

SKYLINE CORP
Form 10-Q
January 11, 2013
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2012

or

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

For the transition period from _____ to _____

Commission file number: 1-4714

SKYLINE CORPORATION

(Exact name of registrant as specified in its charter)

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Indiana
(State or other jurisdiction of
incorporation or organization)

35-1038277
(I.R.S. Employer
Identification No.)

P. O. Box 743, 2520 By-Pass Road

Elkhart, Indiana
(Address of principal executive offices)

46515
(Zip Code)

Registrant's telephone number, including area code:

(574) 294-6521

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| Title of Class | Shares Outstanding |
|-----------------------|-------------------------------|
| Common Stock | January 11, 2013 8,391,244 |

Table of Contents

FORM 10-Q

INDEX

PART I FINANCIAL INFORMATION

| | Page No. |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Item 1. <u>Financial Statements</u> | |
| <u>Consolidated Balance Sheets as of November 30, 2012 and May 31, 2012</u> | 1 |
| <u>Consolidated Statements of Operations and Retained Earnings for the three-month and six-month periods ended November 30, 2012 and 2011</u> | 3 |
| <u>Consolidated Statements of Cash Flows for the six-month periods ended November 30, 2012 and 2011</u> | 4 |
| <u>Notes to the Consolidated Financial Statements</u> | 5 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 14 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 26 |
| Item 4. <u>Controls and Procedures</u> | 26 |

PART II OTHER INFORMATION

| | |
|----------------------------------|----|
| Item 1. <u>Legal Proceedings</u> | 27 |
| Item 1A. <u>Risk Factors</u> | 27 |
| Item 6. <u>Exhibits</u> | 27 |
| <u>Signatures</u> | 28 |

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****Skyline Corporation and Subsidiary Companies****Consolidated Balance Sheets****(Dollars in thousands)**

| | November 30, 2012 (Unaudited) | May 31, 2012 |
|----------------------------------------------------|----------------------------------|--------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 9,670 | \$ 12,011 |
| Restricted cash | 600 | |
| U.S. Treasury Bills, at cost plus accrued interest | 13,998 | 16,998 |
| Accounts receivable | 8,356 | 11,199 |
| Note receivable, current | 45 | |
| Inventories | 10,711 | 8,359 |
| Other current assets | 3,970 | 2,903 |
| Total Current Assets | 47,350 | 51,470 |
| Note Receivable, non-current | 1,655 | |
| Property, Plant and Equipment, at Cost: | | |
| Land | 3,918 | 3,918 |
| Buildings and improvements | 40,896 | 40,891 |
| Machinery and equipment | 18,053 | 18,122 |
| | 62,867 | 62,931 |
| Less accumulated depreciation | 46,653 | 45,856 |
| | 16,214 | 17,075 |
| Idle property, net of accumulated depreciation | 3,294 | 4,121 |
| Net Property, Plant and Equipment | 19,508 | 21,196 |
| Other Assets | 6,121 | 6,190 |
| Total Assets | \$ 74,634 | \$ 78,856 |

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

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Consolidated Balance Sheets (Continued)****(Dollars in thousands, except share and per share amounts)**

| | November 30, 2012 (Unaudited) | May 31, 2012 |
|-----------------------------------------------------------------------------------------|----------------------------------|------------------|
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts payable, trade | \$ 2,914 | \$ 3,296 |
| Accrued salaries and wages | 2,576 | 2,990 |
| Accrued marketing programs | 3,547 | 2,215 |
| Accrued warranty and related expenses | 4,414 | 3,870 |
| Accrued workers compensation | 378 | 435 |
| Other accrued liabilities | 1,844 | 1,875 |
| Total Current Liabilities | 15,673 | 14,681 |
| Other Deferred Liabilities | 7,990 | 8,011 |
| Commitments and Contingencies See Note 8 | | |
| Shareholders Equity: | | |
| Common stock, \$.0277 par value, 15,000,000 shares authorized; issued 11,217,144 shares | 312 | 312 |
| Additional paid-in capital | 4,928 | 4,928 |
| Retained earnings | 111,475 | 116,668 |
| Treasury stock, at cost, 2,825,900 shares | (65,744) | (65,744) |
| Total Shareholders Equity | 50,971 | 56,164 |
| Total Liabilities and Shareholders Equity | \$ 74,634 | \$ 78,856 |

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

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Consolidated Statements of Operations and Retained Earnings****For the Three-Month and Six-Month Periods Ended November 30, 2012 and 2011****(Dollars in thousands, except share and per share amounts)**

| | Three-Months Ended | | Six-Months Ended | |
|------------------------------------------------------|--------------------|------------|------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) | | (Unaudited) | |
| OPERATIONS: | | | | |
| Net sales | \$ 41,836 | \$ 45,296 | \$ 91,756 | \$ 95,580 |
| Cost of sales | 39,162 | 44,031 | 86,023 | 93,271 |
| Gross profit | 2,674 | 1,265 | 5,733 | 2,309 |
| Selling and administrative expenses | 5,819 | 7,191 | 12,349 | 15,087 |
| Gain on sale of idle property, plant and equipment | 1,411 | 2,500 | 1,411 | 2,500 |
| Operating loss | (1,734) | (3,426) | (5,205) | (10,278) |
| Interest income | 9 | 4 | 12 | 11 |
| Loss before income taxes | (1,725) | (3,422) | (5,193) | (10,267) |
| Benefit from income taxes | | | | |
| Net loss | \$ (1,725) | \$ (3,422) | \$ (5,193) | \$ (10,267) |
| Basic loss per share | \$ (.21) | \$ (.40) | \$ (.62) | \$ (1.22) |
| Cash dividends per share | \$ | \$.09 | \$ | \$.18 |
| Weighted average number of common shares outstanding | 8,391,244 | 8,391,244 | 8,391,244 | 8,391,244 |
| RETAINED EARNINGS: | | | | |
| Balance at beginning of period | \$ 113,200 | \$ 129,943 | \$ 116,668 | \$ 137,543 |
| Net loss | (1,725) | (3,422) | (5,193) | (10,267) |
| Cash dividends paid | | (756) | | (1,511) |
| Balance at end of period | \$ 111,475 | \$ 125,765 | \$ 111,475 | \$ 125,765 |

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

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Consolidated Statements of Cash Flows****For the Six-Month Periods Ended November 30, 2012 and 2011****(Dollars in thousands)**

| | 2012 | 2011 |
|-----------------------------------------------------------------------------|--------------------|-------------|
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (5,193) | \$ (10,267) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 1,032 | 1,203 |
| Gain on sale of idle property, plant and equipment | (1,411) | (2,500) |
| Change in assets and liabilities: | | |
| Restricted cash | (600) | |
| Accrued interest receivable | 3 | 5 |
| Accounts receivable | 2,843 | 3,533 |
| Inventories | (2,352) | (1,314) |
| Other current assets | (1,067) | 360 |
| Accounts payable, trade | (382) | (728) |
| Accrued liabilities | 1,374 | 1,963 |
| Other, net | (37) | 31 |
| Net cash used in operating activities | (5,790) | (7,714) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from principal payments of U.S. Treasury Bills | 34,991 | 34,985 |
| Purchase of U.S. Treasury Bills | (31,994) | (30,991) |
| Proceeds from sale of idle property, plant and equipment | 348 | 4,071 |
| Purchase of property, plant and equipment | (26) | (466) |
| Other, net | 130 | (45) |
| Net cash provided by investing activities | 3,449 | 7,554 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash dividends paid | | (1,511) |
| Net cash used in financing activities | | (1,511) |
| Net decrease in cash | (2,341) | (1,671) |
| Cash at beginning of period | 12,011 | 9,727 |
| Cash at end of period | \$ 9,670 | \$ 8,056 |
| NON-CASH TRANSACTIONS: | | |
| Note receivable from sale of idle property, plant and equipment | \$ 1,700 | \$ |

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

Table of Contents

Item 1. Financial Statements (Continued).

Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 Nature of Operations, Accounting Policies of Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position as of November 30, 2012, in addition to the consolidated results of operations and consolidated cash flows for the three-month and six-month periods ended November 30, 2012 and 2011. Due to the seasonal nature of the Corporation's business, interim results are not necessarily indicative of results for the entire year.

The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures normally accompanying the annual consolidated financial statements have been omitted. The audited consolidated balance sheet as of May 31, 2012 and the unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's latest annual report on Form 10-K.

The following is a summary of the accounting policies that have a significant effect on the Consolidated Financial Statements.

Investments The Corporation invests in United States Government securities, which are typically held until maturity and are therefore classified as held-to-maturity and carried at amortized cost.

Accounts Receivable Trade receivables are based on the amounts billed to dealers and communities. The Corporation does not accrue interest on any of its trade receivables, nor does it have an allowance for credit losses due to favorable collections experience. If a loss occurs, the Corporation's policy is to recognize it in the period when collectability cannot be reasonably assured.

Inventories Inventories are stated at the lower of cost or market. Cost is determined under the first-in, first-out method. Physical inventory counts are taken at the end of each reporting quarter.

Note Receivable The Corporation's note receivable represents the amount owed for the sale of two idle recreational vehicle facilities in Hemet, California; less cash received on the date of closing. Interest is accrued on a monthly basis. In addition, no allowance for credit losses exist due to the recent recording of the receivable, and there being no expected loss at this time. The Corporation's management evaluates the credit quality of the note on a monthly basis. The Corporation's policy is to recognize a loss in the period when collectability cannot be reasonably assured.

Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method for financial statement reporting and accelerated methods for income tax reporting purposes.

Table of Contents

Item 1. Financial Statements (Continued).

Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Unaudited) (Continued)

NOTE 1 Nature of Operations, Accounting Policies of Consolidated Financial Statements (Continued)

Property, Plant and Equipment (continued) Estimated useful lives for significant classes of property, plant and equipment, including idle property, are as follows: Building and improvements 10 to 30 years; machinery and equipment 5 to 8 years.

At November 30, 2012, Idle property, net of accumulated depreciation consisted of manufacturing facilities in the following locations: Ocala, Florida; Elkhart, Indiana; Halstead, Kansas; Mocksville, North Carolina and Fair Haven, Vermont. At May, 31, 2012, Idle property, net of accumulated depreciation consisted of manufacturing facilities in the following locations: Hemet, California; Ocala, Florida; Elkhart, Indiana; Halstead, Kansas; Mocksville, North Carolina and Fair Haven, Vermont.

Long-lived assets are reviewed for impairment whenever events indicate that the carrying amount of an asset may not be recoverable from projected future cash flows. If the carrying value of a long-lived asset is impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. The Company believes no impairment of long-lived assets exists at November 30, 2012.

Warranty The Corporation provides the retail purchaser of its homes with a full fifteen-month warranty against defects in design, materials and workmanship. Recreational vehicles are covered by a one-year warranty. The warranties are backed by service departments located at the Corporation's manufacturing facilities and an extensive field service system. Estimated warranty costs are accrued at the time of sale based upon current sales, historical experience and management's judgment regarding anticipated rates of warranty claims. The adequacy of the recorded warranty liability is periodically assessed and the amount is adjusted as necessary.

Income Taxes The Corporation recognizes deferred tax assets based on differences between the carrying values of assets for financial and tax reporting purposes. The realization of the deferred tax assets is dependent upon the generation of sufficient future taxable income. Generally accepted accounting principles require that an entity consider both negative and positive evidence in determining whether a valuation allowance is warranted. In comparing negative and positive evidence, continual losses in recent years is considered significant, negative, objective evidence that deferred tax assets may not be realized in the future, and generally is assigned more weight than subjective positive evidence of the realizability of deferred tax assets.

As a result of its extensive evaluation of both positive and negative evidence, management maintains a full valuation allowance against its deferred tax assets. The Corporation reports a liability, if any, for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return.

Table of Contents

Item 1. Financial Statements (Continued).

Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Unaudited) (Continued)

NOTE 1 Nature of Operations, Accounting Policies of Consolidated Financial Statements (Continued)

Income Taxes (continued) The Corporation recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

Management's Plan The Corporation's management is actively pursuing strategies to increase sales and decrease costs. These strategies include but are not limited to:

Increasing efforts to increase sales of modular homes and park models in both the United States and Canada

Improving the process of developing homes and recreational vehicles to better meet ever changing preferences of consumers

Increasing the number of display models at housing facilities in order to provide dealers, communities and consumers with examples of newly designed product

Redesigning the Corporation's website and utilizing social media to improve product exposure to customers and to better connect dealers to potential customers

Selling non-strategic assets

Working with current and potential vendors to decrease costs

Analyzing staffing needs and making reductions when appropriate.

By implementing these strategies, and having a significant position of its working capital in cash and U.S. Treasury Bills, the Corporation continues to remain diligent for any challenges that may occur.

NOTE 2 Restricted Cash

In the second quarter of fiscal 2013, the Corporation entered into an agreement to build and sell 60 manufactured homes to Stewart Homes, Inc., one of its dealers. Stewart Homes Inc. also entered into an agreement to sell these homes to Oakridge Family Homes, L.P., a California limited partnership. As a function of Oakridge Family Homes, L.P. purchasing the 60 homes, the Corporation pledged a \$600,000 certificate of deposit as security for certain performances. The Certificate of Deposit will remain pledged until terms of the Certificate of Deposit Proceeds and Security Agreement between the Corporation and Oakridge Family Homes, L.P. are completed, which is expected to occur within one year.

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Unaudited) (Continued)****NOTE 3 Investments**

The following is a summary of investments:

| | Gross Amortized Costs | Gross Unrealized Gains (Dollars in thousands) | Fair Value |
|---------------------------------|-----------------------------|--------------------------------------------------------|------------|
| <u>November 30, 2012</u> | | | |
| U. S. Treasury Bills | \$ 13,998 | \$ 2 | \$ 14,000 |
| <u>May 31, 2012</u> | | | |
| U. S. Treasury Bills | \$ 16,998 | \$ 5 | \$ 17,003 |

The fair value is determined by a secondary market for U.S. Government Securities. At May 31, 2012, the U.S. Treasury Bills matured within four months. At November 30, 2012, the U.S. Treasury Bills matures within three months.

NOTE 4 Inventories

Total inventories consist of the following:

| | November 30, 2012 | May 31, 2012 |
|-----------------|------------------------|--------------|
| | (Dollars in thousands) | |
| Raw materials | \$ 5,329 | \$ 4,743 |
| Work in process | 2,526 | 2,543 |
| Finished goods | 2,856 | 1,073 |
| | \$ 10,711 | \$ 8,359 |

NOTE 5 Note Receivable

During the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities in Hemet, California. The sale of the facilities included a down payment of \$500,000 and a promissory note of \$1,700,000 to the Corporation. Selling expenses related to the sale, which were paid by the Corporation, were approximately \$152,000. This resulted in net cash received from the transaction of approximately \$348,000. The note bears an interest rate of 6 percent per annum, requires monthly payments following a 20 year amortization schedule, and provides for a final payment after 6 years. In addition, the two facilities are collateral for the note.

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Unaudited) (Continued)****NOTE 6 Warranty**

A reconciliation of accrued warranty and related expenses is as follows:

| | Six-Months Ended November 30, | |
|------------------------------------------------------------|------------------------------------------|-------------|
| | 2012 | 2011 |
| | (Dollars in thousands) | |
| Balance at the beginning of the period | \$ 5,870 | \$ 4,966 |
| Accruals for warranties | 3,197 | 2,936 |
| Settlements made during the period | (2,653) | (2,693) |
| Balance at the end of the period | 6,414 | 5,209 |
| Non-current balance included in other deferred liabilities | 2,000 | 1,600 |
| Accrued warranty and related expenses | \$ 4,414 | \$ 3,609 |

NOTE 7 Income Taxes

The Corporation's gross deferred tax assets of approximately \$39 million consist of approximately \$25 million in federal net operating loss and tax credit carryforwards, \$7 million in state net operating loss carryforwards, and \$7 million resulting from temporary differences between financial and tax reporting. The federal net operating loss and tax credit carryforwards have a life expectancy of twenty years. The state net operating loss carryforwards have a life expectancy, depending on the state where a loss was incurred, between five and twenty years. If the Corporation, after considering future negative and positive evidence regarding the realization of deferred tax assets, determines that a lesser valuation allowance is warranted, it would record a reduction to income tax expense and the valuation allowance in the period of determination.

NOTE 8 Commitments and Contingencies

The Corporation was contingently liable at November 30, 2012 under repurchase agreements with certain financial institutions providing inventory financing for dealers of its products. Under these arrangements, which are customary in the manufactured housing and recreational vehicle industries, the Corporation agrees to repurchase units in the event of default by the dealer at declining prices over the term of the agreement. The period to potentially repurchase units is between 12 to 24 months.

The maximum repurchase liability is the total amount that would be paid upon the default of the Corporation's independent dealers. The maximum potential repurchase liability, without reduction for the resale value of the repurchased units, was approximately \$72 million at November 30, 2012 and approximately \$64 million at May 31, 2012.

Table of Contents

Item 1. Financial Statements (Continued).

Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Unaudited) (Continued)

NOTE 8 Commitments and Contingencies (Continued)

The risk of loss under these agreements is spread over many dealers and financial institutions. The loss, if any, under these agreements is the difference between the repurchase cost and the resale value of the units. The Corporation estimates the fair value of this commitment considering both the contingent losses and the value of the guarantee. This amount has historically been insignificant. The Corporation believes that any potential loss under the agreements in effect at November 30, 2012 will not be material to its financial position or results of operations. In addition, there were no obligations or net losses from repurchased units for the second quarter of fiscal 2013 and 2012.

The Corporation is a party to various pending legal proceedings in the normal course of business. Management believes that any losses resulting from such proceedings would not have a material adverse effect on the Corporation's results of operations or financial position.

As referenced in Note 2 in the Notes to Consolidated Financial Statements, the Corporation pledged a \$600,000 certificate of deposit as security for certain performances in providing 60 manufactured homes to Oakridge Family Homes, L.P. The Certificate of Deposit will remain pledged until terms of the Certificate of Deposit Proceeds and Security Agreement between the Corporation and Oakridge Family Homes, L.P. are completed, which is expected to occur with one year.

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Unaudited) (Continued)****NOTE 9 Industry Segment Information**

The Corporation designs, produces and markets manufactured housing, modular housing and recreational vehicles (travel trailers, fifth wheels and park models). Manufactured housing represents homes built according to a national building code; modular housing represents homes built to a local building code. The percentage allocation of manufactured housing, modular housing and recreational vehicle net sales is:

| | Three-Months Ended November 30, | | Six-Months Ended November 30, | |
|-------------------------------|------------------------------------|------|----------------------------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Domestic Manufactured Housing | 51% | 55% | 48% | 51% |
| Modular Housing | | | | |
| Domestic | 14 | 10 | 13 | 9 |
| Canadian | 3 | 6 | 4 | 4 |
| | 17 | 16 | 17 | 13 |
| Total Housing | 68 | 71 | 65 | 64 |
| Recreational Vehicles | | | | |
| Domestic | 25 | 25 | 29 | 29 |
| Canadian | 7 | 4 | 6 | 7 |
| Total Recreational Vehicles | 32 | 29 | 35 | 36 |
| | 100% | 100% | 100% | 100% |

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Unaudited) (Continued)****NOTE 9 Industry Segment Information (Continued)**

| | Three-Months Ended November 30, | | Six-Months Ended November 30, | |
|----------------------------------------------------|--------------------------------------------|-------------------|------------------------------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Dollars in thousands) | | (Dollars in thousands) | |
| NET SALES | | | | |
| Domestic Manufactured Housing | \$ 21,288 | \$ 25,117 | \$ 44,421 | \$ 48,793 |
| Modular Housing | | | | |
| Domestic | 5,755 | 4,541 | 11,792 | 8,754 |
| Canadian | 1,502 | 2,502 | 3,244 | 3,756 |
| | 7,257 | 7,043 | 15,036 | 12,510 |
| Total Housing | 28,545 | 32,160 | 59,457 | 61,303 |
| Recreational Vehicles | | | | |
| Domestic | 10,460 | 11,437 | 26,393 | 27,599 |
| Canadian | 2,831 | 1,699 | 5,906 | 6,678 |
| Total Recreational Vehicles | 13,291 | 13,136 | 32,299 | 34,277 |
| Total Net Sales | \$ 41,836 | \$ 45,296 | \$ 91,756 | \$ 95,580 |
| LOSS BEFORE INCOME TAXES | | | | |
| Operating Loss | | | | |
| Housing | \$ (1,733) | \$ (3,400) | \$ (3,370) | \$ (7,806) |
| Recreational vehicles | (929) | (1,865) | (2,253) | (3,740) |
| General corporate expense | (483) | (661) | (993) | (1,232) |
| Gain on sale of idle property, plant and equipment | 1,411 | 2,500 | 1,411 | 2,500 |
| Total operating loss | (1,734) | (3,426) | (5,205) | (10,278) |
| Interest income | 9 | 4 | 12 | 11 |
| Loss before income taxes | \$ (1,725) | \$ (3,422) | \$ (5,193) | \$ (10,267) |

Total operating loss represents operating losses before interest income and benefit from income taxes with non-traceable operating expenses being allocated to industry segments based on percentages of sales. General corporate expenses are not allocated to the industry segments.

Table of Contents

Item 1. Financial Statements (Continued).

Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Unaudited) (Continued)

NOTE 10 Gain on Sale of Idle Property, Plant and Equipment

During the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities located in Hemet, California. The gain on the sale of these facilities was \$1,411,000.

During the second quarter of fiscal year 2012, the Corporation sold idle housing facilities located in Ocala, Florida and Ephrata, Pennsylvania. The gain on the sale of these facilities was \$1,114,000 and \$1,386,000, respectively.

Table of Contents

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

Overview

The Corporation designs, produces and markets manufactured housing, modular housing and recreational vehicles (travel trailers, fifth wheels and park models) to independent dealers and manufactured housing communities located throughout the United States and Canada. To better serve the needs of its dealers and communities, the Corporation has eleven manufacturing facilities in nine states. Manufactured housing, modular housing and recreational vehicles are sold to dealers and communities either through floor plan financing with various financial institutions or on a cash basis. While the Corporation maintains production of manufactured housing, modular homes and recreational vehicles throughout the year, seasonal fluctuations in sales do occur. Sales and production of manufactured housing and modular housing are affected by winter weather conditions at the Corporation's northern plants. Recreational vehicle sales are generally higher in the spring and summer months than in the fall and winter months.

Manufactured and modular housing are marketed under a number of trademarks, and are available in a variety of dimensions. Manufactured housing products are built according to standards established by the U.S. Department of Housing and Urban Development. Modular homes are built according to state, provincial or local building codes. Recreational vehicles include travel trailers, fifth wheels and park models. Travel trailers and fifth wheels are marketed under the following trademarks: Aljo ; AlumaSky ; Koala ; Layton ; Mountain View ; Nomad ; Skycar ; Wagoneer ; Walkabout ; and Weekender . Park models are marketed under the following trademarks: Cabin Series ; Cedar Cove ; Kensington ; Shore Park Homes ; Stone Harbor ; and Vacation Villa . The Corporation's recreational vehicles are intended to provide temporary living accommodations for individuals seeking leisure travel and outdoor recreation.

Manufactured Housing, Modular Housing and Recreational Vehicle Industry Conditions

Sales of manufactured housing, modular housing and recreational vehicles are affected by the strength of the U.S. economy, interest rate and employment levels, consumer confidence and the availability of wholesale and retail financing. The manufactured housing industry has until recently been affected by declining or stagnating unit shipments. This decline or stagnation, caused primarily by adverse economic conditions, tightening retail and wholesale credit markets and a depressed site-built housing market, is resulting in historically low industry shipments. From January to November 2012 however, total industry shipments were approximately 51,000 units, an approximately 8 percent increase from the same period a year ago.

Table of Contents

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

Manufactured Housing, Modular Housing and Recreational Vehicle Industry Conditions (Continued)

Tight credit markets for retail and wholesale financing have become a significant challenge for the manufactured housing industry. According to the Manufactured Housing Institute, a lack of retail financing options and restrictive credit standards has negatively affected manufactured home buyers. In addition, a significant decline has occurred in wholesale financing, especially as national floor plan lenders have decreased lending to industry dealers.

The domestic modular housing industry has challenges similar to the manufactured housing industry, such as restrictive retail and wholesale financing, and a depressed site-built housing market. From calendar 2005 to 2011, total industry shipments decreased from approximately 43,000 to 12,000 units, a decline of 72 percent. Information related to the Canadian modular housing industry is not available.

Sales of recreational vehicles are influenced by changes in consumer confidence, employment levels, the availability of retail and wholesale financing and gasoline prices. Industry unit sales of travel trailers and fifth wheels have varied in recent years. From calendar 2007 to the first half of 2009 unit sales decreased as a result of recessionary conditions, decreased household wealth, tightening credit markets for retail and wholesale financing, and excess inventory of new recreational vehicles. Unit sales, however, started increasing in the last half of calendar 2009 and continue to date. The Recreational Vehicle Industry Association (RVIA), notes that uncertainty about job and income prospects, stagnating wages, depressed home values and the likelihood of rising taxes could adversely affect recreational vehicle sales.

Second Quarter Fiscal 2013 Results

The Corporation experienced the following results during the second quarter of fiscal 2013:

Total net sales were \$41,836,000, an approximate 8 percent decrease from the \$45,296,000 reported in the same period a year ago.

Housing net sales were \$28,545,000, an approximate 11 percent decrease from the \$32,160,000 realized in the second quarter of fiscal 2012.

Recreational vehicle net sales were \$13,291,000 in the second quarter of fiscal 2013, an approximate 1 percent increase from \$13,136,000 in the second quarter of fiscal 2012.

The Corporation sold two idle recreational vehicle facilities located in Hemet, California. The gain on the sale of the facilities was \$1,411,000.

Net loss for the second quarter of fiscal 2013 was \$1,725,000 as compared to \$3,422,000 for the second quarter of fiscal 2012. On a per share basis, net loss was \$.21 as compared to \$.40 for the same period a year ago.

Table of Contents

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

Second Quarter Fiscal 2013 Results (Continued)

The Corporation's housing segment experienced decreased net sales in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012, and management cannot determine with certainty if this trend will continue. This uncertainty is based on continuing negative economic conditions previously referenced.

The recreational vehicle segment experienced slightly increased net sales in the second quarter of fiscal 2013. Regarding the business environment for fiscal 2013, the RVIA forecasts calendar 2012 travel trailer and fifth wheel shipments of approximately 236,000 units; a 11 percent increase from calendar 2011's total of approximately 213,000 units. The RVIA also forecasts calendar 2013 travel trailer and fifth wheel shipments of approximately 249,000 units; a 6 percent increase from calendar year 2012's total. Despite this favorable trend, business conditions in fiscal 2013 could be negatively impacted by adverse factors previously referenced by the RVIA.

The Corporation is actively pursuing strategies to increase sales and decrease costs. These strategies include but are not limited to:

Increasing efforts to increase sales of modular homes and park models in both the United States and Canada

Improving the process of developing homes and recreational vehicles to better meet ever changing preferences of consumers

Increasing the number of display models at housing facilities in order to provide dealers, communities and consumers with examples of newly designed product

Redesigning the Corporation's website and utilizing social media to improve product exposure to customers and to better connect dealers to potential customers

Selling non-strategic assets

Working with current and potential vendors to decrease costs

Analyzing staffing needs and making reductions when appropriate.

By implementing these strategies, and having a significant position of its working capital in cash and U.S. Treasury Bills, the Corporation continues to remain diligent for any challenges that may occur.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).****Results of Operations Three-Month Period Ended November 30, 2012 Compared to Three-Month Period Ended November 30, 2011 (Unaudited)***Net Sales and Unit Shipments*

| | November 30, 2012 | Percent | November 30, 2011 (Dollars in thousands) | Percent | Increase (Decrease) |
|------------------------------------|----------------------|-------------|------------------------------------------------|-------------|------------------------|
| Net Sales | | | | | |
| Domestic Manufactured Housing | \$ 21,288 | 51% | \$ 25,117 | 55% | \$ (3,829) |
| Modular Housing | | | | | |
| Domestic | 5,755 | 14 | 4,541 | 10 | 1,214 |
| Canadian | 1,502 | 3 | 2,502 | 6 | (1,000) |
| | 7,257 | 17 | 7,043 | 16 | 214 |
| Total Housing | 28,545 | 68 | 32,160 | 71 | (3,615) |
| Recreational Vehicles | | | | | |
| Domestic | 10,460 | 25 | 11,437 | 25 | (977) |
| Canadian | 2,831 | 7 | 1,699 | 4 | 1,132 |
| Total Recreational Vehicles | 13,291 | 32 | 13,136 | 29 | 155 |
| Total Net Sales | \$ 41,836 | 100% | \$ 45,296 | 100% | \$ (3,460) |
| Unit Shipments | | | | | |
| Domestic Manufactured Housing | 441 | 31% | 566 | 36% | (125) |
| Modular Housing | | | | | |
| Domestic | 88 | 6 | 83 | 5 | 5 |
| Canadian | 24 | 1 | 47 | 3 | (23) |
| | 112 | 7 | 130 | 8 | (18) |
| Total Housing | 553 | 38 | 696 | 44 | (143) |
| Recreational Vehicles | | | | | |
| Domestic | 697 | 49 | 799 | 50 | (102) |
| Canadian | 187 | 13 | 95 | 6 | 92 |
| Total Recreational Vehicles | 884 | 62 | 894 | 56 | (10) |
| Total Unit Shipments | 1,437 | 100% | 1,590 | 100% | (153) |

Table of Contents

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

Results of Operations Three-Month Period Ended November 30, 2012 Compared to Three-Month Period Ended November 30, 2011 (Unaudited) (Continued)

Net Sales and Unit Shipments (Continued)

Housing net sales decreased approximately 11 percent. The decrease was the outcome of the following factors:

Domestic manufactured housing net sales decreasing approximately 15 percent

Domestic modular housing net sales increasing approximately 27 percent

Canadian modular housing net sales decreasing approximately 40 percent.

Housing unit shipments decreased approximately 21 percent. The decrease was the outcome of the following factors:

Domestic manufactured housing shipments decreasing approximately 22 percent

Domestic modular housing shipments increasing approximately 6 percent

Canadian modular housing shipments decreasing approximately 49 percent.

Total domestic manufactured housing unit shipments decreased approximately 22 percent. Industry unit shipments for these products decreased approximately 12 percent from September to November, 2012 as compared to the same period the year prior. Current industry unit shipment data for modular housing is not available. Adverse conditions that caused the Corporation's unit shipments to lag the industry include:

Competitors providing wholesale financing to dealers, thereby creating greater sales opportunities

Unit shipment growth occurring in states where the Corporation has no or minimal sales activity due primarily to a lack of either manufacturing facilities or an established independent dealer network.

Compared to prior year, the average net sales price for domestic manufactured housing increased approximately 9 percent; primarily due to homes sold with more square footage and greater amenities. The average net sales price for domestic modular and Canadian modular housing products increased approximately 20 percent and 18 percent, respectively. These increases are also the result of homes being sold with larger square footage and greater amenities.

Recreational vehicle net sales increased approximately 1 percent. The increase was the outcome of the following factors:

Domestic recreational vehicle net sales decreasing approximately 9 percent

Canadian recreational vehicle net sales increasing approximately 67 percent.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).****Results of Operations Three-Month Period Ended November 30, 2012 Compared to Three-Month Period Ended November 30, 2011 (Unaudited) (Continued)**

Recreational vehicle unit shipments decreased approximately 1 percent. The decrease was the outcome of the following factors:

Domestic recreational vehicle shipments decreasing proximately 13 percent

Canadian recreational vehicle shipments increasing 97 percent.

Unit shipments for travel trailers and fifth wheels increased approximately 1 percent. Industry shipments for these products from September to November, 2012 as compared to the same period the year prior increased approximately 22 percent. The Corporation's unit shipments lagged the industry due to some competitors maintaining larger quantities of finished goods inventory; resulting in an ability to more quickly meet dealer demand. Current industry unit shipment data for park models is not available.

The average net sales price per unit for recreational vehicle products in the second quarter of fiscal year 2013 as compared to the second quarter of fiscal year 2012 increased approximately 2 percent; primarily due to sales price adjustments resulting from higher material costs.

Cost of Sales

| | November 30, 2012 | Percent of Net Sales* | November 30, 2011 (Dollars in Thousands) | Percent of Net Sales* | Decrease |
|-----------------------|----------------------|--------------------------|------------------------------------------------|--------------------------|------------|
| Housing | \$ 26,646 | 93 | \$ 31,246 | 97 | \$ (4,600) |
| Recreational vehicles | 12,516 | 94 | 12,785 | 97 | (269) |
| Consolidated | \$ 39,162 | 94 | \$ 44,031 | 97 | \$ (4,869) |

* The percentages for housing and recreational vehicles are based on segment net sales. The percentage for consolidated cost of sales is based on total net sales.

Housing cost of sales declined due to decreased unit shipments. As a percentage of net sales, housing cost of sales decreased due to improved margins from a change in product mix.

Recreational vehicle cost of sales, in dollars and as a percentage of net sales, decreased primarily as a result of decreased manufacturing expenses.

Selling and Administrative Expenses

| | November 30, 2012 | Percent of Net Sales | November 30, 2011 | Percent of Net Sales | Decrease |
|--|----------------------|-------------------------|----------------------|----------------------------|----------|
|--|----------------------|-------------------------|----------------------|----------------------------|----------|

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| | (Dollars in thousands) | | | | |
|-------------------------------------|------------------------|----|---------|----|-----------|
| Selling and administrative expenses | \$ 5,819 | 14 | \$7,191 | 16 | \$(1,372) |

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).****Results of Operations Three-Month Period Ended November 30, 2012 Compared to Three-Month Period Ended November 30, 2011 (Unaudited) (Continued)****Selling and Administrative Expenses (Continued)**

Selling and administrative expenses, in dollars and as a percent of net sales, decreased primarily as a result of a decline in salaries, wages and performance based compensation as a part of the Corporation's continuing efforts to reduce costs.

Gain on Sale of Idle Property and Equipment

In the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities in Hemet, California. The gain on the sale of these facilities was \$1,411,000.

In the second quarter of fiscal 2012, the Corporation sold idle housing facilities located in Ocala, Florida and Ephrata, Pennsylvania. The gain on the sale of these facilities was \$1,114,000 and \$1,386,000, respectively.

Operating Loss

| | November 30, 2012 | Percent of Net Sales* | November 30, 2011 | Percent of Net Sales* |
|----------------------------------------------------|------------------------|--------------------------|----------------------|--------------------------|
| | (Dollars in thousands) | | | |
| Housing | \$ (1,733) | (6) | \$ (3,400) | (11) |
| Recreational vehicles | (929) | (7) | (1,865) | (14) |
| General corporate expenses | (483) | (1) | (661) | (1) |
| Gain on sale of idle property, plant and equipment | 1,411 | 3 | 2,500 | 6 |
| Total Operating loss | \$ (1,734) | 4 | \$ (3,426) | (8) |

* The percentages for housing and recreational vehicles are based on segment net sales. The percentage for general corporate expenses, gain on sale of idle property and equipment and total operating loss are based on total net sales.

The operating loss for the housing segment decreased due to improved margins on homes sold and decreased selling and administrative expenses.

The operating loss for the recreational vehicle segments decreased primarily as a result of decreased manufacturing, selling and administrative expenses.

General corporate expenses decreased due to the closure of the Corporation's aviation department. In addition, in the second quarter of fiscal year 2012, the Corporation incurred a \$100,000 charge for the Corporation's liability for retirement and death benefits offered to certain current employees or former employees. The charge occurred as a result of a change in the interest rate used in valuing the liability.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).****Results of Operations Six-Month Period Ended November 30, 2012 Compared to Six-Month Period Ended November 30, 2011 (Unaudited)***Net Sales and Unit Shipments*

| | November 30, 2012 | Percent | November 30, 2011 (Dollars in thousands) | Percent | Increase (Decrease) |
|------------------------------------|----------------------|-------------|------------------------------------------------|-------------|------------------------|
| Net Sales | | | | | |
| Domestic Manufactured Housing | \$ 44,421 | 48% | \$ 48,793 | 51% | \$ (4,372) |
| Modular Housing | | | | | |
| Domestic | 11,792 | 13 | 8,754 | 9 | 3,038 |
| Canadian | 3,244 | 4 | 3,756 | 4 | (512) |
| | 15,036 | 17 | 12,510 | 13 | 2,526 |
| Total Housing | 59,457 | 65 | 61,303 | 64 | (1,846) |
| Recreational Vehicles | | | | | |
| Domestic | 26,393 | 29 | 27,599 | 29 | (1,206) |
| Canadian | 5,906 | 6 | 6,678 | 7 | (772) |
| Total Recreational Vehicles | 32,299 | 35 | 34,277 | 36 | (1,978) |
| Total Net Sales | \$ 91,756 | 100% | \$ 95,580 | 100% | \$ (3,824) |
| Unit Shipments | | | | | |
| Domestic Manufactured Housing | 966 | 29% | 1,085 | 29% | (119) |
| Modular Housing | | | | | |
| Domestic | 178 | 5 | 155 | 4 | 23 |
| Canadian | 52 | 1 | 69 | 2 | (17) |
| | 230 | 6 | 224 | 6 | 6 |
| Total Housing | 1,196 | 35 | 1,309 | 35 | (113) |
| Recreational Vehicles | | | | | |
| Domestic | 1,818 | 54 | 1,972 | 54 | (154) |
| Canadian | 359 | 11 | 407 | 11 | (48) |
| Total Recreational Vehicles | 2,177 | 65 | 2,379 | 65 | (202) |
| Total Unit Shipments | 3,373 | 100% | 3,688 | 100% | (315) |

Table of Contents

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

Results of Operations Six-Month Period Ended November 30, 2012 Compared to Six-Month Period Ended November 30, 2011 (Unaudited) (Continued)

Net Sales and Unit Shipments (Continued)

Housing net sales decreased approximately 3 percent. The decrease was the outcome of the following factors:

Domestic manufactured housing net sales decreasing approximately 9 percent

Domestic modular housing net sales increasing approximately 35 percent

Canadian modular housing net sales decreasing approximately 14 percent.

Housing unit shipments decreased approximately 9 percent. The decrease was the outcome of the following factors:

Domestic manufactured housing shipments decreasing approximately 11 percent

Domestic modular shipments increasing approximately 15 percent

Canadian modular shipments decreasing approximately 25 percent.

Total domestic manufactured housing unit shipments decreased approximately 11 percent. Industry unit shipments for these products decreased approximately 3 percent from June to November, 2012 as compared to the same period the year prior. Current industry unit shipment data for modular housing is not available. Adverse conditions that caused the Corporation's unit shipments to lag the industry include:

Competitors providing wholesale financing to dealers, thereby creating greater sales opportunities

Unit shipment growth occurring in states where the Corporation has no or minimal sales activity due primarily to a lack of either manufacturing facilities or an established independent dealer network.

Compared to prior year, the average net sales price for domestic manufactured housing increased approximately 2 percent primarily due to sales price adjustments resulting from higher material costs. The average net sales price for domestic modular and Canadian modular housing products increased approximately 17 percent and 15 percent, respectively. These increases are the result of homes being sold with larger square footage and greater amenities.

Recreational vehicles net sales revenue decreased approximately 6 percent. The decrease was the outcome of the following factors:

Domestic recreational vehicle net sales decreasing approximately 4 percent

Canadian recreational vehicle net sales decreasing approximately 12 percent.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).****Results of Operations Six-Month Period Ended November 30, 2012 Compared to Six-Month Period Ended November 30, 2011 (Unaudited) (Continued)****Net Sales and Unit Shipments (Continued)**

Recreational vehicle unit shipments decreased approximately 8 percent. The decrease is the outcome of the following factors:

Domestic recreational vehicle shipments decreasing approximately 8 percent

Canadian recreational vehicle shipments decreasing approximately 12 percent.

Unit shipments for travel trailers and fifth wheels decreased approximately 8 percent. Industry shipments for these products from June to November, 2012 as compared to the same period the year prior increased approximately 18 percent. The Corporation's unit shipments lagged the industry due to decreased demand from Canadian dealers. In addition, some competitors maintained larger quantities of finished goods inventory; resulting in the ability to meet dealer demand immediately. Current industry unit shipment data for park models is not available.

The average net sales price per unit for recreational vehicle products in the first half of fiscal year 2013 as compared to the first half of fiscal year 2012 increased approximately 3 percent; primarily due to sales price adjustments resulting from higher material costs.

Cost of Sales

| | November 30, 2012 | Percent of Net Sales* | November 30, 2011 | Percent of Net Sales* | Decrease |
|------------------------|----------------------|--------------------------|----------------------|--------------------------|------------|
| (Dollars in Thousands) | | | | | |
| Housing | \$ 55,477 | 93 | \$ 60,354 | 98 | \$ (4,877) |
| Recreational vehicles | 30,546 | 95 | 32,917 | 96 | (2,371) |
| Consolidated | \$ 86,023 | 94 | \$ 93,271 | 98 | \$ (7,248) |

* The percentages for housing and recreational vehicles are based on segment net sales. The percentage for consolidated cost of sales is based on total net sales.

Housing and recreational vehicle cost of sales declined due to decreased unit shipments. As a percentage of net sales for both segments, cost of sales decreased due to improved margins from a change in product mix and lower manufacturing expenses.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).****Results of Operations Six-Month Period Ended November 30, 2012 Compared to Six-Month Period Ended November 30, 2011 (Unaudited) (Continued)****Selling and Administrative Expenses**

| | November 30, 2012 | Percent of Net Sales | November 30, 2011 | Percent of Net Sales | Decrease |
|-------------------------------------|----------------------|----------------------------|------------------------|----------------------------|------------|
| | | | (Dollars in thousands) | | |
| Selling and administrative expenses | \$ 12,349 | 13 | \$ 15,087 | 16 | \$ (2,738) |

Selling and administrative expenses, in dollars and as a percent of net sales, decreased as a result of a decline in salaries, wages and performance based compensation as a part of the Corporation's continuing efforts to reduce costs.

Gain on Sale of Idle Property, Plant and Equipment

In the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities in Hemet, California. The gain on the sale of these facilities was \$1,411,000.

In the second quarter of fiscal 2012, the Corporation sold idle housing facilities located in Ocala, Florida and Ephrata, Pennsylvania. The gain on the sale of these facilities was \$1,114,000 and \$1,386,000, respectively.

Operating Loss

| | November 30, 2012 | Percent of Net Sales* | November 30, 2011 | Percent of Net Sales* |
|----------------------------------------------------|----------------------|--------------------------|------------------------|--------------------------|
| | | | (Dollars in Thousands) | |
| Housing | \$ (3,370) | (6) | \$ (7,806) | (13) |
| Recreational vehicles | (2,253) | (7) | (3,740) | (11) |
| General corporate expenses | (993) | (1) | (1,232) | (1) |
| Gain on sale of idle property, plant and equipment | 1,411 | 2 | 2,500 | 3 |
| Total Operating loss | \$ (5,205) | (6) | \$ (10,278) | (11) |

* The percentages for housing and recreational vehicles are based on segment net sales. The percentage for general corporate expenses, gain on sale of property, plant and equipment and total operating loss are based on total net sales.

The operating loss for the housing and recreational vehicle segments decreased due to improved margins on products sold, and decreased manufacturing, selling and administrative expenses.

General corporate expenses decreased primarily due to the closure of the Corporation's aviation department.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).****Liquidity and Capital Resources**

| | November 30, 2012 | May 31, 2012 | Increase (Decrease) |
|----------------------------------------------------------------------------|------------------------|-----------------|------------------------|
| | (Dollars in thousands) | | |
| Cash, Restricted Cash and U.S. Treasury Bills | \$ 24,268 | \$ 29,009 | \$ (4,741) |
| Current assets, exclusive of cash, restricted cash and U.S. Treasury Bills | \$ 23,082 | \$ 22,461 | \$ 621 |
| Current liabilities | \$ 15,673 | \$ 14,681 | \$ 992 |
| Working capital | \$ 31,677 | \$ 36,789 | \$ (5,112) |

The Corporation's policy is to invest its excess cash, which exceeds its operating needs, in U.S. Government Securities. Cash and U.S. Treasury Bills decreased due primarily to a net loss of \$5,193,000. Current assets, exclusive of cash and U.S. Treasury Bills, increased primarily due to a \$2,352,000 increase in inventories, a \$1,067,000 increase in other assets, and a \$3,000,000 decrease in accounts receivable. Inventories increased primarily as a result of a greater number of homes and recreational vehicles being used as displays at trade shows and the Corporation's facilities. In addition, inventories increased as a result of greater production occurring at November 30, 2012 as compared to May 31, 2012.

Other current assets increased due to an insurance claim receivable of approximately \$950,000. The Corporation owns an insurance policy that reimburses the Corporation when medical claims exceed a certain threshold. In the first quarter of fiscal 2013, the Corporation filed a claim under this policy. Accounts receivable decreased due to the timing of payments from dealers at November 30, 2012 as compared to May 31, 2012.

Current liabilities increased as a result of changes that occurred in accrued salaries and wages and accrued marketing programs. Accrued salaries and wages decreased \$414,000 due to the timing of payments to employees at November 30, 2012 as compared to May 31, 2012. Accrued marketing programs increased \$1,332,000 due to accruals for an ongoing marketing program for manufactured housing dealers. Accruals are made monthly, and the majority of payments are made during the Corporation's fourth fiscal quarter.

The Corporation's current cash and other short-term investments are expected to be adequate to fund operating cash needs in addition to any capital expenditures for the current fiscal year. Although the Corporation has experienced decreased liquidity, its financing needs have been met with a combination of cash on hand and funds generated through the sale of assets. In addition, various strategies are being pursued to improve financial performance. These strategies are referenced in the Second Quarter Fiscal 2013 Results section of Item 2.

Impact of Inflation

The consolidated financial statements included in this report reflect transactions in the dollar values in which they were incurred and, therefore, do not attempt to measure the impact of inflation. On a long-term basis, the Corporation has demonstrated an ability to adjust selling prices in reaction to changing costs due to inflation.

Table of Contents

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

Forward Looking Information

Certain statements in this report are considered forward looking as indicated by the Private Securities Litigation Reform Act of 1995. These statements involve uncertainties that may cause actual results to materially differ from expectations as of the report date. These uncertainties include but are not limited to:

Consumer confidence and economic uncertainty

Availability of wholesale and retail financing

The health of the U.S. housing market

Cyclical nature of the manufactured housing and recreational vehicle industries

General or seasonal weather conditions affecting sales

Potential impact of natural disasters on sales and raw material costs

Potential periodic inventory adjustments by independent retailers

Interest rate levels

Impact of inflation

Impact of rising fuel costs

Cost of labor and raw materials

Competitive pressures on pricing and promotional costs

Catastrophic events impacting insurance costs

The availability of insurance coverage for various risks to the Corporation

Market demographics

Management's ability to attract and retain executive officers and key personnel

Item 3. *Quantitative and Qualitative Disclosures About Market Risk.*

Not applicable.

Item 4. *Controls and Procedures.*

Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

As of November 30, 2012, the Corporation conducted an evaluation, under the supervision and participation of management including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective for the period ended November 30, 2012.

Changes in Internal Control over Financial Reporting

No change in the Corporation's internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the second quarter ended November 30, 2012 that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. *Legal Proceedings.*

Information with respect to this Item for the period covered by this Form 10-Q has been reported in Item 3, entitled "Legal Proceedings" of the Form 10-K for the fiscal year ended May 31, 2012 filed by the registrant with the Commission.

Item 1A. *Risk Factors.*

There were no material changes in the risk factors disclosed in Item 1A of the Corporation's Form 10-K for the year ended May 31, 2012.

Item 6. *Exhibits.*

- (31.1) Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002-Rule 13a-14(a)/15d-14(a)
- (31.2) Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002-Rule 13a-14(a)/15d-14(a)
- (32) Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101.INS) XBRL Instance Document.
- (101.SCH) XBRL Taxonomy Extension Schema Document.
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document.
- (101.LAB) XBRL Taxonomy Extension Label Linkbase Document.
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document.

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SKYLINE CORPORATION

DATE: January 11, 2013

/s/ Jon S. Pilarski
Jon S. Pilarski
Chief Financial Officer

DATE: January 11, 2013

/s/ Martin R. Fransted
Martin R. Fransted
Corporate Controller

Table of Contents

INDEX TO EXHIBITS

| Exhibit Number | Descriptions |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002-Rule 13a-14(a)/15d-14(a) |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002-Rule 13a-14(a)/15d-14(a) |
| 32 | Certification of Chief Executive Officer and Chief Financial Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
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