

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 13D**

(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT  
TO § 240.13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO  
§ 240.13d-2(a)

(Amendment No. 3)<sup>1</sup>

Cavalier Homes, Inc.  
(Name of Issuer)

Common Stock, \$0.10 par value per share  
(Title of Class of Securities)

149507105  
(CUSIP Number)

STEVEN WOLOSKY, ESQ.  
OLSHAN GRUNDMAN FROME ROSENZWEIG & WOLOSKY LLP  
Park Avenue Tower  
65 East 55th Street  
New York, New York 10022  
(212) 451-2300  
(Name, Address and Telephone Number of Person  
Authorized to Receive Notices and Communications)

May 13, 2009  
(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box .

*Note:* Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties to whom copies are to be sent.

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<sup>1</sup> The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the *Notes*).

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1	NAME OF REPORTING PERSON  LEGACY HOUSING, LTD.	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS  WC	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION  TEXAS	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER  155,000
	8	SHARED VOTING POWER  - 0 -
	9	SOLE DISPOSITIVE POWER  155,000
	10	SHARED DISPOSITIVE POWER  - 0 -
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  155,000 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  0.9%	
14	TYPE OF REPORTING PERSON  PN	

<sup>1</sup> See Item 5.

1	NAME OF REPORTING PERSON	
	GPLH, LC	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS	
	AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION	
	TEXAS	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER
		155,000
	8	SHARED VOTING POWER
		- 0 -
	9	SOLE DISPOSITIVE POWER
		155,000
	10	SHARED DISPOSITIVE POWER
		- 0 -
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
	155,000 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)	
	0.9%	
14	TYPE OF REPORTING PERSON	
	OO	

<sup>1</sup> See Item 5.

1	NAME OF REPORTING PERSON  SHIPLEY BROTHERS, LTD.	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS  WC, AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION  TEXAS	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER  629,500
	8	SHARED VOTING POWER  155,000
	9	SOLE DISPOSITIVE POWER  629,500
	10	SHARED DISPOSITIVE POWER  155,000
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  784,500 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  4.5%	
14	TYPE OF REPORTING PERSON  PN	

<sup>1</sup> See Item 5.

1	NAME OF REPORTING PERSON	
	K-SHIPLEY, LLC	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS	
	AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION	
	TEXAS	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER
		- 0 -
	8	SHARED VOTING POWER
		784,500
	9	SOLE DISPOSITIVE POWER
		- 0 -
	10	SHARED DISPOSITIVE POWER
		784,500
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
	784,500 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)	
	4.5%	
14	TYPE OF REPORTING PERSON	
	OO	

<sup>1</sup> See Item 5.

1	NAME OF REPORTING PERSON	
	D-SHIPLEY, LLC	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS	
	AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION	
	TEXAS	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER
		- 0 -
	8	SHARED VOTING POWER
		784,500
	9	SOLE DISPOSITIVE POWER
		- 0 -
	10	SHARED DISPOSITIVE POWER
		784,500
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
	784,500 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)	
	4.5%	
14	TYPE OF REPORTING PERSON	
	OO	

<sup>1</sup> See Item 5.

1	NAME OF REPORTING PERSON	
	B-SHIPLEY, LLC	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS	
	AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION	
	TEXAS	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER
		- 0 -
	8	SHARED VOTING POWER
		784,500
	9	SOLE DISPOSITIVE POWER
		- 0 -
	10	SHARED DISPOSITIVE POWER
		784,500
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
	784,500 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)	
	4.5%	
14	TYPE OF REPORTING PERSON	
	OO	

<sup>1</sup> See Item 5.

1	NAME OF REPORTING PERSON	
	FEDERAL INVESTORS SERVICING, LTD	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS	
	WC	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION	
	TEXAS	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER
		137,200
	8	SHARED VOTING POWER
		- 0 -
	9	SOLE DISPOSITIVE POWER
		137,200
	10	SHARED DISPOSITIVE POWER
		- 0 -
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON	
	137,200 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)	
	0.8%	
14	TYPE OF REPORTING PERSON	
	PN	

<sup>1</sup> See Item 5.



1	NAME OF REPORTING PERSON  FEDERAL INVESTORS MANAGEMENT, L.C.	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS  AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION  TEXAS	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER  - 0 -
	8	SHARED VOTING POWER  137,200
	9	SOLE DISPOSITIVE POWER  - 0 -
	10	SHARED DISPOSITIVE POWER  137,200
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  137,200 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  0.8%	
14	TYPE OF REPORTING PERSON  OO	

<sup>1</sup> See Item 5.

1	NAME OF REPORTING PERSON  KENNETH E. SHIPLEY	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS  AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION  USA	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER  - 0 -
	8	SHARED VOTING POWER  921,700
	9	SOLE DISPOSITIVE POWER  - 0 -
	10	SHARED DISPOSITIVE POWER  921,700
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  921,700 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  5.2%	
14	TYPE OF REPORTING PERSON  IN	

<sup>1</sup> See Item 5.

1	NAME OF REPORTING PERSON  CURTIS D. HODGSON	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS  PF, AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION  USA	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER  669,600
	8	SHARED VOTING POWER  155,000
	9	SOLE DISPOSITIVE POWER  669,600
	10	SHARED DISPOSITIVE POWER  155,000
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  824,600 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  4.7%	
14	TYPE OF REPORTING PERSON  IN	

<sup>1</sup> See Item 5.

1	NAME OF REPORTING PERSON  DOUGLAS M. SHIPLEY	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS  AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION  USA	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER  - 0 -
	8	SHARED VOTING POWER  784,500
	9	SOLE DISPOSITIVE POWER  - 0 -
	10	SHARED DISPOSITIVE POWER  784,500
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  784,500 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  4.5%	
14	TYPE OF REPORTING PERSON  IN	

<sup>1</sup> See Item 5.

1	NAME OF REPORTING PERSON  BILLY G. SHIPLEY	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) <input checked="" type="checkbox"/> (b) <input type="checkbox"/>	
3	SEC USE ONLY	
4	SOURCE OF FUNDS  AF	
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) <input type="checkbox"/>	
6	CITIZENSHIP OR PLACE OF ORGANIZATION  USA	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER  - 0 -
	8	SHARED VOTING POWER  784,500
	9	SOLE DISPOSITIVE POWER  - 0 -
	10	SHARED DISPOSITIVE POWER  784,500
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  784,500 <sup>1</sup>	
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES <input type="checkbox"/>	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  4.5%	
14	TYPE OF REPORTING PERSON  IN	

<sup>1</sup> See Item 5.

The following constitutes Amendment No. 3 ("Amendment No. 3") to the Schedule 13D filed by the undersigned. This Amendment No. 3 amends the Schedule 13D as specifically set forth.

Item 2. Identity and Background.

Item 2 is hereby amended to add the following:

In connection with the Settlement Agreement described and defined in Item 4, Curtis D. Hodgson withdrew his nomination of Michael R. O'Connor for election as directors of the Issuer at the 2009 Meeting. As a result, Mr. O'Connor terminated his obligation to act in concert with the other Reporting Persons with respect to the Issuer effective May 13, 2009. Accordingly, Mr. O'Connor is no longer a member of the Section 13(d) group and will cease to be a Reporting Person immediately after the filing of this statement. The remaining Reporting Persons will continue filing as a group statements on Schedule 13D with respect to their beneficial ownership of securities of the Issuer, to the extent required by applicable law.

Item 3. Source and Amount of Funds or Other Consideration.

The Reporting Persons, in the aggregate, have invested \$2,444,794.03 in the Issuer. The above amount includes any commissions incurred in making the investments. The source of these funds was the working capital of Legacy, Shipley LTD and Federal Servicing and the personal funds of Curtis Hodgson.

Item 4. Purpose of Transaction.

Item 4 is hereby amended to add the following:

On May 13, 2009, the Issuer and the members of the Cavalier Homes Committee for Change (the "Committee") including, Legacy, GPLH, Shipley LTD, K-Shipley, D-Shipley, B-Shipley, Federal Servicing, Federal Management, Kenneth E. Shipley, Curtis D. Hodgson, Douglas M. Shipley, Billy G. Shipley and Michael R. O'Connor entered into an agreement (the "Settlement Agreement") to settle the proxy contest pertaining to the election of directors to the Board at the 2009 Meeting.

Pursuant to the terms of the Settlement Agreement, the parties agreed to, effective May 13, 2009, among other things, the following:

- The Issuer has agreed to (i) increase the number of seats on its Board from eight to ten, (ii) appoint Curtis D. Hodgson and Kenneth E. Shipley (the "New Directors") to serve as directors of the Issuer for a term to end no earlier than the 2009 Meeting, and (iii) nominate the New Directors, along with the current members of the Issuer's Board, for election as directors of the Issuer for terms expiring at the Issuer's 2010 Annual Meeting of Stockholders (the "2010 Meeting") or until their successors are duly elected and qualified;

- The Issuer has agreed that its Board will recommend that the Issuer's stockholders vote in favor of and solicit proxies for the New Directors at the 2009 Meeting;

- The Issuer has agreed not to increase the size of the Board to more than ten directors at any time before the 2010 Meeting unless approved by a majority of independent directors and at least one of the New Directors;

· Until the second anniversary of the Settlement Agreement, if any director who is not a New Director retires from the Board as a result of such director having reached his seventieth birthday, any vacancy on the Board created by such retirement shall not be filled;

· In the event that any New Director leaves the Board prior to the 2010 Meeting, the Committee shall be entitled to recommend to the Board replacement director(s), and the Board shall not unreasonably withhold acceptance of any such replacement director(s);

· The members of the Committee will end their efforts to elect Michael R. O'Connor to the Board and have agreed to immediately cease all efforts related to their own proxy solicitation;

· The Issuer has agreed to reimburse the members of the Committee for its actual out-of-pocket expenditures relating to the proxy contest, up to a maximum reimbursable amount of \$200,000; and

· Both the Issuer and the members of the Committee have agreed to a mutual release of claims in connection with the proxy contest.

The foregoing description of the Settlement Agreement is not complete and is qualified in its entirety by reference to its full text. A copy of the Settlement Agreement is filed as Exhibit 99.1 hereto and is incorporated herein by reference. Pursuant to the terms of the Settlement Agreement, a press release was issued on May 14, 2009 (the "Press Release"), announcing the execution of the Settlement Agreement. A copy of the Press Release is filed as Exhibit 99.2 hereto.

Item 5. Interest in Securities of the Issuer.

Item 5 is hereby amended and restated to read as follows:

The aggregate percentage of shares of Common Stock reported owned by each person named herein is based upon 17,598,380 shares of Common Stock outstanding, as of April 23, 2009, which is the total number of shares of Common Stock outstanding as reported in the Issuer's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on April 24, 2009.

- (a, b) As of the date hereof, Legacy beneficially owns 155,000 shares of Common Stock, constituting approximately 0.9% of the Issuer's outstanding shares of Common Stock.

Legacy has the sole power to vote and dispose of the 155,000 shares of Common Stock it holds.

In addition, Legacy, as a member of a "group" with the other Reporting Persons for the purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned in the aggregate by the other members of the group reported herein. Legacy specifically disclaims beneficial ownership of such shares of Common Stock, except to the extent of its pecuniary interest therein.

- (a, b) As of the date hereof, Shipley LTD beneficially owns 629,500 shares of Common Stock. As the manager of GPLH, Shipley LTD may also be deemed to beneficially own the 155,000 shares of Common Stock held by Legacy, constituting (together with the shares of Common Stock owned directly by Shipley LTD) an aggregate of 784,500 shares of Common Stock or approximately 4.5% of the Issuer's outstanding shares of Common Stock.

ShIPLEY LTD has the sole power to vote and dispose of the 629,500 shares of Common Stock it holds and, as a manager of GPLH, the shared power to vote and dispose of the 155,000 shares of Common Stock held by Legacy.

In addition, ShIPLEY LTD, as a member of a “group” with the other Reporting Persons for the purposes of Section 13(d)(3) of the Exchange Act, may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned in the aggregate by the other members of the group reported herein. ShIPLEY LTD specifically disclaims beneficial ownership of such shares of Common Stock, except to the extent of its pecuniary interest therein.

- (a, b) As of the date hereof, Federal Servicing beneficially owns 137,200 shares of Common Stock, constituting approximately 0.8% of the Issuer’s outstanding shares of Common Stock.

Federal Servicing has the sole power to vote and dispose of the 137,200 shares of Common Stock it holds.

In addition, Federal Servicing, as a member of a “group” with the other Reporting Persons for the purposes of Section 13(d)(3) of the Securities Exchange, may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned in the aggregate by the other members of the group reported herein. Federal Servicing specifically disclaims beneficial ownership of such shares of Common Stock, except to the extent of its pecuniary interest therein.

- (a, b) As of the date hereof, Curtis D. Hodgson beneficially owns 669,600 shares of Common Stock. As a manager of GPLH, Curtis D. Hodgson may also be deemed to beneficially own the 155,000 shares of Common Stock held by Legacy, constituting (together with the shares of Common Stock owned directly by Curtis D. Hodgson) an aggregate of 824,600 shares of Common Stock or approximately 4.7% of the Issuer’s outstanding shares of Common Stock.

Curtis D. Hodgson has the sole power to vote and dispose of the 669,600 shares of Common Stock he holds and, as a manager of GPLH, the shared power to vote and dispose of the 155,000 shares of Common Stock held by Legacy.

In addition, Curtis D. Hodgson, as a member of a “group” with the other Reporting Persons for the purposes of Section 13(d)(3) of the Exchange Act, may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned in the aggregate by the other members of the group reported herein. Curtis D. Hodgson specifically disclaims beneficial ownership of such shares of Common Stock, except to the extent of his pecuniary interest therein.

- (a, b) As of the date hereof, GPLH, as the general partner of Legacy, may be deemed to beneficially own the 155,000 shares of Common Stock held by Legacy, constituting approximately 0.9% of the Issuer’s outstanding shares of Common Stock.

GPLH, as the general partner of Legacy, has the shared power to vote and dispose of the 155,000 shares of Common Stock held by Legacy.

In addition, GPLH, as a member of a “group” with the other Reporting Persons for the purposes of Section 13(d)(3) of the Exchange Act, may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned in the aggregate by the other members of the group reported herein. GPLH specifically disclaims beneficial ownership of such Shares, except to the extent of its pecuniary interest therein.



- (a, b) As of the date hereof, K-Shipley, D-Shipley and B-Shipley, as the general partners of Shipley LTD, may each be deemed to beneficially own the 629,500 Shares of Common Stock held by Shipley LTD and the 155,000 shares of Common Stock held by Legacy, constituting an aggregate of 784,500 shares of Common Stock or approximately 4.5% of the Issuer's outstanding shares of Common Stock.

K-Shipley, D-Shipley and B-Shipley, as the general partners of Shipley LTD, have the shared power to vote and dispose of the 629,500 shares of Common Stock held by Shipley LTD and the 155,000 shares of Common Stock held by Legacy.

In addition, each of K-Shipley, D-Shipley and B-Shipley, as a member of a "group" with the other Reporting Persons for the purposes of Section 13(d)(3) of the Exchange Act, may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned in the aggregate by the other members of the group reported herein. Each of K-Shipley, D-Shipley and B-Shipley specifically disclaims beneficial ownership of such shares of Common Stock, except to the extent of its pecuniary interest therein.

- (a, b) As of the date hereof, Federal Management, as the general partner of Federal Servicing, may be deemed to beneficially own the 137,200 shares of Common Stock held by Federal Servicing, constituting approximately 0.8% of the Issuer's outstanding shares of Common Stock.

Federal Management, as the general partner of Federal Servicing, has the shared power to vote and dispose of the 137,200 shares of Common Stock held by Federal Servicing.

In addition, Federal Management, as a member of a "group" with the other Reporting Persons for the purposes of Section 13(d)(3) of the Exchange Act, may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned in the aggregate by the other members of the group reported herein. Federal Management specifically disclaims beneficial ownership of such shares of Common Stock, except to the extent of its pecuniary interest therein.

- (a, b) As of the date hereof, Kenneth E. Shipley, as the manager of Federal Management, manager of GPLH and sole member and manager of K-Shipley, may be deemed to beneficially own the 155,000, 629,500 and 137,200 shares of Common Stock held by Legacy, Shipley LTD and Federal Servicing, respectively, constituting an aggregate of 921,700 shares of Common Stock or approximately 5.2% of the Issuer's outstanding shares of Common Stock.

Kenneth E. Shipley, as the manager of Federal Management, manager of GPLH and sole member and manager of K-Shipley, has the shared power to vote and dispose of the 921,700 shares of Common Stock held by Legacy, Shipley LTD and Federal Servicing.

In addition, Kenneth E. Shipley, as a member of a "group" with the other Reporting Persons for the purposes of Section 13(d)(3) of the Exchange Act, may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned in the aggregate by the other members of the group reported herein. Kenneth E. Shipley specifically disclaims beneficial ownership of such shares of Common Stock, except to the extent of his pecuniary interest therein.

- (a, b) As of the date hereof, Douglas M. Shipley, as the sole member and manager of D-Shipley, may be deemed to beneficially own the 155,000 and 629,500 shares of Common Stock held by Legacy and Shipley LTD, respectively, constituting an aggregate of 784,500 shares of Common Stock or approximately 4.5% of the Issuer's outstanding shares of Common Stock.

Douglas M. Shipley, as the sole member and manager of D-Shipley, has the shared power to vote and dispose of the 784,500 shares of Common Stock held by Shipley LTD and Legacy.

In addition, Douglas M. Shipley, as a member of a "group" with the other Reporting Persons for the purposes of Section 13(d)(3) of the Exchange Act, may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned in the aggregate by the other members of the group reported herein. Douglas M. Shipley specifically disclaims beneficial ownership of such shares of Common Stock, except to the extent of his pecuniary interest therein.

- (a, b) As of the date hereof, Billy G. Shipley, as the sole member and manager of B-Shipley, may be deemed to beneficially own the 155,000 and 629,500 shares of Common Stock held by Legacy and Shipley LTD, respectively, constituting an aggregate of 784,500 shares of Common Stock or approximately 4.5% of the Issuer's outstanding shares of Common Stock.

Billy G. Shipley, as the sole member and manager of B-Shipley, has the shared power to vote and dispose of the 784,500 shares of Common Stock held by Shipley LTD and Legacy.

In addition, Billy G. Shipley, as a member of a "group" with the other Reporting Persons for the purposes of Section 13(d)(3) of the Exchange Act, may be deemed to be the beneficial owner of the shares of Common Stock beneficially owned in the aggregate by the other members of the group reported herein. Billy G. Shipley specifically disclaims beneficial ownership of such shares of Common Stock, except to the extent of his pecuniary interest therein.

- (c) Schedule A annexed hereto lists all transactions in the Shares by the Reporting Persons since the filing of Amendment No. 2. All of such transactions were effected in the open market.
- (d) No person other than the Reporting Persons is known to have the right to receive, or the power to direct the receipt of dividends from, or proceeds from the sale of, the Shares.
- (e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

Item 6 is hereby amended to add the following:

4. On May 13, 2009, the Issuer and the members of the Committee entered into the Settlement Agreement as discussed in further detail in Item

Item 7. Material to be Filed as Exhibits.

Item 7 is hereby amended to include the following exhibits:

Exhibit 99.1 Settlement Agreement, dated as of May 13, 2009, by and between Cavalier Homes, Inc. and the members of the Cavalier Homes Committee for Change including, Legacy Housing, LTD., GPLH, LC, Shipley Brothers, LTD., K-Shipley, LLC, D-Shipley, LLC, B-Shipley, LLC, Federal Investors Servicing, LTD, Federal Investors Management, L.C., Kenneth E. Shipley, Curtis D. Hodgson, Douglas M. Shipley, Billy G. Shipley and Michael R. O'Connor.

Exhibit 99.2 Press release dated May 14, 2009.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: May 14, 2009

LEGACY HOUSING, LTD.

By: GPLH, LC, its general partner

By: /s/ Kenneth E. Shipley

Name: Kenneth E. Shipley

Title: President

GPLH, LC

By: /s/ Kenneth E. Shipley

Name: Kenneth E. Shipley

Title: President

SHIPLEY BROTHERS, LTD.

By: K-Shipley, LLC, its general partner

By: /s/ Kenneth E. Shipley

Name: Kenneth E. Shipley

Title: President

K-SHIPLEY, LLC

By: /s/ Kenneth E. Shipley

Name: Kenneth E. Shipley

Title: President

D-SHIPLEY, LLC

By: /s/ Douglas M. Shipley

Name: Douglas M. Shipley

Title: President

B-SHIPLEY, LLC

By: /s/ Billy G. Shipley

Name: Billy G. Shipley

Title: President

FEDERAL INVESTORS SERVICING, LTD.

By: Federal Investors Management, L.C., its general partner

By: /s/ Kenneth E. Shipley

Name: Kenneth E. Shipley

Title: Manager

FEDERAL INVESTORS MANAGEMENT, L.C.

By: /s/ Kenneth E. Shipley

Name: Kenneth E. Shipley

Title: Manager

/s/ Kenneth E. Shipley

KENNETH E. SHIPLEY

/s/ Curtis D. Hodgson

CURTIS D. HODGSON

/s/ Douglas M. Shipley

DOUGLAS M. SHIPLEY

/s/ Billy G. Shipley

BILLY G. SHIPLEY

**SCHEDULE A****Transactions in the Shares Since the Filing of Amendment No. 2**

Shares of Common Stock <u>Purchased/(Sold)</u>	<u>Price Per Share (\$)</u>	<u>Date of Purchase</u>
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Curtis D. Hodgson

(3,000)	1.5727	04/20/2009
(3,500)	1.5923	04/21/2009
(1,500)	1.6075	04/22/2009
(1,500)	1.6055	04/24/2009
(500)	1.6200	04/27/2009
(5,300)	2.0034	05/01/2009
(29,700)	1.7306	05/04/2009
(39,000)	1.6703	05/05/2009
(10,400)	1.7004	05/06/2009

Shipley Brothers, LTD.

(7,592)	2.0726	05/01/2009
(300)	1.6900	05/07/2009

Federal Investors Servicing, LTD

4,200	1.4200	03/23/2009
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## SETTLEMENT AGREEMENT

This Settlement Agreement, dated as of May 13, 2009 (the “Agreement”), is by and among Cavalier Homes, Inc. (the “Company”), and the members of the Cavalier Homes Committee for Change (the “Committee”) including, Legacy Housing, LTD., GPLH, LC, Shipley Brothers, LTD., K-Shipley, LLC, D-Shipley, LLC, B-Shipley, LLC, Federal Investors Servicing, LTD., Federal Investors Management, L.C., Kenneth E. Shipley, Curtis D. Hodgson, Douglas M. Shipley, Billy G. Shipley and Michael R. O’Connor (each, a “Committee Member,” and collectively, the “Committee Members”).

WHEREAS, the Committee Members beneficially own (as defined below), in the aggregate, shares of the Company’s common stock, par value \$0.10 per share (the “Common Stock”) as set forth on Schedule A to this Agreement (the “Shares”);

WHEREAS, prior to the date hereof Curtis D. Hodgson delivered a letter (the “Nomination Notice Letter”) to the Company, dated as of January 21, 2009, formally indicating his intention to nominate (the “Nomination”) three individuals for election to the Board of Directors of the Company (the “Board”) by the holders of the Common Stock (the “Stockholders”) at the 2009 Annual Meeting of Stockholders (the “2009 Annual Meeting”);

WHEREAS, the Company and the Committee Members have determined that it is in their mutual best interests and in the best interests of the Company’s Stockholders to enter into this Agreement, whereby, among other things, the Company will appoint Curtis D. Hodgson and Kenneth E. Shipley (the “New Directors”) to the Board and the Committee will abandon its nomination of directors, all as more fully provided herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

### ARTICLE I DEFINITIONS

Section 1.1        Defined Terms. For purposes of this Agreement:

- (a)        “Affiliate” has the meaning set forth in Rule 12b-2 promulgated by the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).
- (b)        “Associate” has the meaning set forth in Rule 12b-2 promulgated by the SEC under the Exchange Act.
- (c)        The terms “beneficial owner” and “beneficially owns” have the same meanings as set forth in Rule 13d-3 promulgated by the SEC under the Exchange Act.
- (d)        “Bylaws” means the Company’s Amended and Restated By-laws, as amended.

(e) “Charter” means the Company’s Amended and Restated Certificate of Incorporation, as amended.

(f) “Confidential Information” means any non-public information that is confidential to the Company and includes without limitation the stockholder information delivered by the Company to the Committee; provided, that Confidential Information will not include information which (i) is or becomes generally available to the public other than as a result of a disclosure by the Committee or its representatives, (ii) was available to the Committee on a non-confidential basis prior to its disclosure to the Committee or its representatives by the Company or on its behalf, or (iii) became or becomes available to the Committee on a non-confidential basis from a Person other than the Company or the Company’s representatives or agents; provided, that such Person is not known by the Committee to be otherwise bound by a confidentiality agreement or obligation with the Company or such Person is not known by the Committee to be otherwise prohibited from transmitting the document or information to the Committee.

(g) “Person” means any individual, partnership, corporation, limited liability company, group, syndicate, trust, government or agency, or any other organization, entity or enterprise.

(h) “SEC” means the Securities and Exchange Commission or any successor agency.

(i) “Termination Date” means the date the New Directors or their replacements as provided in Section 2.1(d) are no longer members of the Board.

Section 1.2 Interpretation. When reference is made in this agreement to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.” The words “hereof,” “herein,” “hereby” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The word “or” shall not be exclusive. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing an instrument to be drafted.

## ARTICLE II COVENANTS

Section 2.1 Board Appointments, 2009 Annual Meeting and Related Matters.

(a) Board Appointments. Subject to the terms hereof and contemporaneously herewith:

(i) The Board has taken all requisite action to, in accordance with the Bylaws of the Company, increase the size of the Board from eight (8) to ten (10) directors; and



(ii) The Board has appointed the New Directors to serve as directors of the Company to fill the two (2) vacancies thus created and to serve in such capacity until the 2009 Annual Meeting or until their successors are duly elected and qualified, subject to the terms of this Agreement.

(b) 2009 Annual Meeting. The Company hereby covenants and agrees that at the 2009 Annual Meeting, the New Directors will be nominated for election as directors of the Company for terms expiring at the Company's 2010 annual meeting of stockholders (the "2010 Annual Meeting") or until their successors are duly elected and qualified. Prior to the 2009 Annual Meeting, (i) the Board shall recommend that the Company's stockholders vote in favor of the New Directors at the 2009 Annual Meeting and (ii) the Company shall solicit proxies for the election of the New Directors at the 2009 Annual Meeting.

(c) Board Size, Director Retirements. The size of the Board will not be increased to more than ten (10) directors at any time before the 2010 Annual Meeting, unless approved by a majority of the independent directors and at least one of the New Directors. Until the second anniversary of this Agreement, if any director who is not a New Director retires from the Board as a result of such director having reached his seventieth (70) birthday, any vacancy on the Board created by such retirement shall not be filled.

(d) New Director Vacancies. If any New Director leaves the Board (whether by resignation or otherwise) before the 2010 Annual Meeting, the Committee will be entitled to recommend to the Board replacement director(s) (each of whom will be deemed a New Director for purposes of this Agreement). The Board will not unreasonably withhold acceptance of any replacement director(s) recommended by the Committee. In the event the Board does not accept a replacement director(s) recommended by the Committee, the Committee will have the right to recommend additional replacement director(s) for consideration by the Board. The Board will appoint such replacement director(s) to the Board no later than five (5) business days after the Board's approval of such replacement director(s).

Section 2.2 Expenses. Within five (5) business days of receiving reasonably satisfactory documentation with respect to such expenses, the Company shall reimburse the Committee an amount equal to the Committee's actual out-of-pocket expenses incurred on or prior to the date of this Agreement in connection with the pending proxy contest, including the preparation of related filings with the SEC, the fees and disbursements of counsel and other advisors, and the negotiation and execution of this Agreement and all related activities and matters, up to a maximum reimbursement of \$200,000, and the Committee hereby agrees that such payment shall be in full satisfaction of any claims or rights it may have as of the date hereof for reimbursement of fees, expenses or costs in connection with the pending proxy contest.

Section 2.3 Voting Provisions. Each Committee Member shall cause in the case of all Shares owned of record and shall instruct the record owner, in the case of all Shares beneficially owned but not owned of record, directly or indirectly, by it, or by any Committee Affiliate or Associate, as of the record date for the 2009 Annual Meeting, to be present for quorum purposes and to be voted at such meeting or any adjournments or postponements thereof (a) in favor of each director nominated and recommended by the Board for election at such meeting and (b) against any stockholder nominations for director which are not approved and recommended by the Board for election at such meeting.

Section 2.4 Undertakings by the Committee. By executing this Agreement, the Committee hereby (i) irrevocably withdraws the Nomination Notice Letter and any nominations to the Board made prior to the date hereof, (ii) irrevocably ceases any proxy solicitation activities with respect to the Company in connection with the 2009 Annual Meeting and (iii) irrevocably withdraws the demand to inspect certain of the Company's books and records, pursuant to a demand letter, dated as of March 11, 2009, sent by Curtis D. Hodgson to the Company. Within two (2) business days of the date hereof, the Committee shall file, or cause to be filed on its behalf, with the SEC an amendment to its Schedule 13D with respect to the Company disclosing the material contents of this Agreement.

In addition, from the date hereof until the Termination Date, each of the Committee and each Committee Member agree that neither they nor any of their respective Affiliates or Associates will, without the prior written consent of the Company, in any manner, directly or indirectly, acting alone or in concert with others:

- (i) Effect, seek, offer or propose (whether publicly or otherwise) to effect, or cause or participate in, facilitate or finance, or in any way assist any other Person to effect, seek, offer or propose (whether publicly or otherwise) to effect or participate in any “solicitation” of “proxies” (as such terms are used in the proxy rules of the SEC) or consents to vote any voting securities of the Company or conduct any nonbinding referendum with respect to Common Stock of the Company, or make, or in any way participate in, any “solicitation” of any “proxy” with respect to the Company within the meaning of Rule 14a-1 promulgated by the SEC under the Exchange Act (but without regard to the exclusion set forth in Rule 14a-1(1)(2)(iv) from the definition of “solicitation”);
- (ii) Seek to advise or influence any Person with respect to the voting of any securities of the Company;
- (iii) Form, join or in any way participate in a “group” (as defined under Section 13(d) of the Exchange Act) with respect to the securities of the Company other than the Section 13(d) “group” that includes all or some lesser number of the Committee Members, but does not include any other members who are not currently identified as a Committee Member;
- (iv) Initiate, propose or otherwise “solicit” (as such term is used in the proxy rules of the SEC) the Company’s stockholders for the approval of stockholder proposals whether made pursuant to Rule 14a-8 or Rule 14a-4 under the Exchange Act or otherwise;
- (v) Take any action which might force the Company to make a public announcement regarding any of the types of matters set forth in (i) above;  
or

(vi) Enter into any discussions or arrangements with any third party with respect to any of the foregoing.

Provided, however, that nothing herein will limit the ability of any Committee Member, or its respective Affiliates and Associates, except as otherwise provided in Section 2.3, to vote its Shares on any matter submitted to a vote of the stockholders of the Company or announce its opposition to any Board-approved proposals not supported by the New Directors or limit the ability of the New Directors to exercise their rights as members of the Board while serving as members of the Board.

Each of the Committee and each Committee Member also agree during such period not to request the Company (or its directors, officers, employees or agents), directly or indirectly, to amend or waive any provision of this Section (including this sentence).

Section 2.5 Undertakings by the New Directors. Each New Director, while serving in his capacity as a director and for one year following his resignation or departure from the Board, agrees not to use any Confidential Information that he learns in his capacity as a director of the Company in any way that would be competitive to the Company or its operations.

Section 2.6 Publicity. Promptly after the execution of this Agreement, the Company and the Committee will issue a joint press release in the form attached hereto as Schedule B (the "Press Release"). Following the date of the execution of this Agreement through the Termination Date, none of the parties hereto will make any public statements (including any filing with the SEC or any other regulatory or governmental agency, including any stock exchange) that are inconsistent with, or otherwise contrary to, the statements in the Press Release issued pursuant to this Section 2.6. Following the date of the execution of this Agreement through the Termination Date, neither the Company nor its employees, officers, directors, Associates or Affiliates on the one hand or the Committee nor their principals, Associates or Affiliates on the other hand shall make any further negative or disparaging remarks about the other or make, or cause to be made, any statement or announcement that relates to and constitutes an ad hominem attack on, or relates to and otherwise disparages, the other, its employees, officers or its directors or any person who has served as an employee, officer or director of either the Committee or the Company; provided, that nothing herein will limit the ability of any Committee Member, its respective Affiliates and Associates to publicly announce its opposition to any Board-approved proposals not supported by the New Directors.

Section 2.7 Mutual Releases. Upon the execution of this Agreement, the Company and the Committee hereby agree to mutual releases as follows:

- (a) Release by Company. The Company hereby agrees for the benefit of the Committee and each Committee Member and each Affiliate, Associate, officer, director, member, partner, manager stockholder, agent, employee, attorney, assigns, predecessor and successor, past and present, of the Committee and each Committee Member (the Committee, each Committee Member and each such Person being a "Committee Released Person") as follows: the Company, for itself and for its officers, directors, assigns, agents and successors, past and present, hereby agrees and confirms that, effective from and after the date of this Agreement, it hereby acknowledges full and complete satisfaction of, and covenants not to sue, and forever fully releases and discharges each Committee Released Person of, and holds each Committee Released Person harmless from, any and all claims of any nature whatsoever ("Claims"), whether known or unknown, suspected or unsuspected, including, but not limited to, those arising in respect of or in connection with the nomination and election of directors or other actions to be taken at the 2009 Annual Meeting, occurring any time or period of time on or prior to the date of this Agreement (including the future effects of such occurrences, conditions, acts or omissions).
- (b) Release by the Committee and each Committee Member. The Committee and each Committee Member hereby agrees for the benefit of the Company, and each Affiliate, Associate, officer, director, stockholder, agent, employee, attorney, assigns, predecessor and successor, past and present, of the Company (the Company and each such Person being a "Company Released Person") as follows: the Committee and each Committee Member, for itself and for its members, officers, directors, assigns, agents and successors, past and present, hereby agrees and confirms that, effective from and after the date of this Agreement, it hereby acknowledges full and complete satisfaction of, and covenants not to sue, and forever fully releases and discharges each Company Released Person of, and holds each Company Released Person harmless from, any and all Claims, whether known or unknown, suspected or unsuspected, including, but not limited to, those arising in respect of or in connection with the nomination and election of directors or other actions to be taken at the 2009 Annual Meeting, occurring any time or period of time on or prior to the date of this Agreement (including the future effects of such occurrences, conditions, acts or omissions).

### ARTICLE III REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties of the Company. The Company hereby represents and warrants that this Agreement and the performance by the Company of its obligations hereunder (i) has been duly authorized, executed and delivered by it, and is a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, (ii) does not require the approval of the stockholders of the Company and (iii) does not and will not violate any law, any order of any court of other agency of government, the Charter or the Bylaws, or any provision of any indenture, agreement or other instrument to which the Company or any of its properties or assets is bound, or conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of, or give rise to, any lien, charge, restriction, claim, encumbrance or adverse penalty of any nature whatsoever pursuant to any such indenture, agreement or other instrument.

Section 3.2      Representations and Warranties of the Committee and each Committee Member. Each of the Committee and each Committee Member represents and warrants that this Agreement and the performance by the Committee and each such Committee Member, together with each of their respective Affiliates and Associates, of their obligations hereunder (i) has been duly authorized, executed and delivered by the Committee and each such Committee Member, and is a valid and binding obligation of the Committee and each such Committee Member, enforceable against the Committee and each such Committee Member in accordance with its terms, (ii) does not require the approval of the owners or members of the Committee or any Committee Member and (iii) does not and will not violate any law, any order of any court of other agency of government, the governing instruments of the Committee or any Committee Member, or any provision of any indenture, agreement or other instrument to which the Committee or any Committee Member or any of their properties or assets is bound, or conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any such indenture, agreement or other instrument, or result in the creation or imposition of, or give rise to, any lien, charge, restriction, claim, encumbrance or adverse penalty of any nature whatsoever pursuant to any such indenture, agreement or other instrument. Each of the Committee and each Committee Member hereby further represents and warrants that, as of the date hereof, their respective Affiliates are, collectively, the beneficial owners of such number of Shares as are respectively set forth on Schedule A of this Agreement.

**ARTICLE IV  
OTHER PROVISIONS**

Section 4.1      Remedies.

(a)      Each party hereto hereby acknowledges and agrees, on behalf of itself and its Affiliates, that irreparable harm would occur in the event any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties will be entitled to specific relief hereunder, including an injunction or injunctions to prevent and enjoin breaches of the provision of this Agreement and to enforce specifically the terms and provision hereof in any state or federal court in the State of Delaware, in addition to any other remedy to which they may be entitled at law or in equity. Any requirements for the securing or posting of any bond with such remedy are hereby waived.

(b)      Each party hereto agrees, on behalf of itself and its Affiliates, that any actions, suits or proceedings arising out of or relating to this Agreement or the transactions contemplated hereby will be brought solely and exclusively in any state or federal court in the State of Delaware (and the parties agree not to commence any action, suit or proceeding relating thereto except in such courts), and further agrees that service of any process, summons, notice or document by U.S. registered mail to the respective addresses set forth in Section 4.2 (with a copy to the attorney indicated) will be effective service of process for any such action, suit or proceeding brought against any party in any such court. Each party, on behalf of itself and its Affiliates, irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transaction contemplated hereby, in the state or federal courts in the State of Delaware, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an improper or inconvenient forum.

Section 4.2 Notices. All notices, consents, requests, instructions, approvals and other communications provided for herein and all legal process in regard hereto shall be in writing and shall be deemed validly given, made or served, if (a) given by telecopy, when such telecopy is transmitted to the telecopy number set forth below and the appropriate confirmation is received or (b) if given by any other means, when actually received during normal business hours at the address specified in this subsection:

If to the Company: Cavalier Homes, Inc.  
32 Wilson Boulevard 100  
Addison, Alabama 35540  
Attn: Bobby Tesney  
Fax: (256) 747-7004

With a copy to: Lowe, Mobley & Lowe  
P.O. Box 576  
or  
1210 21<sup>st</sup> Street  
Haleyville, AL 35565  
Attn: John W Lowe  
Fax: (205) 486-4531

If to the Committee  
or any Committee Member: Legacy Housing, LTD.  
15400 Knoll Trail, Suite 101, LB 25  
Dallas, Texas 75248  
Attn: Curtis D. Hodgson  
Fax: (972) 294-3765

With a copy to: Olshan Grundman Frome Rosenzweig & Wolosky LLP  
Park Avenue Tower  
65 East 55th Street  
New York, New York 10022  
Attn: Steve Wolosky  
Fax: (212) 451-2222

Section 4.3 Entire Agreement. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof and may be amended only by an agreement in writing executed by the parties hereto.

Section 4.4 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, without giving effect to the choice of law principles of such state.

Section 4.5 Further Assurances. Each party agrees to take or cause to be taken such further actions, and to execute, deliver and file or cause to be executed, delivered and filed such further documents and instruments, and to obtain such consents, as may be reasonably required or requested by the other party in order to effectuate fully the purposes, terms and conditions of this Agreement.

Section 4.6 Third-Party Beneficiaries. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns, and nothing in this Agreement is intended to confer on any person other than the parties hereto or their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement except as explicitly stated in this Agreement.

Section 4.7 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 4.8 Confidential Information. The Committee and each Committee Member shall promptly return or destroy, as directed by the Company, all Confidential Information in its possession or in the possession of its representatives. Upon request, an authorized representative of the Committee shall certify in writing to the Company the destruction of all Confidential Information destroyed or returned, as the case may be, and shall hold all oral Confidential Information confidential. The Committee and each Committee Member shall permanently erase all related electronic and computer files and backup copies from the media on which they are contained.

Section 4.9 No Waiver. Any waiver by any party of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Agreement. The failure of a party to insist upon strict adherence to any term of this Agreement on one or more occasions shall not be construed as a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

Section 4.10 Severability. If at any time subsequent to the date hereof, any provision of this Agreement shall be held by any court of competent jurisdiction to be illegal, void or unenforceable, such provision shall be of no force and effect, but the illegality or unenforceability of such provision shall have no effect upon the legality or enforceability of any other provision of this Agreement.

[Signatures to follow]

IN WITNESS WHEREOF, each of the parties hereto has executed this Agreement, or caused the same to be executed by its duly authorized representative as of the date first above written.

CAVALIER HOMES, INC.

By: /s/ Barry B. Donnell  
Name: Barry B. Donnell  
Title: Chairman of the Board of Directors

LEGACY HOUSING, LTD.

By: GLPH, LC, its general partner

By: /s/ Kenneth E. Shipley  
Name: Kenneth E. Shipley  
Title: President

GPLH, LC

By: /s/ Kenneth E. Shipley  
Name: Kenneth E. Shipley  
Title: President

SHIPLEY BROTHERS, LTD.

By: K-Shipley, LLC, its general partner,

By: /s/ Kenneth E. Shipley  
Name: Kenneth E. Shipley  
Title: President

K-SHIPLEY, LLC

By: /s/ Kenneth E. Shipley  
Name: Kenneth E. Shipley  
Title: President

D-SHIPLEY, LLC

By: /s/ Kenneth E. Shipley  
Name: Douglas M. Shipley  
Title: President



B-SHIPLEY, LLC

By: /s/ Billy G. Shipley

Name: Billy G. Shipley

Title: President

FEDERAL INVESTORS SERVICING, LTD

By: Federal Investors Management, L.C.,  
its general partner

By: /s/ Kenneth E. Shipley

Name: Kenneth E. Shipley

Title: Manager

FEDERAL INVESTORS MANAGEMENT, L.C.

By: /s/ Kenneth E. Shipley

Name: Kenneth E. Shipley

Title: Manager

/s/ Kenneth E. Shipley

KENNETH E. SHIPLEY

/s/ Curtis D. Hodgson

CURTIS D. HODGSON

/s/ Douglas M. Shipley

DOUGLAS M. SHIPLEY

/s/ Billy G. Shipley

BILLY G. SHIPLEY

/s/ Michael R. O'Connor

MICHAEL R. O'CONNOR



**Cavalier Homes, Inc.™**

**Contact:**

**Mike Murphy**  
**Chief Financial**  
**Officer**  
**(256) 747-9800**

**CAVALIER HOMES AND CAVALIER HOMES COMMITTEE FOR CHANGE SETTLE PROXY CONTEST**

**CURTIS D. HODGSON AND KENNETH E. SHIPLEY SELECTED TO JOIN  
THE COMPANY'S BOARD OF DIRECTORS**

**2009 ANNUAL MEETING DATE RESET FOR MAY 26, 2009**

Addison, Ala. (May 14, 2009) – Cavalier Homes, Inc. (NYSE Amex: CAV) and the members of the Cavalier Homes Committee for Change including Legacy Housing, LTD., Shipley Brothers, LTD., Curtis D. Hodgson, Kenneth E. Shipley, and certain of their affiliates, which beneficially own approximately 9.6% of Cavalier's outstanding shares of common stock, today announced that they have reached an agreement to settle the proxy contest relating to Cavalier's 2009 Annual Meeting of Stockholders.

Under the terms of the agreement, Cavalier has increased the size of its Board from eight to 10 directors and appointed Curtis D. Hodgson and Kenneth E. Shipley to serve as directors of the Company for a term to end no earlier than the Company's 2009 Annual Meeting of Stockholders. Cavalier also has agreed that at its 2009 Annual Meeting, the Company will nominate Hodgson and Shipley, along with the other members of its Board of Directors, for election as directors of the Company for terms expiring at the Company's 2010 Annual Meeting or until their successors are duly elected and qualified.

As a condition of the agreement, the members of the Committee will end their efforts to elect Michael R. O'Connor to the Board and have agreed to immediately cease all efforts related to their own proxy solicitation.

In addition, Cavalier has agreed to reimburse the members of the Committee for its actual out-of-pocket expenditures relating to the proxy contest, up to a maximum reimbursable amount of \$200,000. Both Cavalier and the members of the Committee also have agreed to a mutual release of claims in connection with the proxy contest.

In order to allow adequate time for the Company to notify its stockholders of its newly proposed slate of 10 directors, Cavalier has postponed the 2009 Annual Meeting of Stockholders until May 26, 2009, beginning at 2:00 P.M., Central Daylight Time, at The Summit Club at the Regions-Harbert Plaza, 1901 6<sup>th</sup> Avenue North, Suite 3100, Birmingham, Alabama 35203.

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"We are pleased to announce this mutually beneficial compromise with the Cavalier Homes Committee for Change," said Barry B. Donnell, Chairman of the Board of Directors of Cavalier. "This solution allows us to retain experienced and dedicated board members that we believe have contributed to our past success, and who will continue to play an important role in guiding Cavalier in the challenging times ahead. At the same time, it provides for the inclusion of differing viewpoints and alternative thinking put forward by capable and experienced members of the Committee, which we think is a healthy part of our corporate governance objectives."

Curtis D. Hodgson endorsed the settlement as well, saying, "We are very pleased with this settlement. It is time to end this proxy contest and redirect all of our efforts to creating value for stockholders. We believe numerous opportunities exist to unlock value in Cavalier shares. We look forward to working closely with the other members of the Board and believe our direct industry experience will significantly strengthen the Board."

Cavalier Homes, Inc. and its subsidiaries produce and sell manufactured housing. The Company markets its homes primarily through independent dealers, including exclusive dealers that carry only Cavalier products.

#### **Important Information**

Cavalier has filed a proxy statement in connection with its 2009 Annual Meeting of Stockholders. The Company's stockholders are strongly advised to read the proxy statement and the accompanying WHITE proxy card, as they contain important information, including information relating to the participants in such proxy solicitation. Stockholders can obtain this proxy statement, any amendments or supplements to the proxy statement and other documents filed by Cavalier with the SEC for free at the internet website maintained by the SEC at [www.sec.gov](http://www.sec.gov) and Cavalier's website at [www.cavhomesinc.com](http://www.cavhomesinc.com).

With the exception of historical information, the statements made in this press release, including those containing the words "expects," "anticipates," "thinks" and "believes," and words of similar import, and those relating to industry trends and conditions, Cavalier's expectations for its results of operations during the most recent fiscal quarter and in future periods, acceptance of Cavalier's new product initiatives and the effect of these and other steps taken in the last several years on Cavalier's future sales and earnings, the use of Cavalier's cash to fund inventory financing programs, and Cavalier's plans and expectations for addressing current and future industry and business conditions, constitute forward-looking statements, are based upon current expectations, and are made pursuant to the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve certain known and unknown assumptions, risks and uncertainties that could cause actual results to differ materially from those included in or contemplated by the statements, including among other matters, significant competitive activity, including promotional and price competition; interest rates; increases in raw material and energy costs; changes in customer demand for Cavalier's products; inherent risks in the market place associated with new products and new product lines; the impact to Cavalier and the industry from changes in lending programs or the termination of lending programs by national lenders, and other risk factors listed from time to time in Cavalier's reports filed with the Securities and Exchange Commission, including, but not limited to, those discussed or indicated in Cavalier's Annual Report on Form 10-K for the period ended December 31, 2008, under the heading "Item 1A. Risk Factors," and its Quarterly Report on Form 10-Q for the period ended March 28, 2009, under the heading "Cautionary Factors That May Affect Future Results," as filed with the Securities and Exchange Commission. Cavalier disclaims any obligation to update any forward-looking statements as a result of developments occurring after the issuance of this press release.

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