Optionee") hereby state, confirm, represent, warrant and agree as follows:

I

RECITALS

1.1 The Company, through its Board of Directors (the "Board"), has determined that in order to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to key employees of the Company and to promote the success of the Company's business, it must offer a compensation package that provides such employees of the Company a chance to participate financially in the success of the Company by developing an equity interest in it.

1.2 As part of the compensation package, the Company has adopted a 1985 Incentive Stock Option Plan (the "Plan"), the provisions of which are expressly incorporated herein and made a part hereof as though set forth herein.

1.3 By this Agreement, the Company and the Optionee desire to establish the terms upon which the Company is willing to grant to the Optionee, and upon which the Optionee is willing to accept from the Company an option to purchase shares of the common stock of the Company ("Common Stock").

II

AGREEMENTS

2.1 Grant of Incentive Stock Option. Subject to the terms and conditions hereinafter set forth, the Company grants to the Optionee the right and option (the "Option) to purchase from the Company all or any part of an aggregate number of 50,000 shares of Common Stock, authorized but unissued or, at the option of the Company, treasury stock if available (the "Optioned Shares").

2.2 Exercise of Option. Subject to the terms and conditions of this Agreement, the Option may be exercised only by completing and signing a written notice in substantially the following form:

I hereby exercise the Option granted to me by Cavco Industries, Inc. and elect to purchase shares of no par value Common Stock of Cavco Industries, Inc., for the purchase price to be determined under Paragraph 2.3 of the Incentive Stock Option Agreement dated the 1st day of September, 1985.

2.3 Purchase Price. The price to be paid for the Optioned Shares (the "Purchase Price") shall be $10.00 per share which was not less than the fair market value (as defined under Section 2(i) of the Plan) of the Optioned Shares as determined by the Board on the Grant Date, or, in the case of an option granted to an employee who, on the Grant Date, owns ten percent (10%) or more of the Common Stock, as such amount is calculated under Section 422A(b)(6) of the Internal Revenue Code, as amended ("Code"), not less than one hundred and ten percent (110%) of the fair market value of the Optioned Stock.

2.4 Payment of Purchase Price. Payment of the Purchase Price may be made as follows:

(a) In United States dollars in cash or by check, bank draft or money order payable to the Company, or

(b) At the discretion of the Board, through the delivery of shares of Common Stock with an aggregate fair market value at the date of such delivery, equal to the Purchase Price, or

(c) By a combination of both (a) and (b) above, or

(d) In the manner provided in Section 2.5 below.

The Board shall determine acceptable methods for tendering Common Stock as payment upon exercise of an Option and may impose such limitations and conditions on the use of Common Stock to exercise an Option as it deems appropriate.

2.5 Loans of Guarantees. The Board may, in its absolute discretion and without any obligation to do so, assist Optionee in the exercise of this Option by:

(a) Authorizing the extension of a loan to Optionee from the Company; or

(b) Permitting Optionee to pay the exercise price for the Shares in installments over a period of years; or

(c) Authorizing a guaranty by the Company of a third-party loan to Optionee.

The terms of any loan, installment, method of payment or guaranty (including the interest rate and terms of repayment) shall be established by the Board, in its

sole discretion.

2.6 Reduction in Optioned Shares. The number of Optioned Shares to which an Optionee is entitled shall be reduced by the number of Optioned Shares purchased by Optionee.

2.7 Exercisability of Option. Subject to the provisions of Paragraph 2.9, and except as otherwise provided in Paragraphs 2.10 and 2.11, the Option may be exercised by the Optionee only while in the employ of the Company which shall include any parent ("Parent") or subsidiary ("Subsidiary") corporation of the Company (as defined in Sections 425(e) and (f), respectively, of the Code) in whole or in part from time to time during the period beginning August 18, 1995, but only in accordance with the following schedule:

<TABLE>
<CAPTION>

Elapsed Number of Years After Grant Date	Cumulative Percentage of Shares Subject To An Option Which May Be Exercised
<S>	<C>
None	None
One	10%
Two	20%
Three	30%
Four	40%
Five	50%
Six	60%
Seven	70%
Eight	80%
Nine	90%
Ten	100%

</TABLE>

Provided, however, that as provided in Paragraph 2.8, no part of the Option shall be exercised prior to the expiration by reason of lapse of time or exercise in full or all incentive stock options granted to Optionee by Company prior to the Grant Date.

2.8 Sequential Exercise. Not withstanding any other provision of the Agreement, the Option may not be exercised while there is outstanding any incentive stock option which was granted, before the Grant Date, to the Optionee to purchase the Common Stock of the Company or any other corporation which, on the Grant Date, was a Parent or Subsidiary of the Company or any predecessor of

such a Parent or Subsidiary. Any incentive stock option shall be considered outstanding until exercised in full or until it expires by reason of lapse of time. For the purposes of the Agreement, the term "incentive stock option" shall mean an option which is intended to qualify as an incentive stock option within the meaning of Section 422A of the Code.

2.9 Termination of Option. Except as otherwise provided herein, the Option, to the extent not heretofore exercised, shall terminate upon the first to occur of the following dates:

(a) The date on which the Optionee's employment by the Company is terminated except if such termination is voluntary with the consent of the Board, or occurs due to retirement with the consent of the Board, death or disability within the meaning of Section 105(d)(4) of the Code;

(b) Thirty (30) days after voluntary termination with the consent of the Board or termination due to retirement with the consent of the Board;

(c) Ninety (90) days after termination due to disability within the meaning of Section 105(d)(4) of the Code;

(d) One hundred eighty (180) days after the Optionee's death; or

(e) August 18, 2005 (being the expiration of ten (10) years from the Grant Date).

2.10 Adjustments. In the event of any merger, consolidation, stock dividend, split-up, combination or exchange of shares or recapitalization or change in capitalization, the number and kind of Optioned Shares (including any Option outstanding after termination of employment or death) and the Option Price per share shall be proportionately and appropriately adjusted without any change in the aggregate Option Price to be paid therefor upon exercise of the Option. The determination by the Board as to the terms of any of the foregoing adjustments shall be conclusive and binding.

2.11 Acquisition. If any person, corporation or other entity or group thereof (the "Acquiror") directly or indirectly makes an acquisition (an "Acquisition"), other than by merger or consolidation or purchase from Company, of the beneficial ownership (as that term is used in Section 13(d)(1) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of shares of Common Stock which, when added to any other shares the beneficial ownership of which is held by the Acquiror, shall have more than

twenty percent (20%) of the votes that are entitled to be cast at meetings of stockholders, any portion of the Option which was not currently exercisable pursuant to Paragraph 2.7 prior to the date of the Acquisition becomes immediately exercisable and Optionee may elect, during the period commencing on the date of the Acquisition and ending at the close of business on the thirtieth (30th) day following the date of the Acquisition, to exercise the Option in whole or in part. In the event the thirtieth (30th) day referred to in this paragraph shall fall on a day that is not a business day, then the thirtieth (30th) day shall be deemed to be the next following business day.

2.12 Notices. Any notice to be given under the terms of the Agreement ("Notice") shall be addressed to the Company in care of its Secretary at 301 East Bethany Home Road, Suite C178, Phoenix, Arizona 85012, or at its then current corporate headquarters. Notice to be given to the Optionee shall be addressed to him at his then current residential address as appearing on the payroll records.

Notice shall be deemed duly given when enclosed in a properly sealed envelope and deposited by certified mail, return receipt requested, in a post office or branch post office regularly maintained by the United States Government.

2.13 Notification of Disposition of Shares. The Optionee hereby acknowledges that a disposition of shares of Common Stock acquired upon the exercise of the Option within two (2) years from the Grant Date or within one (1) year after the transfer of such shares of Common Stock to him would result in detrimental income tax consequences to the Optionee.

The Optionee hereby agrees to promptly notify the Company of any disposition of shares of Common Stock within either of the above time limitations.

2.14 Modification of Agreement. The Board may at any time and from time to time direct that the Agreement be modified in such respects deemed advisable in order that the Option shall constitute an incentive stock option pursuant to Section 422A of the code.

2.15 Transferability of Option. The option shall not be transferable by the Optionee otherwise than by the will or the laws of descent and distribution, and may be exercised during the life of the Optionee only by the Optionee.

2.16 Optionee Not A Shareholder. The Optionee shall not be deemed for any purposes to be a shareholder of the Company with respect to any of the Optioned Shares except to the extent that the Option herein granted shall have been exercised with respect thereto and a stock certificate issued therefor.

2.17 Disputes Or Disagreements. As a condition of the granting of the Option herein granted, the Optionee agrees, for himself, his personal representative and his beneficiary(s), that any disputes or disagreements which may arise under or as a result of or pursuant to this Agreement shall be determined by the Board in its sole discretion, and that any interpretation by the Board of the terms of this Agreement shall be final, binding and conclusive.

IN WITNESS WHEREOF, the company has caused this instrument to be executed by its duly authorized officer, and the Optionee has hereunto affixed his signature.

ATTEST:

CAVCO INDUSTRIES, INC.

/s/ Robert Ward

Assistant Secretary

/s/ Al Ghelfi

President

/s/ Wen Hargis

Optionee

EXHIBIT 10.7

ASSET PURCHASE AGREEMENT

This is an Agreement between ACTION HEALTHCARE MANAGEMENT SERVICES, INC., a corporation incorporated under the laws of the State of Arizona, with its principal place of business at 301 E. Bethany Home Road, Suite 178, Phoenix, Arizona 85012 ("Seller") and VANILLA, INC., an Arizona corporation, with its principal place of business at 301 E. Bethany Home Road, Suite C-278, Phoenix, Arizona 85012("Buyer"), each of which agrees as follows:

R E C I T A L S:

WHEREAS, Seller is in the business of providing health care quality management and cost containment services to various companies providing health care benefits to their employees and/or employees' dependents;

WHEREAS, Buyer desires to purchase the Acquired Assets, as hereinafter defined, on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual representations, warranties, and covenants contained, the parties hereto understand and agree as follows:

ARTICLE I
DEFINITIONS

1.1 Definitions. Each reference contained in this Agreement to:

(a) "Accounts Receivable" shall mean all of the amounts due Seller as of the Closing Date.

(b) "Acquired Assets" shall have the meaning set forth in Paragraph 2.1(a) hereof.

(c) "Agreement" shall refer to this Asset Purchase Agreement and all exhibits and schedules thereto, as the same may be amended from time to time.

(d) "Assumed Liabilities" shall have the meaning set forth in Paragraph 2.1(b) hereof.

(e) "Bill of Sale and Assumption Agreement" shall refer to the Bill of Sale and Assumption Agreement given by Seller to Buyer for the Acquired Assets substantially in the form of Exhibit "A."

(f) "Closing" shall mean 5:00 P.M. local time in Phoenix, Arizona on September 30, 1996, or such later date as may be mutually agreed to

by the parties, on

which Seller transfers or causes the transfer of the Acquired Assets and the Assumed Liabilities to Buyer pursuant to the terms of this Agreement, and "day of Closing" and "Closing Date" shall be deemed to refer to such day.

(g) "Code" shall refer to the Internal Revenue Code of 1986, as amended from time to time.

(h) "Contracts" shall mean the contracts described on Schedule 1 attached hereto and by this reference incorporated herewith.

(i) "Furniture, Fixtures and Equipment" shall refer to the Furniture, Fixtures and Equipment described on Schedule 2 attached hereto and by this reference incorporated herewith.

(j) "Indemnification Event" shall refer to any action, proceeding or claim for which a person is entitled to indemnification under this Agreement.

(k) "Indemnitor" shall refer to the indemnifying person in the case of any obligation to indemnify another person pursuant to the terms of this Agreement.

(l) "Software" shall mean the Case Management software acquired by Seller from National Case Management used in the operation of Seller's business and licensed by Seller from time to time to large case management companies.

(m) "Name" shall mean the right to the name Action Healthcare Management Services, Inc.

ARTICLE II
PURCHASE OF ASSETS

2.1 (a) Acquired Assets. Upon the terms and subject to the conditions of this Agreement, at the Closing Buyer shall purchase from Seller, and Seller shall sell, assign, transfer and convey to Buyer, without recourse, all right, title and interest in and to all of the following assets, properties, rights, contracts and claims as the same shall exist on the Closing Date (collectively, the "Acquired Assets"):

(i) All ownership interest in the Furniture, Fixtures and Equipment;

(ii) All Contracts and the payments coming due under

such Contracts after the Closing Date;

(iii) All proceeds, rights, claims, credits, causes of action or rights of setoff against third parties relating to or arising out of the Furniture,

Fixtures and Equipment, and the Contracts after the Closing Date, and the right to commence suit against such parties for any such claims;

(iv) All of Seller's telephone numbers in Phoenix, Arizona, including, but not limited to, to wit: (602) 265-0681 and (800) 433-6915;

(v) The Software;

(vi) The Name;

(vii) The Accounts Receivable.

(b) Liabilities Assumed by Buyer. Upon the terms and subject to the conditions of this Agreement, Buyer shall, without recourse, assume or be obligated to pay when due, perform, or discharge the following liabilities, obligations and related expenses of Seller arising out of, incurred in connection with, or otherwise relating to, the Acquired Assets (collectively, the "Assumed Liabilities"):

(i) All liabilities and obligations arising after the Closing from the Furniture, Fixtures and Equipment, the Contracts, and the Software; and

(ii) All risk of loss or damage to the Furniture, Fixtures and Equipment or liability arising as a result of ownership thereof arising after the Closing Date;

(iii) All claims arising from the sale or licensing of the Software by Buyer to third parties (excepting claims by third parties of ownership of the Software);

(iv) Any Taxes which are allocated to Buyer pursuant to Paragraph 5.1;

(v) The obligations to U.S. West for the telephone numbers transferred under Paragraph 2.1(a)(iv) above.

2.2 The Purchase Price. The Purchase Price for the Acquired Assets, excluding the Software, shall be the sum of $442,000 payable by Buyer's Promissory Note (the "Note") which will bear interest at the rate of 8% per

annum from and after the Close of Escrow. Said Note shall be in the form annexed hereto as Exhibit "B" and by this reference incorporated herewith, secured by a Security Agreement in the form of Exhibit "C" attached hereto and by this reference incorporated herewith. The Note shall bear interest at the rate of 8% per annum amortized over a period of ten years payable in blended monthly amortized installments of $5,735.69 with the entire unpaid principal balance and any interest accrued thereon due and payable on or before September 30, 2001.

2.3 Allocation of Purchase Price. The Purchase Price shall be allocated as follows:

<TABLE>
<S> <C>

Furniture, Fixtures and Equipment	$100,000
Future Profits to be Realized on Contracts	$ 40,000
Software	$250,000
Covenant Not to Compete	$ 10,000
Accounts Receivable	$ 42,000

</TABLE>

No portion of the Purchase Price shall be allocated to the telephone number or the future receivables under the Contracts.

2.4 Additional Payments for Software. Buyer agrees that from the first sale or license of the right to use the Software, Seller shall receive 85% of the proceeds net of the selling cost of the Software and any training included in the licensure of the Software by Buyer to a third party (the "Net Proceeds"). The amounts payable hereunder to Seller shall be additional consideration to the amounts payable under the Note and as additional consideration for the sale of the Software. Thereafter, Seller shall receive 25% of the Net Proceeds, as defined above, of any sale of the Software for a period commencing on the Closing date and ending on September 30, 1999. One-half of the amounts received by Seller shall be applied to the Note as a prepayment thereof.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF SELLER

As of the Closing Date, Seller makes the following representations and warranties to Buyer:

3.1 Organization of Seller, etc. Seller is a corporation duly organized, validly existing and in good standing under the laws of Arizona, has the corporate power to execute, deliver and perform its obligations under this Agreement and has the corporate power to own and lease its properties and to

carry on its business as now being conducted.

3.2 Authorization of Agreement. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized and approved by all necessary corporate action on the part of Seller, and this Agreement has been duly executed and delivered by Seller, and represents the valid and binding obligation of Seller enforceable against it in accordance with its terms, except as enforcement hereof may be limited by the bankruptcy laws of the United States or other state insolvency laws.

3.3 No Breach of Statute or Contract, Government Authorizations, etc. Neither the execution and delivery of this Agreement by Seller nor compliance by Seller

with the terms and provisions hereof will conflict with or result in a breach of any of the terms, conditions or provisions of (i) its Articles of Incorporation or Bylaws, (ii) any judgment, order, injunction, decree or ruling of any court or of any governmental authority to which Seller is subject, or (iii) any agreement, contract or commitment to which Seller is a party or to which the Acquired Assets are subject, the breach of which (a) would have a material adverse effect on the Acquired Assets, or (b) would materially impair the ability of Seller to perform its obligations under this Agreement.

3.4 No Litigation or Adverse Events. To the knowledge of Seller, there are no suits, actions, administrative, arbitration or other proceedings, including, without limitation, any counterclaims relating to ownership of the Acquired Assets or the Assumed Liabilities which are pending or have been threatened in writing on the date of this Agreement.

3.5 Brokers' or Finders' Fees, etc. No person acting on behalf or under the authority of Seller is or will be entitled to any broker's or finder's fee or commission or similar fee, directly or indirectly, from Buyer in connection with any of the transactions contemplated hereby.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF BUYER

As of the Closing Date, Buyer makes the following representations and warranties to Seller:

4.1 Organization of Buyer, etc. Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Arizona and has the power to execute, deliver, and perform its obligations under this Agreement.

4.2 Authorization of Agreement. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized and approved by all necessary corporate action on the part of Buyer, and this Agreement has been duly executed and delivered by Buyer and represents the valid and binding obligation of Buyer enforceable against it in accordance with its terms, except as enforcement hereof may be limited by the bankruptcy laws of the United States or other state insolvency laws.

4.3 No Breach of Statute or Contract. Neither the execution and delivery of this Agreement nor compliance with the terms and provisions hereof by it will conflict with or result in a breach of any of the terms, conditions or provisions of (i) the Articles of Incorporation or Bylaws of Buyer, or (ii) any judgment, order, injunction, decree or ruling of any court or of any governmental authority, or any laws, statute or regulation, to which Buyer is subject, or (iii) any agreement, contract or commitment to which Buyer is a party or is subject, the breach of which would materially impair the ability of Buyer to perform its obligations under or pursuant to this Agreement. There are no approvals

required to permit the consummation by Buyer of the transaction contemplated by this Agreement.

4.4 Brokers' or Finders' Fees, etc. No Person acting on behalf of or under the authority of Buyer is or will be entitled to any broker's or finder's fee or other commission or similar fee, directly or indirectly, from Seller in connection with any of the transactions contemplated herein.

4.5 Furniture, Fixtures and Equipment, Contracts and Software. Buyer is acquiring and will use the Furniture, Fixtures and Equipment, Contracts and Software in the ordinary course of its business for the purpose of furnishing services to the parties to the Contracts and sale and licensing of Software and all other lawful purposes.

4.6 Performance. Buyer will faithfully perform and discharge the Assumed Liabilities when due in the ordinary course of its business.

ARTICLE V
COVENANTS; INDEMNITIES

5.1 Tax Matters.

(a) Cooperation. Prior to and after the Closing, to the extent consistent with each party's then current published records retention policies, Seller and Buyer shall cooperate with each other and make available to each other such tax data and other information as may be reasonably required for the preparation by Buyer or Seller of any tax returns, elections, claims for refund,

consents or certificates required to be prepared and filed by Buyer or Seller.

(b) Allocation of Purchase Price. The allocation of the Purchase Price as stated in Paragraph 2.2 is based upon the principles of Section 1060 of the Code, and Seller and Buyer agree to timely file all federal, state, local and foreign tax returns and reports consistent with this allocation. Seller hereby designates its Treasurer as the individual to be responsible for satisfaction of the provisions of this Paragraph 5.1(b), and Buyer hereby designates Jean Rice as the individual to be responsible for satisfaction of the provisions of this Paragraph 5.1(b).

(c) Seller's Taxes. Seller shall pay when due (i) all capital, franchise, foreign, federal, state and local income Taxes with respect to ownership of the Acquired Assets prior to the Closing Date, (ii) subject to Paragraphs 5.1(d) and 5.1(e), all of Seller's income Taxes arising out of the transfer of the Acquired Assets from Seller to Buyer, and (iii) all rental, sale, use, goods and services, excise and personal property Taxes arising out of or relating to the Contracts which are attributed to any period ending on or prior to the Closing Date.

(d) Buyer's Taxes. Buyer shall be liable for and shall pay when due (i) all capital, franchise, foreign, federal, state and local income Taxes with respect to ownership of the Acquired Assets and all other Taxes with respect to the Acquired Assets on or after the Closing Date, (ii) all personal property Taxes, whether or not billed, arising out of or relating to the Furniture, Fixtures and Equipment or the Contracts which are attributed to any period ending after the Closing Date, whether billed or assessed prior to, on or after the Closing, except as required to be paid by Seller pursuant to Paragraph 5.1(c)(iii) all rental, sale, use, goods and services and excise Taxes arising out of or relating to the Contracts and Furniture, Fixtures and Equipment which are attributed to any period after the Closing Date.

(e) Transfer and Sales Taxes. Buyer shall bear and pay all sale, use, or goods and services Taxes upon or with respect to the sale or transfer of the Acquired Assets by Seller to Buyer pursuant to this Agreement. To the extent that applicable law or regulation imposes upon Seller the obligation to report or pay such Taxes, Buyer shall promptly reimburse Seller therefor upon receipt of Seller's invoice for the amount of such payment and such supporting documentation as Buyer may reasonably require. If the sale or transfer of any or all of the Acquired Assets is exempt from such Taxes, Buyer and Seller shall provide the other party with appropriate exemption documents if required by applicable law for qualification for such exemption.

(f) Filing of Tax Returns; Costs. Seller shall be responsible for the timely filing (including any appropriate extensions) of all Tax returns ending prior to the Closing Date. Buyer shall be responsible for the timely filing (including any appropriate extensions) of all Tax returns required by law

to be filed in respect of the Acquired Assets for periods ending on or after Closing Date. Interest, penalties, refunds, credits and expenses in connection with Taxes due under this Paragraph 5.1 shall be the responsibility of the party required to pay the related underlying Taxes.

5.2 Indemnifications, Assumptions of Liability and Related Matters.

(a) Seller shall, from and after the Closing, on an after-tax basis, indemnify, defend, and hold harmless Buyer and each of its directors, officers, and employees from and against any and all Damages arising directly out of: (i) any material breach of any representation or warranty made by Seller in this Agreement; or (ii) any failure to perform duly and punctually any material covenant, agreement or undertaking on the part of Seller contained in this Agreement; or (iii) any material misrepresentation in or omission from any schedule or exhibit delivered by Seller pursuant to the terms of this Agreement; or (iv) its fraud in connection with any Acquired Asset or Assumed Liability; provided, however, that Seller's liability under this Paragraph 5.2(a) will be limited to direct damages and shall not include indirect, incidental, or consequential damages, including, without limitation, lost profits.

(b) Seller shall, from and after the Closing, on a net after-tax basis, indemnify and hold harmless Buyer and its directors, officers, and employees from and against any and all damages with respect to Taxes relating to the Acquired Assets and Assumed Liabilities for the period prior to Closing except as provided in Paragraphs 5.1(d) and 5.1(e).

(c) Buyer shall, from and after the Closing, on a net after-tax basis, indemnify and hold harmless Seller and its directors, officers, and employees from and against any and all damages with respect to Taxes relating to the Acquired Assets and the Assumed Liabilities for the period on or after the Closing and as set forth in Paragraphs 5.1(d) and 5.1(e), except as provided in Paragraph 5.1(c).

(d) Buyer shall, on a net after-tax basis, indemnify, defend, and hold harmless Seller and its directors, officers, and employees from and against any and all damages arising directly out of: (i) any material breach of any representation or warranty made by Buyer in this Agreement; or (ii) any failure to perform duly and punctually any material covenant, agreement or undertaking on the part of Buyer contained in this Agreement; or material misrepresentation in or omission from any schedule or exhibit delivered by Buyer pursuant to the terms of this Agreement, or (iv) its fraud in connection with any Acquired Asset or Assumed Liability; provided, however, that Buyer's liability under this Paragraph 5.2(d) will be limited to direct damages and shall not include indirect, incidental, or consequential damages, including, without limitation, lost profits.

(e) Buyer shall indemnify and hold harmless Seller from and against all damages or claims for loss of any person or entity arising out of or incident to the ownership, possession, operation, control, use or maintenance of the Furniture, Fixtures and Equipment, the Contracts or the Software arising after delivery of the Acquired Assets to Buyer.

(f) Except as otherwise expressly provided in this Paragraph 5.2(f), the representations and warranties contained in this Agreement shall survive the Closing hereunder until the expiration of one hundred eighty (180) days following the Closing Date, and, notwithstanding anything to the contrary contained in Paragraphs 5.2(a) or 5.2(d), there shall be no right to indemnification with respect to a breach of a representation or warranty unless a claim with respect thereto is asserted in writing against the Indemnitor prior to the expiration of one hundred eighty (180) days from the Closing Date, provided, however, that Seller shall be obligated to indemnify Buyer against any adverse claims by third parties to the ownership of the Software for a period of three years from and after the Closing. The representations, warranties and indemnities contained in Paragraphs 5.2(b), 5.2(c) and 5.2(e) hereof shall survive until it is no longer possible in law for the indemnified party to sustain damages by reason of any breach thereof. No party shall be entitled to payment of indemnity amounts hereunder in respect of an item of Furniture, Fixtures or Equipment or a Contract unless the damages result from an event that is indemnifiable under this Paragraph 5.2. The inability of a

lessee or obligor to make scheduled payments under such Contract shall not of itself be an indemnifiable event.

(g) Notwithstanding anything to the contrary set forth in this Paragraph 5.2, it is expressly agreed that, subject to the provisions of this Paragraph 5.2(g), Buyer has assumed and shall bear the risk of loss under the Contracts from and after the Closing Date. Buyer acknowledges that the Contracts are cancelable by the other parties on 30 or 60 day notices, as applicable.

(h) For the purposes of administering the indemnification provisions of this Paragraph 5.2, the following procedures shall apply from and after the Closing Date:

(i) Each indemnified party shall notify the Indemnitor of any Indemnification Event in writing within thirty (30) days following the receipt of notice of the commencement of any action or proceeding or within thirty (30) days of (a) the assertion of any claim against such indemnified party or (b) the discovery by such indemnified party of any loss, giving rise to indemnity pursuant to this Paragraph 5.2 and shall indicate in such notification whether such indemnified party is requesting indemnification with respect to such

Indemnification Event and the amount of indemnification initially anticipated. The failure to give notice as required by this Paragraph 5.2(h)(i) in a timely fashion shall not result in a waiver of any right to indemnification hereunder except to the extent that the Indemnitor's ability to defend against the event with respect to which indemnification is sought is adversely affected by the failure of the indemnified party to give notice in a timely fashion as required by this Paragraph 5.2(h)(i).

(ii) In cases where the Indemnitor has assumed the defense or settlement with respect to an Indemnification Event, the Indemnitor shall be entitled to assume the defense or settlement thereof with counsel of its own choosing, which counsel shall be reasonably satisfactory to the indemnified party, provided that: (a) the indemnified party (and its counsel) shall be entitled to continue to participate at its own cost in any such action or proceeding or in any negotiations or proceedings to settle or otherwise eliminate any claim for which indemnification is being sought provided that the indemnified party shall not be entitled to settle without the approval of the Indemnitor; and (b) the Indemnitor shall not be entitled to settle, compromise, decline to appeal, or otherwise dispose of any such action, proceeding or claim without the consent or agreement of the indemnified party (which consent will not be unreasonably withheld or delayed) provided, that if such consent is withheld the Indemnitor's liability shall be limited to the amount for which the Indemnitor agreed with the claimant to settle and the Indemnitor shall remain responsible for its costs and attorneys' fees to the date such settlement was rejected by the indemnified party and the indemnified party

shall be responsible for the costs and attorneys' fees in respect of such claim thereafter.

5.3 Cooperation.

(a) Each party agrees to make available such personnel and documents as the other party may reasonably request related to the Acquired Assets, or the Assumed Liabilities to enable such party to collect, defend, prosecute and/or settle any claims or litigation relating thereto; provided, however, that such request shall not unreasonably interfere with the operation of the business of such party.

(b) Each party agrees to make available such files and documents, including, without limitation, true and correct copies of Contracts delivered at Closing, as the other party may reasonably request, and to

cooperate with the other party in order to enable such party to collect any Taxes from lessees, obligors or borrowers to which such party may be entitled to reimbursement; provided, however, that such request shall not unreasonably interfere with the operation of the business of such party and that cooperation shall be to the extent reasonably consistent with such party's then current published records retention policies and its reasonably available personnel.

(c) Each party agrees to hold in trust for the benefit of and remit to the other party any monies received which are properly due to such other party.

ARTICLE VI
CLOSING

6.1 The Closing. The Closing of the sale of the Acquired Assets and the Assumed Liabilities hereunder shall be held on or before September 30, 1996. At the Closing, Buyer shall make, execute and deliver a Note in the form annexed hereto as Exhibit "B" to Seller, together with the Security Agreement in the form annexed hereto as Exhibit "C" securing payment and performance of the Note; and (ii) assume the Assumed Liabilities.

6.2 Conditions to the Obligations of Buyer. The obligations of Buyer to purchase the Acquired Assets and to assume the Assumed Liabilities shall be subject to the following conditions: (i) Seller shall have executed and delivered to Buyer the Bill of Sale and Assumption Agreement, and such other bills of sale, endorsements, assignments and other instruments of transfer and conveyance as shall reasonably be requested by Buyer to vest in Buyer full right, title and interest in the Acquired Assets (subject to such exceptions as are permitted to exist herein); and (ii) Seller shall have prepared Articles of Amendment to its Articles of Incorporation changing its Name from Action Healthcare Management Services, Inc. and assigning the right to use the Name to Buyer. At the Closing, Seller shall allow Buyer to take actual possession and operating control of the Acquired Assets.

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6.3 Conditions to the Obligations of Seller. The obligations of Seller to sell the Acquired Assets shall be subject to the following condition: Buyer shall have executed and delivered to Seller the Bill of Sale and Assumption Agreement and Seller shall have received at the Closing such other instruments as may be reasonably requested by Seller to effect the assumption by Buyer of the Assumed Liabilities.

ARTICLE VII
GENERAL

7.1 Amendments. This Agreement may only be amended, modified, superseded or canceled and any of the terms, covenants, representations,

warranties or conditions hereof may be waived only by an instrument in writing signed by each of the parties hereto or, in the case of a waiver, by or on behalf of the party waiving compliance.

7.2 Integrated Contract. This Agreement and the Exhibits and Schedules hereto, and any written amendments to this Agreement satisfying the requirements of Paragraph 7.1 constitute the entire agreement between Seller and Buyer regarding the Acquired Assets and the Assumed Liabilities.

7.3 GOVERNING LAW. THIS AGREEMENT AND THE LEGAL RELATIONS OF THE PARTIES HERETO SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ARIZONA, WITHOUT REGARD TO THE PRINCIPLES REGARDING CHOICE OF LAW.

7.4 Dispute Resolution. In the event of a dispute between the parties to this Agreement, the parties agree to promptly meet and confer with the goal of settling such dispute. If the parties are unable to reach a prompt, amicable agreement concerning such dispute, the parties agree to submit the matter to non-binding mediation. If the parties cannot agree on a mediator, the American Arbitration Association will be requested to provide a mediator with expertise in container leasing and asset sale transactions. The mediation fee, if any, shall be divided equally by the parties.

Failing resolution by mediation, such dispute shall be decided by neutral, binding arbitration in accordance with Arizona Revised Statutes Section 12-1501, et seq., and not by court action except as provided by Arizona law for judicial review of arbitration proceedings. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitrator shall be agreed on by the parties or appointed by request according to the procedures of the American Arbitration Association. Each party shall bear its own attorneys' fees and costs and the arbitrator's fees and disbursements shall be borne equally by the parties.

7.5 Notices. Any notices or other communications required or permitted hereunder shall be sufficiently given when sent by registered mail or certified mail,

postage prepaid, by overnight courier service, or by telex, telecopy or other written form of electronic communication (with confirmed receipt to the sender):

If to Seller to: Action Healthcare Management Services, Inc.
301 E. Bethany Home Road, Suite 178
Phoenix, Arizona 85012
Phone: 602/265-0580; Fax: 602/277-3647
Attention: Robert C. Ward

If to Buyer to: Vanilla, Inc.
301 E. Bethany Home Road, Suite C-278
Phoenix, Arizona 85012
Phone: 602/265-0681; Fax: 602/265-0202

or to such other address as shall be furnished in writing by Buyer or Seller, as the case may be, to the other (except that a notice of change of address shall not be deemed to have been given until received by the addressee).

7.6 Assignment. No assignment may be made by either party of its rights or obligations hereunder, except to the Permitted Assignee as defined in Paragraph 1.1(l) above. Unless otherwise agreed in writing, no such assignment shall affect the rights and obligations of the parties hereunder.

7.7 Headings. The descriptive headings of the several Articles and paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

7.8 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each party hereto and delivered to the other party hereto.

7.9 Expenses. Except as otherwise specifically set forth herein, Seller and Buyer will each be responsible for the payment of their own respective costs and expenses incurred in connection with the negotiations leading up to and the performance of their respective obligations pursuant to this Agreement.

7.10 Exclusive Remedies. The remedies provided for in this Agreement shall be the exclusive remedies available to the parties hereunder in regard to the subject matter hereof or to Acquired Assets or the Assumed Liabilities.

ARTICLE VIII
COVENANT NOT TO COMPETE

8.1 Covenant Not to Compete. Seller agrees not to engage in, directly or indirectly, the business of providing health care quality management and cost containment services to various companies providing health care benefits to their employees and/or employees' dependents, either directly or indirectly, in the State of Arizona for a period of five years from and after the Closing Date. Seller agrees that in the event of a violation of this covenant to compete, Buyer would not have an adequate remedy at law and that Buyer may enforce the provisions of this covenant not to compete by injunctive relief.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on its behalf by its officers or representative thereunto duly authorized, all as of the ___ day of _____, 1996.

SELLER: ACTION HEALTHCARE MANAGEMENT SERVICES, INC.

By:_____
Name: Robert L. Ward
Title_____

BUYER: VANILLA, INC.

By:_____
Title:_____

EXHIBIT 10.8

INDEMNIFICATION AGREEMENT

This Agreement is made as of the 2nd day of December, 1996, by and between CAVCO INDUSTRIES, INC., an Arizona corporation (the "Company"), and _____ ("Director").

W I T N E S S E T H

WHEREAS, Director is a member of the Board of Directors of the Company and in that capacity is performing a valuable service for the Company; and

WHEREAS, the Arizona Revised Statutes specifically provide that a corporation may grant certain indemnification rights to its directors; and

WHEREAS, the by-laws of the Company ("by-laws") provide for the indemnification of the directors of the Company and expressly contemplate that additional rights of indemnification may be granted to directors through agreement or otherwise; and

WHEREAS, the Company has been advised that the Company's D&O Insurance coverage is subject to significant limitations, that companies are experiencing increasing difficulty in obtaining and retaining such insurance, that premiums continue to rise for such insurance and that there can be no assurance that directors' and officers' liability insurance will remain available on adequate terms at a cost acceptable to the Company; and

WHEREAS, the Company, in order to induce Director to continue to serve the Company, has agreed to provide Director with the benefits contemplated by this Agreement, which benefits are intended to supplement or replace, if necessary, any D&O Insurance maintained by the Company from time to time;

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, including the Director's continued service to the Company, the Company and Director hereby agree as follows:

1. Definitions. The following terms, as used herein, shall have the following respective meanings:

"Covered Amount" means Loss and Expenses which do not exceed in the aggregate the Maximum Amount.

"Covered Act" means any breach of duty, neglect, error, misstatement, misleading statement, omission or other act done or wrongfully attempted by

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Director or any of the foregoing alleged by any claimant or any claim against Director solely by reason of him being a director or officer of the Company.

"D&O Insurance" means the directors' and officers' liability insurance, if any, insuring the Company and Director, obtained and maintained from time to time by the Company.

"Excluded Claim" means any payment for Losses or Expenses in connection with any claim:

(i) Based upon or attributable to Director gaining in fact any improper personal benefit to which Director is not entitled, or as to which Director shall have been adjudged to be liable to the Company, unless and only to the extent that the court in which the action or suit relating to such claim was brought or another court of competent jurisdiction shall determine that, in view of all the relevant circumstances of the case, Director is fairly and reasonably entitled to indemnification hereunder for such Losses or Expenses as such court shall deem proper; or

(ii) For the return by Director of any illegal remuneration paid to Director without the previous approval of the stockholders of the Company; or

(iii) For an accounting of profits in fact made from the purchase or sale by Director of securities of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 as amended, or similar provisions of any state law; or

(iv) Resulting from Director's knowingly fraudulent, dishonest or willful misconduct; or

(v) The payment of which by the Company under this Agreement is not permitted by applicable law; or

(vi) The payment of which would cause the total amount of all Losses and Expenses paid by the Company to exceed the Covered Amount.

"Expenses" means any reasonable expenses incurred by Director as a result of a claim or claims made against him for Covered Acts (including a claim or claims made in an action by or in the right of the Company, to the extent permitted by law) including, without limitation, counsel fees and costs of investigative, judicial or administrative proceedings or appeals, but shall not include Fines.

"Fines" means any fine, penalty or, with respect to an employee benefit plan, any excise tax or penalty assessed with respect thereto.

"Loss" means any amount which Director is legally obligated to pay as a result of a claim or claims made against him for Covered Acts (including a claim or claims made in an action by or in the right of the Company, to the extent permitted by law) including, without limitation, damages and judgments and sums paid in settlement of a claim or claims, but shall not include Fines.

"Maximum Amount" means, with respect to any claim for indemnification hereunder, the lesser of (a) the Covered Amount relating to such claim and (b) the maximum amount, if any, permitted by law to be paid as indemnification by the Company to Director with respect to such claim.

2. Indemnification. The Company shall indemnify Director and hold him harmless from the Covered Amount of any and all Losses and Expenses subject, in each case, to the further provisions of this Agreement.

3. Excluded Coverage.

(a) The Company shall have no obligation to indemnify Director for and hold him harmless from any Loss or Expense which has been determined, by final adjudication by a court of competent jurisdiction, to constitute an Excluded Claim.

(b) The Company shall have no obligation to indemnify Director and hold him harmless hereunder for any Loss or Expense to the extent that Director is indemnified by the Company pursuant to the Company's Bylaws or otherwise indemnified.

4. Indemnification Procedures.

(a) Promptly after receipt by Director of notice of the commencement of or the threat of commencement of any action, suit or proceeding, if indemnification with respect thereto may be sought from the Company under this Agreement, Director shall, as a condition of his right to be indemnified under this Agreement, notify the Company of the commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement of such action, suit or proceeding to the insurers in accordance with the procedures set forth in the respective policies in favor of Director. The

Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Director, all Losses and Expenses payable as a result of such action, suit or proceeding in accordance with the terms of such policies.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such action, suit or proceeding, have applicable D&O Insurance, or if the insurer providing the D&O Insurance notifies the Company or

Director that the Expenses arising out of such action, suit or proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Expenses of any such action, suit or proceeding in advance of the final disposition thereof. Unless Director shall have reasonably concluded that there may be a conflict of interest between the Company and Director in the conduct of the defense of such action, suit or proceeding, the Company shall be entitled to assume the defense of such action, suit or proceeding, with counsel reasonably satisfactory to Director, upon the delivery to Director of written notice of its election so to do. After delivery of such notice, the Company will not be liable to Director under this Agreement for any legal or other Expenses subsequently incurred by the Director in connection with such defense other than reasonable Expenses of investigation; provided that Director shall have the right to employ its counsel in any such action, suit or proceeding but the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense shall be at the Director's expense; provided further, that if (i) the employment of counsel by Director has been previously authorized by the Company, (ii) Director shall have reasonably concluded that there may be a conflict of interest between the Company and Director in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such action, the fees and expenses of counsel shall be at the expense of the Company.

(d) All payments on account of the Company's indemnification obligations under this Agreement shall be made within sixty (60) days of Director's written request therefor after incurrence of the applicable Loss or Expense; provided, that all payments on account of the Company's obligations under Paragraph 4(c) of this Agreement prior to final disposition of any action, suit or proceeding shall be made within 20 days of Director's written request therefor.

(e) Director agrees that he will reimburse the Company for all Losses and Expenses paid by the Company in connection with any action, suit or proceeding against Director in the event and only to the extent that a determination shall have been made by a court in a final adjudication from which there is no further right of appeal that the Director is not entitled to be

indemnified by the Company for such Expenses because the claim is an Excluded Claim or because Director is otherwise not entitled to payment under this Agreement.

5. Settlement. The Company shall have no obligation to indemnify Director under this Agreement for any amounts paid in settlement of any action, suit or proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any Fine or any obligation on Director without Director's written consent. Neither the Company nor Director shall unreasonably withhold their consent to any proposed settlement.

6. Rights Not Exclusive. The rights provided hereunder shall not be deemed exclusive of any other rights to which the Director may be entitled under any bylaw, agreement, vote of stockholders or of disinterested directors or otherwise, both as to

action in his official capacity and as to action in any other capacity by holding such office, and shall continue after the Director ceases to serve the Corporation as a Director.

7. Enforcement.

(a) Director's right to indemnification shall be enforceable by Director in the state courts of the State of Arizona, or in any other court in which an action, suit or proceeding is brought by a third party plaintiff resulting in Loss or Expenses for which indemnification is sought. The Company shall have the burden of proving that indemnification is not required under this Agreement.

(b) In the event that any action is instituted by Director under this Agreement, or to enforce or interpret any of the terms of this Agreement, Director shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Director with respect to such action, unless the court determines that each of the material assertions made by Director as a basis for such action were not made in good faith or were frivolous.

8. Severability. In the event that any provision of this Agreement is determined by a court to require the Company to do or to fail to do an act which is in violation of applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid a violation of law, and, as so limited or modified, such provision and the balance of this Agreement shall be enforceable in accordance with their terms.

9. Choice of Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Arizona.

10.Consent to Jurisdiction. The Company and the Director each hereby irrevocably consent to the jurisdiction of the courts of the State of Arizona for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that except as provided in Section 7(a) above, any action instituted under this Agreement shall be brought only in the state courts of the State of Arizona.

11.Successor and Assigns. This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of its assets and any successor by merger or otherwise by operation of law) and (ii) shall be binding on and inure to the benefit of the heirs, personal representatives and estate of Director.

12.Integration Clause; Oral Modification. This Agreement represents the entire agreement of the parties with respect to the subject matter hereof, and all agreements entered into prior hereto with respect to the subject matter hereof are revoked and superseded by this Agreement, and no representations, warranties, inducements or oral modifications have been made by any of the parties except as expressly set forth

herein or in other contemporaneous written agreements. This Agreement may not be changed, modified or rescinded except in writing, signed by all parties hereto, and any attempt at oral modification of this Agreement shall be void and of no effect.

13.Counterparts. This Agreement may be executed in any number of counterparts, all such counterparts shall be deemed to constitute one and the same instrument, and each of said counterparts shall be deemed an original hereof.

14.Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Director, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

15.Notice. Notice to the Company shall be given at its principal office and shall be directed to the Corporate Secretary (or such other address as the Company shall designate in writing to Director). Notice to Director shall be given to his address set forth below (or such other address as Director shall designate in writing to the Company). Notice shall be deemed received if sent by prepaid mail properly addressed, the date of such notice being the date two (2)

days after the date postmarked.

16.Continuation of Indemnification. The indemnification under this Agreement shall continue as to Director even though he may have ceased to be a director of the Company and shall inure to the benefit of the heirs and personal representatives of Director.

17.Coverage of Indemnification. The indemnification under this Agreement shall cover Director's service as a Director of the Company and all of his acts in such capacity, including without limitation service on a committee of the Board of Directors, whether prior to or on or after the date of this Agreement.

IN WITNESS WHEREOF, the Company and Director have executed this Agreement as of the day and year first above written.

CAVCO INDUSTRIES, INC., an Arizona corporation

By: _____

Its: _____

[Director]
[Address]

EXHIBIT 10.11

STANDARD INDUSTRIAL LEASE--MULTI-TENANT
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
[AIR LOGO]

1. PARTIES. This Lease, dated, for reference purposes only, FEBRUARY 1, 1993, is made by and between Loral Corporation, a New York corporation, with an office at 600 Third Avenue, New York, NY 10016 (herein called "Lessor") and CAVCO Industries, Inc., an Arizona corporation with an office at 301 East Bethany Home Road, Phoenix, AZ 85012 (herein called "Lessee").

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, real property situated in the County of Maricopa, State of Arizona commonly known as a portion of Building 6 in the Westvalley Technology Centre located at 1300 South Litchfield Road, Goodyear, AZ as shown on Exhibit "A" attached hereto, hereinafter referred to as the "Premises," as may be outlined on an Exhibit attached hereto, including rights to the Common Areas as hereinafter specified but not including any rights to the roof of the Premises or to any Building in the Industrial Center. The Premises are a portion of a building, herein referred to as the "Building." The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center." The premises shall include the equipment listed on Schedule I attached hereto.

2.2 VEHICLE PARKING. Lessee shall be entitled to 300 vehicle parking spaces, unreserved and unassigned, on those portions of the Common Areas designated by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles." Such spaces shall be located on the east side of Litchfield Road as designated by Lessor.

2.2.1 Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

2.2.2 If Lessee permits or allows any of the prohibited activities described in paragraph 2.2 of this Lease, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.3 COMMON AREAS--DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.4 COMMON AREAS--LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.5 COMMON AREAS--RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Lessee agrees to abide by and conform to all such rules and regulations, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center. (See Addendum)

2.6 COMMON AREAS--CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (b) To close temporarily any of the Common Areas for maintenance purposes, so long as reasonable access to the Premises remains available; (d) To add additional buildings and improvements to the Common Areas; (e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; (f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate, so long as access to the premises is not impaired.

2.6.1 Lessor shall at all times provide the parking facilities required by applicable law and in no event shall the number of parking spaces that Lessee is entitled to under paragraph 2.2 be reduced.

3. TERM.

3.1 TERM. The term of this Lease shall be for Five (5) Years commencing on February 1, 1993 and ending on January 31, 1998 unless sooner terminated pursuant to any provision hereof, or extended pursuant to Paragraph 49.

3.2 DELAY IN POSSESSION. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee; provided, however, that if Lessor shall not have delivered possession of the Premises within sixty (60) days from said commencement date, Lessee may, at Lessee's option, by notice in writing to Lessor within ten (10) days thereafter, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided further, however, that if such written notice of lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. RENT.

4.1 BASE RENT. Lessee shall pay to Lessor, as Base Rent for the Premises, without any offset or deduction, except as may be otherwise expressly provided in this Lease, on the 1st day of each month of the term hereof, monthly payments in advance of $Seventeen Thousand Eight Hundred Seventy-Nine ($17,879.00) Dollars, subject to the abatements provided for in Paragraph 48. See Paragraph 61. Lessee shall pay Lessor upon execution hereof $17,879.00 as Base Rent for February, March, April 1993. Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease as 18.1

percent.

(b) "Operating Expenses" is defined, for purposes of this Lease, as all costs incurred by Lessor, if any, for:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities and fences and gates.

(bb) Trash disposal services.

(cc) Tenant directories.

(dd) Fire detection systems including sprinkler system maintenance and repair.

(ee) Security services.

(ff) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense."

(ii) The cost of water, gas and electricity to service the Common Areas.

(c) The inclusion of the improvements, facilities and services set forth in paragraph 4.2(b)(i) of the definition of Operating Expenses shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each twelve-month period of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expenses as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expenses next falling due. If Lessee's payments under this paragraph during said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor

the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof $ -0- as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required to Lessee. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 4. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for manufacture, assembly and storage of mobile homes and office use incidental thereto, or any other use which is reasonably comparable and for no other purpose.

6.2 COMPLIANCE WITH LAW.

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this paragraph 6.2(a) shall be of no force or effect if, prior to the date of this Lease, Lessee was an owner or occupant of the Premises and, in such event, Lessor shall correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises and of the Common Areas. Lessee shall not use nor permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Industrial Center.

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the Premises to Lessee clean and free of debris on the Lease commencement date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice to Lessor within thirty (30) days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was an owner or occupant of the Premises.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Subject to the provisions of paragraphs 4.2 (Operating Expenses), 6 (Use), 7.2 (Lessee's Obligations) and 9 (Damage or Destruction) and except for damage caused by any negligent or intentional act or omission of Lessee, Lessee's employees, suppliers, shippers, customers, or invitees, in which event Lessee shall repair the damage. Lessor, at Lessor's expense, subject to reimbursement pursuant to paragraph 4.2, shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of

the Common Areas and all parts thereof, as well as providing the services for which there is an Operating Expense pursuant to paragraph 4.2. Lessor shall not, however, be obligated to paint the exterior or interior surface of exterior walls, nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor shall have no obligation to make repairs under this paragraph 7.1 until a reasonable time after receipt of written notice from Lessee of the need for such repairs. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair. Lessor shall not be liable for damages or loss of any kind or nature by reason of Lessor's failure to furnish any Common Area Services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

7.2 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of paragraphs 6 (Use), 7.1 (Lessor's Obligations), and 9 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Lessee) including, without limiting the generality of the foregoing, all plumbing, heating, ventilating and air conditioning systems (Lessee shall procure and maintain, at Lessee's expense, a ventilating and air conditioning system maintenance contract), electrical and lighting facilities and equipment within the Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass, and skylights located within the Premises. Lessor reserves the right to procure and maintain the ventilating and air conditioning system maintenance contract and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(b) If Lessee fails to perform Lessee's obligations under this paragraph 7.2 or under any other paragraph of this Lease, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of emergency, in which no notice shall be required), perform such obligations on Lessee's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall be due and payable as additional rent to Lessor together with Lessee's next Base Rent installment.

(c) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power

panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the Premises in good operating condition.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises, or the Industrial Center, except for nonstructural alterations to the Premises not exceeding $2,500 in cumulative costs, during the term of this Lease. In any event, whether or not in excess of $2,500 in cumulative cost, Lessee shall make no change or alteration to the exterior of the Premises nor the exterior of the Building nor the Industrial Center without Lessor's prior written consent. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the

expiration of the term, and restore the Premises and the Industrial Center to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Industrial Center that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for

use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, or the Industrial Center, or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises or the Industrial Center, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises and the Industrial Center free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorney's fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest to do so.

(d) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made on the Premises, shall be the property of Lessor and shall remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Notwithstanding the provisions of this paragraph 7.3(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

7.4 UTILITY ADDITIONS. Lessor reserves the right to install new or additional utility facilities throughout the Building and the Common Areas for the benefit of Lessor or Lessee, or any other lessee of the Industrial Center, including, but not by way of limitation, such utilities as plumbing, electrical systems, security systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

8. INSURANCE: INDEMNITY.

8.1 LIABILITY INSURANCE -- LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage insurance insuring Lessee and Lessor against any liability arising out of the use, occupancy or maintenance of the Premises and the Industrial Center. Such insurance shall be in an amount not less than $500,000.00 per occurrence. The policy shall insure performance by Lessee of the indemnity provisions of this paragraph 8. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

8.2 LIABILITY INSURANCE -- LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily

Injury and Property Damage Insurance, insuring Lessor, but not Lessee, against any liability arising out of the ownership, use, occupancy or maintenance of the Industrial Center in an amount not less than $500,000.00 per occurrence.

8.3 PROPERTY INSURANCE. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Industrial Center improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in an amount not to exceed the full replacement value thereof, as the same may exist form time to time, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises), special extended perils ("all risk", as such term is used in the insurance industry), plate glass insurance and such other insurance as Lessor deems advisable. In addition, Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period.

8.4 PAYMENT OF PREMIUM INCREASE.

(a) After the term of this Lease has commenced, Lessee shall not be responsible for paying Lessee's Share of any increase in the property insurance premium for the Industrial Center specified by Lessor's Insurance carrier as being caused by the use, acts or omissions of any other lessee of the Industrial Center, or by the nature of such other lessee's occupancy which create an extraordinary or unusual risk.

(b) Lessee, however, shall pay the entirety of any increase in the property insurance premium for the Industrial Center over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

(c) Lessee shall pay to Lessor, during the term hereof, in addition to the rent, Lessee's Share (as defined in paragraph 4.2(a) of the amount of any increase in premiums for the insurance required under paragraphs 8.2 and 8.3 over and above such premiums paid during the Base Period, as hereinafter defined, whether such premium increase shall be the result of the nature of Lessee's occupancy, any act or omission of Lessee, requirements of the holder of a mortgage or deed of trust covering the Premises, increased valuation of the Premises, or general rate increases. In the event that the Premises have been occupied previously, the words "Base Period" shall mean the last twelve months of the prior occupancy. In the event that the Premises have never been occupied previously, the premiums during the "Base period" shall be deemed to be the lowest premiums reasonably obtainable for said insurance assuming the most nominal use of the Premises. Provided, however, in lieu of the Base Period, the parties may insert a dollar amount at the end of this sentence which figure shall be considered as the insurance premium for the Base Period: $72,000.00. In no event, however, shall Lessee be responsible for any portion of the premium cost attributable to liability insurance coverage in

excess of $500,000.00 procured under paragraph 8.2.

(d) Lessee shall pay any such premium increases to Lessor within 30 days after receipt by Lessee of a copy of the premium statement or other satisfactory evidence of the amount due. If the insurance policies maintained hereunder cover other improvements in addition to the Premises, Lessor shall also deliver to Lessee a statement of the amount of such increase attributable to the Premises and showing in reasonable detail, the manner in which such amount was computed. If the term of this Lease shall not expire concurrently with the expiration of the period covered by such insurance, Lessee's liability for premium increases shall be prorated on an annual basis.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at lease B plus, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide". Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the commencement date of this Lease. No such policy shall be cancellable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against which perils occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. Lessee and Lessor shall, upon obtaining the policies of insurance required hereunder, give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor from and against any and all claims arising from Lessee's use of the Industrial Center, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon, and in case any action or proceeding be brought against Lessor by reason of any such claim. Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the

Industrial Center arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises or the Industrial Center, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Industrial Center, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Industrial Center, nor from the failure of Lessor to enforce the provisions of any other lease of the Industrial Center. (SEE ADDENDUM)

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent of the then replacement cost of the premises.

(b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Premises.

(c) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent of the then replacement cost of the Building.

(d) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent or more of the then replacement cost of the Building.

(e) "Industrial Center Buildings" shall mean all of the buildings on the Industrial Center site.

(f) "Industrial Center Buildings Total Destruction" shall mean if the Industrial Center Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Industrial Center Buildings.

(g) "Insured Loss" shall mean damage or destruction which was caused by an event required to be covered by the insurance described in paragraph 8. The fact than an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(h) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed prior to the damage occurring excluding all improvements made by lessees.

9.2 PREMISES PARTIAL DAMAGE; PREMISES BUILDING PARTIAL DAMAGE.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's expense repair such damage to the Premises, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. (SEE ADDENDUM)

(b) Uninsured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls into the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from using the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.3 PREMISES TOTAL DESTRUCTION; PREMISES BUILDING TOTAL DESTRUCTION; INDUSTRIAL CENTER BUILDINGS TOTAL DESTRUCTION.

(a) Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, and which falls into the classifications of either (i) Premises Total Destruction, or (ii) Premises Building Total Destruction, or (iii) Industrial Center Buildings Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible at Lessor's expense, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall be cancelled and terminated as of the date of the occurrence of such damage. (SEE ADDENDUM)

9.4 DAMAGE NEAR END OF TERM.

(a) Subject to paragraph 9.4(b), if at any time during the last six months of the term of this Lease there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage, during the last six months of the term of this Lease. If lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said twenty (20) day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary. (SEE ADDENDUM)

9.5 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event Lessor repairs or restores the Premises pursuant to the provisions of this paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of such damage, destruction, repair or restoration. (SEE ADDENDUM)

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

9.6 TERMINATION--ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.7 WAIVER. Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAX INCREASE. Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Industrial Center, provided, however, that Lessee shall pay, in addition to rent, Lessee's Share (as defined in paragraph 4.2(a)) of the amount, if any, by which real property taxes applicable to the Premises increase over the fiscal real estate tax year 1993. Such payment shall be made by Lessee within thirty (30) days after receipt of Lessor's written statement setting forth the amount of such increase and the computation thereof. If the term of this Lease shall not expire concurrently with the expiration of the tax fiscal year, Lessee's liability for increased taxes for the last partial lease year shall be prorated on an annual basis.

10.2 ADDITIONAL IMPROVEMENTS. Lessee shall not be responsible for paying Lessee's Share of any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX." As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Industrial Center or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Industrial Center or in any portion thereof, as against Lessor's right to rent or other income therefrom,

and as against Lessor's business of leasing the Industrial Center. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1 1978, or (iv) which is imposed as a result of a transfer, either partial or total, of Lessor's interest in the Industrial Center or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. If the Industrial Center is not separately assessed, Lessee's Share of the real property tax liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share or a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

12. ASSIGNMENT AND SUBLETTING.

12.1 Lessor's Consent Required. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease without the need for notice to Lessee under paragraph 13.1.

12.2 LESSEE AFFILIATE. Notwithstanding the provisions of paragraph 12.1 hereof, Lessee may assign or sublet the Premises, or any portion thereof, without Lessor's consent, to any corporation which controls, is controlled by or is under common control with Lessee, or to any corporation resulting from the merger or consolidation with Lessee, or to any person or entity which acquires all the assets of Lessee as a going concern of the business that is being conducted on the Premises, all of which are referred to as "Lessee Affiliate," provided that before such assignment shall be effective said assignee shall assume, in full, the obligations of Lessee under this Lease. Any such assignment shall not, in any way, affect or limit the liability of Lessee under the terms of this Lease even if after such assignment or subletting the terms of this Lease are materially changed or altered without the consent of Lessee, the consent of whom shall not be necessary.

12.3 TERMS AND CONDITIONS OF ASSIGNMENT. Regardless of Lessor's consent, no assignment shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the Base Rent and Lessee's Share of Operating Expenses, and to perform all other obligations to be performed by Lessee hereunder. Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of rent shall constitute a waiver or estoppel of lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this lease. Consent to one assignment shall not be deemed consent to any subsequent assignment. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent assignments of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this lease.

12.4 TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be included in subleases:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's

interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease, Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublease as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublessee shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) If Lessee's obligations under this Lease have been guaranteed by third parties, then a sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(d) The consent by Lessor to any subletting shall not release Lessee from its obligations or alter the primary liability of Lessee to pay the rent and perform and comply with all of the obligations of Lessee to be performed under this Lease.

(e) The consent by Lessor to any subletting shall not constitute a consent to any subsequent subletting by Lessee or to any assignment or subletting by the sublessee. However, Lessor may consent to subsequent subletting and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability.

(f) In the event of any default under this Lease, Lessor may proceed directly against Lessee, any guarantors or any one else responsible for the

performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(g) In the event Lessee shall default in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessors, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(h) Each and every consent required of Lessee under a sublease shall also require the consent of Lessor.

(i) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(j) Lessor's written consent to any subletting of the Premises by Lessee shall not constitute an acknowledgement that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Lessor at the time.

(k) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within ten (10) days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 ATTORNEY'S FEES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorney's fees incurred in connection therewith, such attorney's fees not to exceed $350.00 for each such request.

13. DEFAULT; REMEDIES.

13.1 DEFAULT. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee. (SEE ADDENDUM)

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a

Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph. (SEE ADDENDUM)

(c) Except as otherwise provided in this Lease, the failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such thirty (30) days notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(d) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days, in the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given Wto lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, was materially false.

13.2 REMEDIES. In the event of any such material default by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be

reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease. (SEE ADDENDUM)

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(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law.

13.3 DEFAULT BY LESSOR. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expenses or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Industrial Center. Accordingly, if any installment of Base Rent, Operating Expenses, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee. Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of

such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of any of the aforesaid monetary obligations of Lessee, then Base Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4.1 or any other provision of this Lease to the contrary.

14. CONDEMNATION. If the Premises or any portion thereof or the Industrial Center are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent of the floor area of the Premises, or more than twenty-five percent of that portion of the Common Areas designated as parking for the Industrial Center is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. No reduction of rent shall occur if the only area taken is that which does not have the Premises located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. BROKER'S FEE.

(a) Upon execution of this Lease by both parties, Lessor shall pay to GRUBB & ELLIS Licensed real estate broker(s), a fee as set forth in a separate agreement between Lessor and said broker(s), XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX. Lessee represents that it dealt with no other Broker in connection with this lease.

16. ESTOPPEL CERTIFICATE.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, as in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or of the business of the requesting party. (SEE ADDENDUM)

(b) At the requesting party's option, the failure to deliver such statement within such time shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Industrial Center, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth. (SEE ADDENDUM)

17. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Industrial Center, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest. Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. SEVERABILITY. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum

rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee. (SEE ADDENDUM)

20. TIME OF ESSENCE. Time is of the essence with respect to the obligations to be performed under this Lease.

21. ADDITIONAL RENT. All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expenses and insurance and tax expenses payable shall be deemed to be rent.

22. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Industrial Center and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may be notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee. (SEE ADDENDUM)

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24. WAIVERS. No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to

or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Industrial Center is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Industrial Center is located.

30. SUBORDINATION.

(a) This Lease, and any Option granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Industrial Center and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX (SEE ADDENDUM)

31. ATTORNEY'S FEES. If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

32. LESSOR'S ACCESS. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers,lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the Industrial Center as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the Premises or the Industrial Center without Lessor's prior written consent. Under no circumstances shall Lessee place a sign on any roof of the Industrial Center.

35. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. CONSENTS. Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

37. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Industrial Center.

39. OPTIONS

39.1 DEFINITION. As used in this paragraph the word "Option" has the following meaning: (1) the right or opinion to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Industrial Center or other property of Lessor or the right of first offer to lease other space within the Industrial Center or other property of Lessor; (3) the right or option to purchase the Premises or the Industrial Center, or the right of first refusal to purchase the Premises or the Industrial Center, or the right of first offer to purchase the Premises or the Industrial Center, or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee, provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to lessee a notice of default pursuant to paragraph 13.1(b) or 13.1(c) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the date after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the

obligation is paid, or (iii) at any time after an event of default described in paragraphs 13.1(a), 13.1(d), or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(b) or paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that lessee attempts to exercise the subject of Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1(c) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessee commits default described in paragraphs 13.1(a), 13.1(d) or 13.1 (e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) Lessor gives to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured.

40. SECURITY MEASURES. Lessee hereby acknowledges that lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Industrial Center. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at lessor's sole option from providing security protection for the Industrial Center or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

41. Easements. Lessor ???? to itself the right, from time to time, to grant such easements, ???? dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall

constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

42. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment, under protest, and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

43. Authority. If Lessee is a corporation, trust or general limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. Offer. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by Lessor and Lessee.

46. Addendum. Attached hereto is an addendum or addenda containing paragraphs 47 through 70 which constitute a part of this Lease.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO. THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

LESSOR	LESSEE
LORAL CORPORATION	CAVCO INDUSTRIES, INC.
By	By /s/ Robert Ward, Vice President
By	By
Executed on	Executed on December 28, 1992
(Corporate seal)	(Corporate seal)
ADDRESS FOR NOTICES	ADDRESS
Loral Corporation 600 Third Avenue New York, NY 10016 Attn: Vice President/General Counsel	301 East Bethany Home Road, C178 Phoenix, AZ 85012 Attn: Vice President
Rent payments and Copy of Notices to: Westvalley Technology Centre P.O. Box 1795 Litchfield Park, AZ 85340	

NOTE: These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 345 So. Figueroa St., M-1, Los Angeles, CA 90071. (213) 687-8777.

Additions, Changes, and/or Modifications to the basic document language are identified below and made a part hereto:

Para. 2.5 (Additional language added to the end of the paragraph)

"Lessor shall not discriminate in the enforcement of rules and regulations unless the non-enforcement materially impacts or affects the Lessee's business in a negative manner."

Para. 8.7 (Last line of the clause following the word "cause")

Add: "except Lessor's gross negligence or willful misconduct"

Para. 8.8 (Fifth line down following the words "any other cause")

Add: "except Lessor's gross negligence or willful misconduct"

Para. 9.2 (a) (Third line down following the words "tenant improvements")

Add: "installed by Lessee."

Para. 9.3 (a) (Fourth line down following the words "tenant improvements")

Add: "installed by Lessee."

Para. 9.4(b) (Fifth line down following the words "tenant improvements")

Add: "installed by Lessee."

Para. 9.5(a) (At the end of the paragraph and following the word "restoration")

Add: "unless caused by the Lessors gross negligence or willful misconduct

Para. 13.1(a) (At the end of the paragraph and following the word "Lessee")

Add: "unless Lessee elects to vacate the premises but continues to pay rent according to the lease."

Para. 13.1(b) Change: "three" to "ten" days.

Para. 13.2(a) (Sixth line down)

Delete the words: "amount of such rental loss for the same period that Lessee proves could be reasonably awarded" and

Insert "reasonable rental value of the premises."

Para. 16(a) (First Line)

Change: "10" days to "20" days.

Para. 16(c) Lessee to provide publicly published financial data (Annual and Quarterly Reports)

Para. 19 (First line following the word "interest"

Insert: "at an annual rate equal to ten percent (10%) per annum above the prime rate of Bank of America not to exceed"

Para. 23 (Line five between the words "Lessor" and "hereunder")

Insert: "or Lessee"

Delete the word: "Lessor"

Add the words: "either party"

Para. 23 (Line five)

Delete the term: "Lessee"

Add: "the other."

Para. 30(b) (Line two)

Delete "10" days

Insert "20" days

Para. 30(b) (Lines three to five)

Delete: All words following "without further notice to Lessee."

ADDENDUM
TO STANDARD INDUSTRIAL LEASE - MULTI-TENANT

Premises at
Westvalley Technology Centre

Dated: February 1, 1993

Lessor: Loral Corporation

Lessee: CAVCO Industrial, Inc.

47. Addendum. This Addendum is attached to and made a part of the Lease of even date herewith between the above named Lessor and Lessee. All terms, references and names used herein shall have the same meaning as defined and used in the Lease. However, in the event of any conflict between the provisions of this Addendum and those in the Lease, the provisions of this Addendum shall govern and shall be deemed to modify, revise and delete the provisions in the Lease to the extent of such conflict.

48. Rent Abatement. The Base Rent payable during the months of February through July of 1993 shall be as follows:

<TABLE>
<CAPTION>

Month	Rent To Be Paid
<S>	<C>
February 1993	$ 5,900.00
March 1993	$ 5,900.00
April 1993	$ 5,900.00
May 1993	$11,800.14
June 1993	$11,800.14
July 1993	$11,800.14

</TABLE>

49. Options to Extend the Term

49.1 First Extended Term. Subject to the provisions of paragraph 49.3, Lessee shall have the option to extend the term of this Lease beyond the term specified in paragraph 3.1 (herein referred to as the "Initial Term") for an additional period of five years commencing on the date following the expiration of the Initial Term (herein referred to as the "First Extended Term") by giving notice to Lessor of its election so to extend such term on or prior to March 1, 1997.

49.2 Second Extended Term. Subject to the terms and conditions set forth in paragraph 49.4, Lessee shall have the option to extend the term of this Lease for an additional period of five (5) years commencing on the expiration of the First Extended Term (herein referred to as the "Second Extended Term") by giving notice to Lessor of its election so to extend such term on or prior to March 1, 2002.

49.3 Third Extended Term. Subject to the terms and conditions set forth in paragraph 49.4, Lessee shall have the option to extend

the term of the Lease for an additional five (5) years commencing on the expiration of the Second Extended Term (herein referred to as the "Third Extended Term") by giving notice to Lessor of its election so to extend such term on or prior to March 1, 2007.

49.4 Extension Options Terms and Conditions. Time shall be of the essence with regard to the exercise by Lessee of the option to extend the term of this Lease for the First Extended Term, the Second Extended Term, and the Third Extended Term. It shall be a condition upon Lessee's right to exercise any of such extension options that Lessee shall not be in default in the performance of any obligations under this Lease at the time its notice of election to exercise such option is given. Any exercise of any such option by Lessee later than permitted in paragraphs 49.1, 49.2 or 49.3 or at a time when such a default exists shall be ineffective and deemed to be null and void. It shall be a further condition upon Lessee's right to extend such term for the Second Extension Term that Lessee shall have properly exercised its option to extend such term for the First Extended Term. It shall be a further condition upon Lessee's right to extend such term for the Third

Extension Term that Lessee shall have properly exercised its option to extend such term for the Second Extended Term. In the event that Lessee fails to exercise its option to extend such term for the First Extended Term in a valid manner in accordance with this paragraph and paragraph 49.1, then such term shall expire on the expiration of the Initial Term with no further rights on the part of Lessee to extend such term. In the event that such term is extended for the First Extended Term in a valid manner and that thereafter Lessee fails to exercise its option to extend such term for the Second Extended Term in a valid manner in accordance with this paragraph and paragraph 49.2, such term shall expire on the expiration of the First Extended Term with no further rights on the part of Lessee to extend such term. In the event that such term is extended for the Second Extended Term in a valid manner and that thereafter, Lessee fails to exercise its option to extend such term for the Third Extended Term in a valid manner in accordance with this paragraph and paragraph 49.3 such term shall expire on the expiration of the Second Extended Term with no further rights on the part of Lessee to extend such term. In the event that such term is extended for the THIRD Extended Term in a valid manner, then such term shall expire on the expiration of the THIRD Extended Term with no further rights on the part of Lessee to extend the term. All of the terms, covenants and conditions of this Lease shall apply and govern during the First Extended Term, the Second Extended Term, and the Third Extended Term as fully as during the Initial Term, except that the Base Rent shall be the amounts determined pursuant to paragraph 49.5.

49.5 Extended Term Base Rent. The Base Rent payable for each month during each year of the First Extended Term, the Second Extended Term, and the Third Extended Term, in accordance with paragraph 4.1 shall be adjusted as of the date of the commencement of the First Extended Term and as of the date of

the commencement of the Second Extended Term, and as of the date of the commencement of the Third Extended Term (each such date being herein referred to as the "Adjustment Date") to reflect fifty percent (50%) of the change, if any, in the Consumer Price Index (herein referred to as the CPI") for the calendar month immediately preceding such Adjustment Date from the CPI for January 1, 1993 (such months being herein referred to as the "Comparison Months"). The CPI shall be that published by the Bureau of Labor Statistics of the U.S. Department of Labor for all Urban Consumers for Phoenix, Arizona (1982-1984 = 100). In the event that the publication of such Index shall be discontinued or changed, then an alternate Index or other method of adjustment shall be utilized which would most closely reflect the same change in the cost of living between January 1, 1993 and the Adjustment Dates as the CPI would. In the event that Lessor and Lessee cannot agree on such alternate Index, then the matter shall be submitted to decision by the American Arbitration Association in accordance with the then rules of said association and the decision of the arbitrators shall be binding upon the parties. The cost of said arbitrators shall be paid equally by Lessor and Lessee. The adjustment in the Base Rent to be made on each Adjustment Date shall be calculated as follows: the Base Rent payable each month during the year prior to the Adjustment Date shall be multiplied by a fraction, and the denominator of which shall be the CPI for JANUARY 1, 1993, and the numerator which shall be an amount equal to: (1) the CPI for JANUARY 1, 1993, plus (2) fifty percent (50%) of the difference between the CPI for JANUARY 1, 1993 AND THE CPI FOR THE APPLICABLE COMPARISON MONTH. The sum so calculated shall be the new monthly Base Rent payable in accordance with paragraph 4.1 during the First Extended Term, the Second Extended Term, or the Third Extended Term, as the case may be, commencing on such Adjustment Date but in no event shall such new monthly rent be less than the Base Rent payable for the month immediately preceding such Adjustment Date.

50. Initial Improvements. Lessor shall, at its cost, prior to the commencement of the term of this Lease, construct all of the improvements described on Schedule II hereto. Except for the improvements described on such Schedule, Lessee accepts the Premises and the Common Areas in their present "as-is" condition and Lessee shall, at its cost, be responsible for making all improvements and alterations which are desired by Lessee or required in order for Lessee to use and occupy the Premises for the purposes permitted by this Lease. It is mutually understood that the construction of the drivegate on Yuma Road may require actions by entities beyond the control of either the Lessee or Lessor (City of Goodyear and Maricopa County) with regard to construction or permitting and in the interim period ingress and egress will be provided through the main drivegate on Litchfield Road. If after due diligence the Lessor cannot obtain the necessary approvals for the construction of the Yuma Road drivegate, then Lessee shall accept ingress and egress from the existing drivegate.

51. Utility Systems. Lessor's responsibility to furnish utilities and other services to the Premises shall be limited to those available, and to the extent available, through the equipment, ducts, pipes, panels and systems existing and serving the Premises as of the date this Lease is executed ("Utility Systems"). Lessor's only responsibility with

respect to the maintenance and repair of the Utility Systems shall be to maintain them in operating condition. In accordance with paragraph 11 of the Lease, Lessee shall pay for all of the utilities and services referred to therein as the same are separately metered or, if not separately metered, as determined by Lessor ("Utility Charges") but in no event more than the Lessor actually pays for electricity and gas services. In the case of water and waste disposal services, charges will be a per gallon charge thereby mutually established but in no event will those charges exceed those established by the City of Goodyear for equivalent such services. In connection with such determination by Lessor, Lessee shall at any time and from time to time, at Lessor's request, provide to Lessor and its representative such access to the Premises and such information and data as is determined by Lessor to be relevant to its determination of Utility Charges. Utility Charges determined by Lessor at any time shall be subject to change at any time and from time to time as determined by Lessor. Lessee shall pay its Utility Charges as additional rent upon submission of a written statement from Lessor setting forth the amount of such Charges.

52. Surrender of Premises. Lessee shall, at its cost and expense, upon or prior to the expiration date of the term of the Lease on the date specified as the expiration date or any sooner termination of such term pursuant to the Lease, be responsible for the removal of all trade fixtures, fuel tanks, pumps and "fields", vehicles, machinery and other property and equipment at any time installed in or placed on or operated within the Premises and the Industrial Center and for the repair of any damage caused by such removal and the complete restoration of the areas affected thereby to the condition existing at the commencement date of the Lease term, including the removal and clean-up of all fuel, oil, grease and other substances which may have emanated from such fixtures, tanks, pumps, "fields", vehicles, machinery and other property and equipment, or from the equipment, aircraft, vehicles and other property of third parties serviced or stored on the Premises by Lessee or otherwise resulting from the activities of Lessee (references herein to Lessee being deemed to include its employees, officers, customers, contractors, agents and invitees).

53. Compliance with Laws. Lessee acknowledges, agrees and represents to Lessor that Lessor has informed Lessee that the Industrial Center is a legal non-conforming use under applicable Maricopa County Building Code and Zoning laws and that Lessor makes no representation or warranty to Lessee that the Premises may be used for the purposes stated in the Lease under the zoning classification, building codes and local laws and ordinances applicable to the Premises or that the Premises can be leased and used pursuant to the Lease in their present physical condition without physical alterations, repairs and/or additions, structural or non-structural, in order to comply with existing Federal, state, county and city codes, laws and ordinances, and all directives, rules and regulations of any duly constituted authority, presently or hereafter affecting or respecting the Premises (hereinafter referred to as "Laws"), it being agreed that all such alterations, repairs and/or additions, presently or

hereafter required under such Laws now in effect or hereafter enacted, shall be carried out at the sole cost and expense of Lessee, even if such compliance shall be the obligation of Lessor pursuant to such Laws, and that Lessee shall indemnify, defend (by counsel reasonably satisfactory to Lessor) and hold harmless Lessor from and against any and all claims, losses, damages, liabilities, penalties, judgments and costs arising as a result of any failure to comply with such Laws on the part of Lessee. Lessee specifically acknowledges that Lessor makes no representation to Lessee as to the accuracy or validity of any statements made by any governmental official or representative with respect to the requirements of the Laws applicable to the Premises or the uses permitted under the Lease. Lessor represents to Lessee that the Premises and materials and equipment therein and the adjacent surface and subsurface areas of Westvalley Technology Centre may contain asbestos, so-called PCB's, TCE and solvents and other substances which are defined as Hazardous or Toxic Materials or Substances under applicable Laws. Lessor shall not be under any obligation to Lessee to remove, abate or otherwise remediate any of such existing materials or substances. Lessee, at its sole cost and expense, shall be responsible for any removal, abatement, containment or other remedial action required in connection with any repairs, alterations, additions or other work undertaken by it.

54. Hazardous Materials.

(a) For the purposes of this Section, the following definitions shall apply:

(i) Hazardous Materials. As used herein, the term "Hazardous Material" means petroleum products and any other hazardous or toxic substance, chemical, gas, material or waste, which is or becomes regulated by any local governmental authority, the State of Arizona or the United States government, whether originating from the

Premises or the Industrial Center, or migrating, flowing, percolating, defusing or in any way moving onto or under the Premises or the Industrial Center.

(ii) ENVIRONMENTAL LAWS. "Environmental Laws" shall mean and include all past, present and future statutes, ordinances, rules, regulations and proclamation of the United States of America, the State of Arizona, Maricopa County and any other Governmental Agency, having jurisdiction over the Property related to the protection of the environment including, but not limited to, the treatment, storage or disposal of Hazardous Materials and any other laws, rules, regulations, statutes or ordinances related to the protection of the environment.

(b) Lessee, its agents, servants or employees shall not engage in or permit any activity on or about the Premises that violates any Environmental Laws and shall promptly, at Lessees expense, take all investigatory and/or

remedial action required or ordered for cleanup of any contamination of the Premises or the elements surrounding same created or suffered by Lessee, its agents, servants, employees or contractors. Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders, ground tenant, if any, and the Premises, harmless from and against any and all costs, claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, sums paid in settlement of claims approved by Lessee, attorneys' fees, consultants fees and expert fees) caused by, arising out of or related to (A) the violation of any Environmental Laws by the Lessee, its agents, servants, employees or contractors on, in or about the Premises or (B) Hazardous Materials in, on or about the Industrial Center, the building or the Premises which was created, handled, placed, stored, used, transported or disposed of by Lessee, its agents, servants, employees or contractors or (C) any such Hazardous Material with respect to which any court or governmental body, or agency having jurisdiction over the Industrial Center holds Lessee responsible for or otherwise requires Lessee to undertake any repair, cleanup, detoxification of other remedial action excluding however, Hazardous Materials on the Premises established to have been caused directly by Lessor or its predecessors use of the Premises.

(c) Lessor and Lessee agrees as follows with respect to the existence or use of Hazardous Materials on the Premises and in the Industrial Center:

(1) To Lessor's best knowledge, Lessor hereby represents, warrants and covenants to Lessee as follows:

(i) The Premises and the Industrial Center are, as of the date of execution hereof, in compliance with all Environmental Laws except as described in that certain Consent Decree in Civil Action No. 88-1443 PHX EHC, entitled United States of America, Plaintiff, vs. The Goodyear Tire and Rubber Company, Loral Defense Systems-Arizona, a Division of Loral Corporation, Defendants (the "Consent Decree").

(ii) Lessor shall be responsible for all costs (which costs shall not be included in Common Area Expenses) incurred in complying with any order, ruling or other requirement of any court or governmental body or agency having jurisdiction over the Industrial Center requiring Lessor to comply with any Environmental Laws which relate to Hazardous Material in, on or about the Industrial Center and the Premises, including, without limitation, the cost of any required or necessary repair, cleanup or detoxification in the preparation of any closure or other required plans, excluding, however, any such cost related to Hazardous Material on the Premises established to have been caused directly by activities engaged in or permitted by Lessee.

(iii) To the extent commercially practical, Lessor shall take such action as is necessary to enforce the requirements contained in any leases or occupancy agreements with other tenants or occupants in the Industrial Center which relate to the handling, transportation, storage, treatment, use or disposition of Hazardous Materials by such other tenants or occupants.

(iv) Lessor shall indemnify, defend and hold Lessee, its

directors, officers, employees and agents and any successor to Lessee's interest in the Premises harmless from and against any and all claims, judgements, damages, penalties, fines, costs, liabilities or losses (including, without limitation, sums paid in settlement, approved by Lessor, of claims, attorneys' fees, consultant fees and expert fees) provided, however, that Lessor shall not be obligated to defend Lessee against third party claims for personal injury or worker's compensation claims, but shall be liable to pay any judgments arising thereunder established to have been caused by, arising out of or related to (A) the breach of any representation, warranty or covenant of Lessor contained herein or (B) Hazardous Material in, on or about the Industrial Center, the Building or the Premises which was

created, handled, placed, stored, used, transported or disposed of by Lessor or any party other than Lessee or (C) any such Hazardous Material with respect to which any court or governmental body or agency having jurisdiction over the Industrial Center holds Lessor responsible for or otherwise requires Lessor to undertake any repair, cleanup, detoxification or other remedial action, excluding, however, Hazardous Material on the Premises established to have been caused directly by activities engaged in or permitted by Lessee's use of the Premises or (D) Lessor's failure to comply with its responsibilities under the Consent Decree.

(3) The parties acknowledge that Lessor is in the process of complying with the provisions of the Consent Decree. In order to establish a "Base Line" as of the date Lessee takes possession, the parties have approved a proposal to employ an Environmental Consultant on behalf of Lessee to conduct a Phase I Environmental Audit (the "Environmental Audit") of the Premises. The cost of the Environmental Audit shall be paid for by the Lessor. The Environmental Audit shall include a Survey of any asbestos containing materials located within the Premises. Lessee agrees to refrain from engaging in any activity which might disturb any asbestos containing materials on the Premises. Lessor acknowledges that it is installing a new roof to the Premises in connection with this Lease and that as part of such installation, the existing roof to be removed may contain asbestos. Lessor agrees that the contractors performing the work shall perform in accordance with the applicable governmental regulations, including, but not limited to those of the Office of Safety and Health Administration and the Environmental Protection Agency and the Arizona Department of Environmental Quality related to the removal of asbestos containing materials.

(4) Lessee agrees that it shall refrain from using, storing, discharging or disposing of any Hazardous Materials on, under or from the Premises without the consent of Lessor to each specific Hazardous Material so to be used, stored or disposed of. Concurrent with the execution of this Lease Agreement, Lessee has furnished Lessor the Manufacturers Materials Safety Data Sheets for all of the materials used by it in the manufacturing process which may include a Hazardous Material. Lessor acknowledges receipt of those

documents and consents to their use by Lessee on the Premises.

Lessee shall comply with all Environmental Laws which relate to the handling, transportation, storage, treatment, use or disposal of Hazardous Material by Lessee on the Premises.

Lessee shall not install any underground tanks or other storage equipment or facilities, and shall not discharge any Hazardous Materials or other substances into the sanitary or storm sewer systems serving the Premises in excess of Lessor's NPDES Permit Number AZ0000108.

Lessee agrees to provide Lessor with copies of all notices received by Lessee, and all reports and tests prepared by or for Lessee, pursuant to or relating to such Environmental Laws or in response to any such notice.

(5) In the event any Hazardous Material shall be present in, on or under the Industrial Center or the Premises at any time during the term hereof, other than Hazardous Material established to have been caused directly by Lessee's use of the Premises or as described in the Consent Decree, and such presence or the cleanup, removal, repair, detoxification or other remedial action with respect to such Hazardous Material interferes with the conduct of Lessee's business on the Premises, all rental payable by Lessee hereunder shall be reduced for the duration of such interference based on the extent of such interference; provided, however, if such interference is material and interferes, or reasonably appears that it will interfere, with Lessee's use of the Premises for at least a one hundred eighty (180) day period, Lessee shall have the right to terminate this Lease.

(6) The obligations of Lessor and Lessee under this Article shall survive any termination of this Lease.

55. Included in 54. above.

56. Insurance Requirements. Lessee agrees, at its sole cost and expense, to:

a. cause all activities in the Premises to be conducted in a manner which complies with the present and from time to time changed and modified requirements (hereinafter referred to as "Insurer Requirements") of the insurance companies at any time and from time to time carrying the fire and casualty insurance covering the Premises;

b. cause all alterations, repairs and additions to be made to the Premises, both structural and non-structural, which are at any time and from time to time necessary to comply with present and future Insurer Requirements in connection with the Lease and the use of the Premises; and

c. pay, as additional rent under the Lease, all increases in the premiums payable by Lessor for fire and casualty insurance for the Premises and other buildings owned by Lessor in proximity thereto which result from the use of the Premises by Lessee.

57. Insurance Coverage. The insurance required of Lessee pursuant to paragraph 8.1 of the Lease shall be in an amount equal to $2,000,000 per occurrence.

58. Notices. All notices required or desired to be given hereunder to either party shall be effective only if mailed, certified mail return receipt requested or U.S. Postal Services Express Mail or Federal Express Courier with proof of delivery, and if to Lessee, to the address of Lessee set forth at the end of the Lease, and if to Lessor, to Loral Corporation, 600 Third Avenue, New York, New York 10016, Attention Senior Vice President General Counsel, or such other address changed by such party by notices sent to the other in the manner herein provided. A copy of all notices given to Lessor shall be sent in the same manner to Loral Defense systems at Westvalley Technology Centre, 1300 South Litchfield Road, Goodyear, Arizona 85338.

59. Common Area Regulations. Lessor shall have the right to promulgate rules and regulations at any time and from time to time governing the use by Lessee and other tenants of the Industrial Center. Such rules and regulations may include, without limitation, restrictions on the use of Common Areas in order to assure unobstructed access to the Airport adjacent to the Industrial Center and to designate the entrance to the Industrial Center that may be used by employees of Lessee. Lessee agrees to abide by all reasonable rules and regulations promulgated by Lessor and submitted in writing to Lessee.

60. Rental Tax. Lessee shall pay to Lessor, as additional rent along with Base Rent, an amount equal to and in reimbursement of all rental tax payable by Lessor to the taxing authorities based upon all Rent payable by Lessee under the Lease.

61. Annexation. Lessor reserves the right to apply for and obtain annexation of the Industrial Center in the City of Goodyear. Lessee agrees to cooperate with Lessor in connection with such application and proceedings in connection therewith. Upon such annexation: (a) the term "real property tax" shall include those imposed by the City of Goodyear and all water and sewer charges imposed by the City of Goodyear; (b) the term "laws" when used in this Lease shall include the laws of the City of Goodyear and (c) all other provisions of this Lease shall be applied and construed as if the Industrial Center was in the City of Goodyear as of the commencement of the term of the Lease. If this change materially interferes with the conduct of Lessee's business, Lessee can terminate.

62. Assignment and Sublease Profits. In the case of any assignment of this Lease or any subletting of all or any part of the Premises by Lessee, Lessee shall pay to Lessor, as additional rent, 50% of all rent, additional rent and other consideration received by it pursuant to such assignment or sublease in

excess of the rent and additional rent payable hereunder, less the amount of a reasonable brokerage fee plus tenant improvements incurred by Lessee in connection therewith.

63. Size of Premises. The square footage area shown on Exhibit "A" attached hereto represents the gross leasable area of the Premises as determined by Lessor's Architect. Lessee acknowledges that it has been afforded the opportunity to independently verify the usable square foot area of the Premises and the allocable share of Common Area space added thereto in determining gross leasable area. The square foot area shown on such Exhibit "A" is hereby accepted by Lessee and shall be binding upon Lessee for all purposes of this Lease.

64. Access. Lessor shall have access to the Premises during the progress of any repairs or other work in the Premises performed by Lessor pursuant to the provisions of this Lease and, in connection therewith, to bring in and store necessary tools and equipment. Lessor shall have access at all times to any area or equipment or facilities within the Premises which serves the Building or the Industrial Center including (without limitation) wells, substations, fire pumps and mains. Lessor shall not be liable for inconvenience, annoyance, disturbance, loss of business or other damage of Lessee by reason of such access or the making of such repairs or the performance of any such work

or storing such tools and equipment, and the obligations of Lessee under this Lease shall not be affected thereby, provided that Lessor uses efforts reasonable under the circumstances to minimize to the extent practical any resulting inconveniences, annoyance, disturbance, loss of business or other damage to Lessee by reason of such access or making such repairs or the performance of any such work or of any of the matters referred to above.

65. Alterations by Lessor. Lessor reserves and shall have the right from time to time to make alterations to the Building and Common Areas and to make such additions to the exterior of the Building as are required to comply with emergency access requirements for any tenants of the Building which do not materially diminish or interfere with Lessee's use of the Premises. Lessor, at any time and from time to time, shall have the right to install and thereafter maintain within the ceiling of the Premises such equipment, conduits and other items as are necessary to service the Building.

66. Financial Statements; Lien. Deleted - (Lessee to provide Lessor latest current public financial data.)

67. In accordance with paragraph 3.3, for payment purposes the lease payments will begin at the first of the month following possession.

68. The items identified in Schedule I remain the property of the Lessor but will be made available for use by Lessee for the term of the lease unless specifically stated otherwise.

69. Operating Expenses. Notwithstanding anything to the contrary contained in Paragraph 4.2 of the Lease Agreement, the term "Operating Expenses" shall not include: (a) the cost of labor and employees with respect to any employee above the level of building manager; (b) the cost of labor and employees with respect to any supervisory or other personnel not located at the Industrial Center on a full-time basis unless such costs are appropriately allocated between the Industrial Center and the other responsibilities of such personnel; (c) the cost of fixturing, furnishing, painting or decorating any leasable space in the Industrial Center; (d) the cost of any "tenant allowances", "tenant concessions", and any alterations, improvements, or replacements made to leasable space in the Industrial Center; (e) cost of leasehold improvements and other preparations for occupancy made for specific lessees; (f) amounts paid for legal, brokerage or other professional services in connection with the leasing of space or in connection with relationships or disputes with lessees, former lessees, prospective lessees or other occupants; (g) depreciation and other non-cash charges (except as hereinafter provided); (h) interest on or amortization of debts; (i) financing or refinancing costs; (j) brokerage commissions; (k) cost of any work or services performed or furnished to any tenant to the extent that same is, can be or would customarily be reimbursed to Lessor or a third party; (l) the cost of completion of the Building and any other improvements to the Industrial Center; (m) the cost of correcting any defects in construction; (n) expenses for which Lessor is or will be reimbursed by insurance proceeds or condemnation awards; (o) advertising and promotional expenses; (p) income, transfer, inheritance and franchise taxes; (q) expenses in the nature of interest, fines and penalties; (r) expenses which are properly allocable to property other than the Industrial Center are located; (s) rent, additional rent and other charges payable under any ground lease or any lease superior to this Lease; (t) the cost of installing, operating and maintaining any specialty service such as an observatory, parking facility (unless parking is without charge for all lessees and their employees and guests), a restaurant or luncheon, athletic or recreational club; (u) any insurance premium to the extent that the cost thereof is reimbursed by any tenant or other party; (v) any management or similar fee in excess of the customary fee for a similar property located in the vicinity of the Industrial Center; (w) any costs or other sums paid to any person or entity related to or affiliated with Lessor to the extent that same exceeds the reasonable and customary cost thereof; (x) any repairs, replacements or other expenses resulting from the negligence or misconduct of Lessor or its employees or agents; (y) the cost of any electricity or other utilities furnished to any leasable space; (z) accounting fees incurred in connection with the preparation of financial statements, tax returns and other documents and information for Lessor or its mortgagees; (aa) costs of repairs or replacements incurred due to casualty or condemnation; (bb) costs in connection with services (including electricity), items, or other benefits of a type which are not standard for the Industrial Center and which are not available to Lessee without specific charge therefor, but which are provided to another tenant or occupant of the Industrial Center, whether or not such other tenant or occupant is specifically charged therefor by Lessor; (cc) compensation paid to clerks, attendants or other persons in commercial concessions (such as snack bars, restaurant or newsstand), if any, operated by Lessor or any subsidiary, affiliate or agent of Lessor; (dd)

rentals and other related

expenses, if any, incurred in leasing air conditioning systems, elevators or other equipment ordinarily considered to be of a capital nature, except equipment used in providing janitorial services and which is not affixed to the Industrial Center; (ee) costs and expenses for sculpture, paintings or other works of art, including costs incurred with respect to the purchase, ownership, leasing, showing, promotion, repair and/or maintenance of same; (ff) contributions to operating expense reserves; (gg) initial costs (but not replacements thereof) of spare parts, tools and equipment used in the operating, maintenance, cleaning, repair, landscaping and security of the Industrial Center; (hh) premiums and other charges with respect to rental loss insurance, (ii) initial costs of interior and exterior landscaping; (jj) contributions to charitable organizations; (kk) costs incurred in removing the property of former lessees or occupants of the Industrial Center; and (ll) any items or amounts which are not reasonable in amount and customarily included in operating expenses for similar properties located in the vicinity of the Industrial Center; (mm) the cost of containing, removing or otherwise remediating any contamination of the land or other portions of the Industrial Center Premises, or other environmental liability.

The cost of any repairs or replacements which, under generally accepted accounting principles would be capitalized, shall be amortized on a straight-line basis and taken as an operating expense over the useful life of the item in question, but only to the extent that such expenditure otherwise reduces operating expenses.

Lessee and its representatives shall have the right, at Lessee's expense, to examine, audit and copy, during normal business hours, Lessor's books and records pertaining to the operating expenses for the proceeding years to enable Lessee to verify the accuracy thereof. Lessor shall cooperate with Lessee in any such examination and shall reimburse Lessee for any overcharge or at Lessee's election credit same to rent and additional rent due from Lessee. If such examination shows that the operating expenses were overstated by more than five percent (5%) for any particular year then Lessor shall reimburse Lessee for the cost of its audit and investigation. The foregoing provisions shall survive termination or expiration of the Lease.

70. Right of First Refusal. In the event that Lessor shall, at any time prior to January 1, 1995, submit a proposal to a prospective tenant for a lease of all or any part of Building 23 identified on Exhibit "A", then Lessor shall give Lessee a copy of such proposal. Lessee shall have the right to lease all or such part of Building 23 on the same Terms and Conditions set forth in such proposal by giving Lessor, within ten (10) days after such proposal shall have been given to Lessee, written notice of its election to enter into such lease. In the event that Lessee shall fail to give lessor such notice of its election to enter into such lease within such ten (10) day period, or if Lessee shall be in default in the performance of any obligation under this lease at

the time such election notice is given, then, the right granted herein to enter into such lease shall become null and void and Lessor shall be free to proceed to enter into a lease with another tenant on substantially the same Terms and Conditions provided for in such proposal. However, Lessee shall once again have the right granted by this paragraph if Lessor fails to enter into a lease on substantially the same Terms and Conditions provided for in such proposal within one hundred twenty (120) days after the expiration of such ten (10) day period referred to above. Lessee agrees to accept a minimum lease period of twenty-four (24) months in any exercised option.

ADDENDUM TO
STANDARD INDUSTRIAL LEASE - MULTI-TENANT

PREMISES AT

WESTVALLEY TECHNOLOGY CENTRE

Dated: February 1, 1993

Lessor: Loral Corporation

Lessee: CAVCO Industries, Inc.

Schedule I

List of Lessor's equipment which will remain within the area identified in Exhibit "A" (racks, cranes, etc.) to be mutually defined by both parties. Lessee will be responsible for maintenance and upkeep of any of these items except for normal and usual wear.

1) Storage racks identified below:

<TABLE>
<CAPTION>

Location Bldg.	Type	Height Ft.	No. Uprights	Width Ft.	No. Beam	Depth Ft.	No. of Arms
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
6	Finger	15	14			8	68
6	Finger	15	18			4	159
6	2 Legs Frame	8	50	7'0"	156	4	
				9'4"	50	4	
				9'0"	170	4	

6	2 Legs Frame	10	3	9'0"	16	4'4"
6	2 Legs Frame	12	5	9'0"	24	3
6	2 Legs Racks	7'6"	60	4'0"	324	2
6	2 Legs Racks	7'7"	24	4'0"	120	

</TABLE>

2) 20-ton bridge crane (1 each).

3) 10-ton bridge crane (1 each).

Note: Items two (2) and three (3) above are currently on lease by Loral but will be made available to Cavco for their use until the expiration of the equipment lease.

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ADDENDUM

SCHEDULE II

Item No.	Description
1.	Remove everything on the floor in the building
2.	Remove all robots and associated equipment
3.	Remove plasma cutter from north side lean-tos
4.	Remove the cut off saw from north side lean-tos
5.	Remove the shot blast building and equipment
6.	Clean and pain lean-tos #7 and #8
7.	Remove all equipment in lean-to near column F
8.	Clean and paint lean-tos #2 and #3
9.	Remove all fencing in the building
10.	Remove modular offices in the south bay

11. Locate air inlet so CAVCO can tie in its own compressor

12. Locate all water and sewer liens

13. Install 50' sliding gate on the north fence per the print

14. Install employee walkway fenced and paved with gate

15. Install concrete ramp at new gate

16. All bathrooms to be clean and functional

17. Install perimeter fence

18. Raise bus bar between G and K columns per the drawing between the north and middle bay

19. Remove all overhead and steel in the north and middle bays between columns F and M

20. Remove free standing bridge crane and runway in middle bay on the east end of the building

21. Repair railroad tracks to a usable condition

21

[SCHEMATIC GOES HERE]

22

EXHIBIT A

PARCEL NO. 1: 500-007-3C

BEGINNING at the Northeast corner of Section 16, Township 1 North, Range 1 West of the Gila and Salt River Base and Meridian, Maricopa County, Arizona;

thence South 1 degree 52 minutes East on the East line of said Section 16, a distance of 3321.6 feet to a point, said point being 359.4 feet Northwesterly at right angle from the center line of Southern Pacific Railroad Company's constructed Main Tract from Phoenix to Wellton;

thence South 55 degrees 46 minutes West, a distance of 41.4 feet to a point on the Westerly right-of-way of the Highway along the East line of Section 16, said point being the beginning of the Westerly right-of-way line of the

Southern Pacific Railroad;

thence continuing South 55 degrees 46 minutes West a distance of 878.8 feet to a point 25.0 feet Northeasterly measured radially from the center line of the East leg of the Southern Pacific Railroad Company's Wye Track on the Litchfield Park Branch, said point being on the Northeasterly right-of-way line near center of a curve having an intersection angle of 109 degrees 33 minutes degree of curve 7 degrees 45 minutes, radius 739.5 feet, tangent 1047.0 feet;

thence Northwesterly along curve to the right, a distance of 766.23 feet to the end of curve (point of tangent);

thence North 8 degrees 17 minutes West a distance of 59.2 feet to a point 25.0 feet East at right angle from the center line of the Main Track, being the North end of the East leg of the Southern Pacific Railroad Company's Wye Track on the Litchfield Park Branch;

thence North 1 degree 55 minutes West a distance of 3003.48 feet to a point 25.0 feet East at right angle from center line of the Main Track, said point being the beginning of a curve to the right, having an intersection angle of 2 degrees 04 minutes, degree of curve 0 degrees 30 minutes 4 seconds, radius 11434.15 feet, tangent 206.27 feet, length of curve 412.44 feet;

thence continuing on the curve a distance of 206.22 feet to a point on the North line of Section 16;

thence South 89 degrees 48 minutes East a distance of 1217.22 feet to the Northeast corner of Section 16, the Place of Beginning;

EXCEPT any portion falling within Railroad right-of-way; and also

EXCEPT in accordance with Executive Order 9908, approved on December 5, 1947 (12 F.R. 8223), all uranium, thorium and all other materials determined pursuant to Section 5 (b) (1) of the Atomic Energy Act of 1946 (60 Stat. 761) to be peculiarly essential to the production of fissionable material, as reserved to the United States of America by instrument recorded April 19, 1950 in Docket 537, page 255, records of Maricopa County, Arizona.

PARCEL NO. 2:

BEGINNING at the East quarter corner of Section 16, Township 1 North

EXHIBIT 21

National Security Containers, Inc., an Arizona Corporation.

Sun Built Homes, Inc., an Arizona corporation.

AHCMS, Inc., an Arizona corporation, f/k/a Action Healthcare Management Services, Inc.

CAVCO Industries of New Mexico, Inc., a New Mexico corporation

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