

SKYLINE CORP
Form 10-Q
January 09, 2009

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**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, 2008

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)

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 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 January 9, 2009 |
|-----------------------|---|
| Common Stock | 8,391,244 |

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INDEX**

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Table of Contents**PART I. Financial Information****Item 1. Financial Statements.**

Skyline Corporation and Subsidiary Companies
Consolidated Balance Sheets
(Dollars in thousands)

| | November 30, 2008 (Unaudited) | May 31, 2008 |
|---|--|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 6,564 | \$ 10,557 |
| U.S. Treasury Bills, at cost plus accrued interest | 96,845 | 101,022 |
| Accounts receivable, trade, less allowance for doubtful accounts of \$100 | 8,351 | 18,244 |
| Inventories | 9,800 | 10,150 |
| Other current assets | 18,454 | 14,234 |
| | | |
| Total Current Assets | 140,014 | 154,207 |
| | | |
| Property, Plant and Equipment, at Cost: | | |
| Land | 5,300 | 5,300 |
| Buildings and improvements | 64,150 | 63,410 |
| Machinery and equipment | 29,509 | 30,561 |
| | 98,959 | 99,271 |
| Less accumulated depreciation | 67,097 | 66,736 |
| | | |
| Net Property, Plant and Equipment | 31,862 | 32,535 |
| | | |
| Other Assets | 10,466 | 10,257 |
| | | |
| Total Assets | \$ 182,342 | \$ 196,999 |

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

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Item 1. Financial Statements (Continued).
Skyline Corporation and Subsidiary Companies
Consolidated Balance Sheets
(Dollars in thousands, except per share data)

| | November 30, 2008 (Unaudited) | May 31, 2008 |
|--|--|-------------------------|
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts payable, trade | \$ 1,744 | \$ 3,967 |
| Accrued salaries and wages | 3,544 | 4,321 |
| Accrued marketing programs | 3,923 | 2,757 |
| Accrued warranty and related expenses | 5,349 | 6,137 |
| Accrued workers compensation | 1,550 | 1,222 |
| Other accrued liabilities | 2,365 | 3,209 |
| | | |
| Total Current Liabilities | 18,475 | 21,613 |
| | | |
| Other Deferred Liabilities | 8,914 | 9,168 |
| | | |
| Commitments and Contingencies | See Note 1 | |
| | | |
| 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 | 215,457 | 226,722 |
| Treasury stock, at cost, 2,825,900 shares | (65,744) | (65,744) |
| | | |
| Total Shareholders Equity | 154,953 | 166,218 |
| | | |
| Total Liabilities and Shareholders Equity | \$ 182,342 | \$ 196,999 |

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, 2008 and 2007
(Dollars in thousands, except share and per share amounts)

| | Three-Months Ended | | Six-Months Ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | (Unaudited) | | (Unaudited) | |
| OPERATIONS | | | | |
| Sales | \$ 47,210 | \$ 77,198 | \$ 109,807 | \$ 173,592 |
| Cost of sales | 46,381 | 71,375 | 106,775 | 157,450 |
| Gross profit | 829 | 5,823 | 3,032 | 16,142 |
| Selling and administrative expense | 8,165 | 9,747 | 17,229 | 20,350 |
| Operating loss | (7,336) | (3,924) | (14,197) | (4,208) |
| Income from life insurance proceeds | 380 | | 380 | |
| Interest income | 330 | 1,158 | 720 | 2,541 |
| Loss before income taxes | (6,626) | (2,766) | (13,097) | (1,667) |
| (Benefit) provision for income taxes: | | | | |
| Federal | (2,232) | (911) | (4,411) | (589) |
| State | (296) | 31 | (442) | 99 |
| | (2,528) | (880) | (4,853) | (490) |
| Net loss | \$ (4,098) | \$ (1,886) | \$ (8,244) | \$ (1,177) |
| Basic loss per share | \$ (.49) | \$ (.22) | \$ (.98) | \$ (.14) |
| Cash dividends per share | \$.18 | \$.18 | \$.36 | \$.36 |
| 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 | \$ 221,065 | \$ 237,518 | \$ 226,722 | \$ 238,319 |
| Net loss | (4,098) | (1,886) | (8,244) | (1,177) |
| Cash dividends paid | (1,510) | (1,510) | (3,021) | (3,020) |
| Balance at end of period | \$ 215,457 | \$ 234,122 | \$ 215,457 | \$ 234,122 |

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, 2008 and 2007
(Dollars in thousands)

| | 2008 | 2007 |
|---|--------------------|-------------|
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (8,244) | \$ (1,177) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation | 1,360 | 1,504 |
| Working capital items: | | |
| Accrued interest receivable | (105) | 251 |
| Accounts receivable | 9,893 | 8,765 |
| Inventories | 350 | (417) |
| Other current assets | (4,220) | (402) |
| Accounts payable, trade | (2,223) | (2,765) |
| Accrued liabilities | (915) | (1,236) |
| Other, net | (884) | (118) |
| Net cash (used in) provided by operating activities | (4,988) | 4,405 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from principal payments of U.S. Treasury Bills | 122,355 | 206,176 |
| Purchase of U.S. Treasury Bills | (118,072) | (206,303) |
| Purchase of property, plant and equipment | (725) | (1,260) |
| Other, net | 458 | (60) |
| Net cash provided by (used in) investing activities | 4,016 | (1,447) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash dividends paid | (3,021) | (3,020) |
| Net cash used in financing activities | (3,021) | (3,020) |
| Net decrease in cash | (3,993) | (62) |
| Cash at beginning of period | 10,557 | 8,376 |
| Cash at end of period | \$ 6,564 | \$ 8,314 |

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 the 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, 2008, in addition to the consolidated results of operations and consolidated cash flows for the three-month and six-month periods ended November 30, 2008 and 2007. 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, 2008 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. 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.

Total inventories consist of the following:

| | November 30, 2008 | May 31, 2008 |
|-----------------|----------------------------------|-------------------------|
| | (Dollars in thousands) | |
| Raw Materials | \$ 5,151 | \$ 4,897 |
| Work In Process | 3,931 | 5,051 |
| Finished Goods | 718 | 202 |
| | \$ 9,800 | \$ 10,150 |

The Corporation provides the retail purchaser of its manufactured 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.

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Notes to the Consolidated Financial Statements (Unaudited) (Continued)****NOTE 1 Nature of Operations, Accounting Policies of Consolidated Financial Statements (Continued)**

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.

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

| | Six-Months Ended | |
|--|-------------------------------|-------------|
| | November 30, | |
| | 2008 | 2007 |
| | (Dollars in thousands) | |
| Balance at the beginning of the period | \$ 9,037 | \$ 10,600 |
| Accruals for warranties | 1,982 | 4,515 |
| Settlements made during the period | (2,770) | (4,472) |
| Balance at the end of the period | 8,249 | 10,643 |
| Non-current balance included in other deferred liabilities | 2,900 | 3,300 |
| Accrued warranty and related expenses | \$ 5,349 | \$ 7,343 |

The Corporation was contingently liable at November 30, 2008 under purchase agreements with certain financial institutions providing inventory financing for retailers 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 retailer at declining prices over the term of the agreement, generally 12 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 \$55 million at November 30, 2008 and approximately \$70 million at May 31, 2008.

The risk of loss under these agreements is spread over many retailers 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 believes that any potential loss under the agreements in effect at November 30, 2008 will not be material to its financial position or results of operations.

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Notes to the Consolidated Financial Statements (Unaudited) (Continued)****NOTE 1 Nature of Operations, Accounting Policies of Consolidated Financial Statements (Continued)**

The amounts of obligations from repurchased units and incurred net losses for the periods presented are as follows:

| | Three-Months Ended | | Six-Months Ended | |
|------------------------------------|-------------------------------|-------------|-------------------------|-------------|
| | November 30, | | November 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| Number of units repurchased | 57 | 43 | 70 | 43 |
| Obligations from units repurchased | \$ 1,064 | \$ 736 | \$ 1,373 | \$ 736 |
| Net losses on repurchased units | \$ 152 | \$ | \$ 157 | \$ |

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.

Certain prior period amounts have been reclassified to conform to the current period presentation.

Subsequent to November 30, 2008, the Corporation announced to its employees that the consolidation of production and personnel would occur at the two manufactured housing facilities located in Ocala, Florida. The cost to consolidate, which is not expected to exceed \$200,000, will be recognized in the third quarter of fiscal 2009. Also, subsequent to November 30, 2008, the Corporation completed the sale of an idle recreational vehicle facility located in McMinnville, Oregon. The pretax gain on the sale of this facility, which will be recognized in the third quarter, will be approximately \$3,400,000.

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Notes to the Consolidated Financial Statements (Unaudited) (Continued)****NOTE 2 Industry Segment Information**

The Corporation designs, produces and distributes manufactured housing (single-section homes, multi-section homes and modular homes) and towable recreational vehicles (travel trailers, fifth wheels and park models). The percentage allocation of manufactured housing and recreational vehicle sales is:

| | Three-Months Ended | | Six-Months Ended | |
|-----------------------|---------------------------|-------------|-------------------------|-------------|
| | November 30, | | November 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Manufactured housing | 81% | 76% | 76% | 75% |
| Recreational vehicles | 19% | 24% | 24% | 25% |
| | 100% | 100% | 100% | 100% |

Total operating loss represents operating losses before income from life insurance proceeds, interest income and (benefit) provision for 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.

| | Three-Months Ended | | Six-Months Ended | |
|-----------------------|-------------------------------|-------------|-------------------------|-------------|
| | November 30, | | November 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| SALES | | | | |
| Manufactured housing | \$ 38,310 | \$ 58,383 | \$ 83,568 | \$ 130,711 |
| Recreational vehicles | 8,900 | 18,815 | 26,239 | 42,881 |
| Total sales | \$ 47,210 | \$ 77,198 | \$ 109,807 | \$ 173,592 |

(LOSS) EARNINGS BEFORE INCOME**TAXES**

| | | | | |
|-------------------------------------|------------|------------|-------------|------------|
| Operating (Loss) Earnings | | | | |
| Manufactured housing | \$ (3,965) | \$ (944) | \$ (8,205) | \$ 1,143 |
| Recreational vehicles | (2,760) | (2,352) | (4,993) | (4,109) |
| General corporate expense | (611) | (628) | (999) | (1,242) |
| Total operating loss | (7,336) | (3,924) | (14,197) | (4,208) |
| Income from life insurance proceeds | 380 | | 380 | |
| Interest income | 330 | 1,158 | 720 | 2,541 |
| Loss before income taxes | \$ (6,626) | \$ (2,766) | \$ (13,097) | \$ (1,667) |

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

Overview

The Corporation designs, produces and distributes manufactured housing (single-section, multi-section and modular homes) and towable recreational vehicles (travel trailers, fifth wheels and park models) to independent dealers and manufactured housing communities located throughout the United States (U.S.). To better serve the needs of its dealers and communities, the Corporation has seventeen manufacturing facilities in ten states. Manufactured 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 homes and recreational vehicles throughout the year, seasonal fluctuations in sales do occur. Sales and production of manufactured homes 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.

Sales in both business segments are affected by the strength of the U.S. economy, interest rate levels, consumer confidence and the availability of wholesale and retail financing. The manufactured housing segment is currently affected by a continuing decline in industry sales. This decline, caused primarily by restrictive credit standards, decreased availability of retail and wholesale financing, and economic uncertainty resulted in calendar 2007 industry sales of approximately 96,000 units, the lowest since 1961. In addition, the Manufactured Housing Institute's latest data shows industry unit sales for the first eleven months of calendar 2008 are 14 percent lower than the same period in 2007. This decrease is influenced by the slowing economy, rising unemployment, decreasing consumer confidence and tightening credit markets for both retail and wholesale financing.

Manufactured housing sales are also negatively impacted by a recession in the site-built housing industry. For example, a potential buyer of a manufactured home may be prevented from purchasing due to an inability to sell his or her existing home. Likewise, a potential buyer of a manufactured home may be attracted to declining prices of both new and existing site-built homes. The site-built housing industry is currently experiencing a decline in existing home sales, housing starts and home prices. In addition, the industry is also hindered by increasing home foreclosures. In the recreational vehicle segment, the Corporation sells travel trailers, fifth wheels and park models. Sales of recreational vehicles are influenced by changes in consumer confidence, the availability of retail financing and gasoline prices. Industry sales of travel trailers and fifth wheels, as published by the Recreational Vehicle Industry Association, declined from approximately 243,000 units in the first eleven months of calendar 2007 to approximately 180,000 units in the same period in 2008. This 26 percent decrease, like the decrease in manufactured housing sales, is the result of a slowing economy, decreasing consumer confidence, tightening credit markets for retail and wholesale financing and rising gasoline prices throughout most of 2008.

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

As a result of the declining market, the Corporation consolidated the operations of a manufactured housing facility in Ephrata, Pennsylvania and a manufactured housing facility in Leola, Pennsylvania during the first quarter of fiscal 2009. In addition, the Corporation consolidated the sales and administrative workforce at the Corporation's two manufactured housing facilities in Ocala, Florida.

Subsequent to November 30, 2008, the Corporation announced the consolidation of manufacturing operations and personnel at the two manufactured housing facilities in Ocala, Florida. The consolidation was completed by December 31, 2008. Also, subsequent to November 30, 2008, the Corporation completed the sale of an idle recreational vehicle facility located in McMinnville, Oregon.

The Corporation encountered a challenging business environment in the first half of fiscal 2009, and it cannot determine with certainty the business environment for the remainder of the fiscal year. This environment includes the Manufactured Housing Institute estimating industry shipments for 2008 at 84,500, the lowest on record. The Recreational Vehicle Industry Association forecasts a decline of travel trailer and fifth wheel unit shipments from approximately 259,000 in calendar 2007 to approximately 193,000 units in calendar 2008, and 149,000 units in calendar 2009.

The Corporation will continue to monitor its expenses, communicate with dealers and communities to take advantage of sales opportunities, and position its products to be competitive in the marketplace. With a healthy position in cash and U.S. Treasury Bills, no debt, and experienced employees, the Corporation is prepared to meet the challenges ahead.

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, 2008 Compared to Three-Month Period
Ended November 30, 2007 (Unaudited)****Sales and Unit Shipments**

| | November 30, 2008 | Percent | November 30, 2007 (Dollars in thousands) | Percent | Decrease |
|-----------------------|-------------------------|---------|--|---------|-----------|
| Sales | | | | | |
| Manufactured housing | \$ 38,310 | 81.1 | \$ 58,383 | 75.6 | \$ 20,073 |
| Recreational vehicles | 8,900 | 18.9 | 18,815 | 24.4 | 9,915 |
| Total Sales | \$ 47,210 | 100.0 | \$ 77,198 | 100.0 | \$ 29,988 |
| Unit Shipments | | | | | |
| Manufactured housing | 856 | 58.4 | 1,283 | 51.8 | 427 |
| Recreational vehicles | 609 | 41.6 | 1,192 | 48.2 | 583 |
| Total Unit Shipments | 1,465 | 100.0 | 2,475 | 100.0 | 1,010 |

Manufactured housing unit sales decreased approximately 33 percent, while the industry during the September to November 2008 period decreased approximately 24 percent. In certain geographic markets, such as Florida and Ohio, unit sales declined at a greater rate than the overall industry. Adverse conditions that affected the Corporation's unit sales include:

- competitors owning retail sales centers, giving them an advantage in displaying their product
- decreased sales to manufactured housing communities as a result of the communities managing inventory levels
- changing consumer preference toward product with lower price points where the Corporation has limited models.

In addressing these conditions, the Corporation is working with the communities as they manage inventory levels, and developing product with lower price points that will meet consumer demand.

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, 2008 Compared to Three-Month Period
Ended November 30, 2007 (Unaudited) (Continued)**

Recreational vehicle sales decreased due to an overall softening of demand. Unit sales for travel trailers, fifth wheels and park models declined approximately 49 percent, while industry unit sales for travel trailers and fifth wheels during September to November 2008 compared to the same period in 2007 decreased approximately 52 percent. Current industry unit sales data for park models is not available.

Cost of Sales

| | November 30, 2008 | Percent of Sales* | November 30, 2007 | Percent of Sales* | Decrease |
|-----------------------|----------------------------------|------------------------------|------------------------------|------------------------------|-----------------|
| | (Dollars in Thousands) | | | | |
| Manufactured housing | \$ 36,861 | 96.2 | \$ 52,715 | 90.3 | \$ 15,854 |
| Recreational vehicles | 9,520 | 107.0 | 18,660 | 99.2 | 9,140 |
| Consolidated | \$ 46,381 | 98.2 | \$ 71,375 | 92.5 | \$ 24,994 |

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

Manufactured housing and recreational vehicle cost of sales decreased due to less sales volume and the variable nature of many of the direct manufacturing costs. As a percentage of sales, cost of sales increased as a result of certain manufacturing overhead costs such as depreciation and property taxes remaining relatively constant despite lower sales.

Selling and Administrative Expenses

| | November 30, 2008 | Percent of Sales | November 30, 2007 | Percent of Sales | Decrease |
|-------------------------------------|----------------------------------|-----------------------------|----------------------------------|-----------------------------|-----------------|
| | (Dollars in thousands) | | | | |
| Selling and Administrative Expenses | \$ 8,165 | 17.3 | \$ 9,747 | 12.6 | \$ 1,582 |

Selling and administrative expenses decreased due to a decrease in salaries, performance based compensation, and a continuing effort to control costs. As a percentage of sales, selling and administrative expenses increased due to certain costs being fixed.

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, 2008 Compared to Three-Month Period
Ended November 30, 2007 (Unaudited) (Continued)****Operating Loss**

| | November 30, 2008 | Percent of Sales* | November 30, 2007 | Percent of Sales* |
|----------------------------|-------------------------|----------------------|----------------------|----------------------|
| | (Dollars in thousands) | | | |
| Manufactured housing | \$ (3,965) | (10.4) | \$ (944) | (1.6) |
| Recreational vehicles | (2,760) | (31.0) | (2,352) | (12.5) |
| General Corporate Expenses | (611) | (1.3) | (628) | (0.8) |
| Total Operating Loss | \$ (7,336) | (15.5) | \$ (3,924) | (5.1) |

* The percentages for manufactured housing and recreational vehicles are based on segment sales. The percentage for general corporate expenses and total operating (loss) earnings are based on total sales.

The operating loss for manufactured housing was primarily due to the impact of decreased sales on the components of earnings as noted above. This segment was also negatively affected by single-section unit sales increasing from 28 percent, as a percentage of segment sales, in the second quarter of fiscal 2008 to 39 percent in the second quarter of fiscal 2009. Single-section homes have lower margins as compared to multi-section homes. In addition, this segment received a larger proportion of certain operating expenses allocated to industry segments based on a percentage of sales. Manufactured housing sales were approximately 81 percent in the second quarter of fiscal 2009 as compared to 76 percent in the second quarter of fiscal 2008.

The operating loss for recreational vehicles increased primarily due to the impact of decreased sales on the components of earnings as noted above.

Income from Life Insurance Proceeds

The Corporation has arrangements with certain employees which provide benefits to be paid to the employee's estates in the event of death during active employment. To fund such arrangements, the Corporation purchased life insurance contracts on the covered employees. The Corporation realized non-taxable income from life insurance proceeds in the

amount of \$380,000, which is separately stated in the Consolidated Statement of Operations for the three-month and six-month periods ended November 30, 2008.

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, 2008 Compared to the Three-Month Period
Ended November 30, 2007 (Unaudited) (Continued)*****Interest Income***

| | November 30, 2008 | November 30, 2007 | Decrease |
|-----------------|----------------------------------|------------------------------|-----------------|
| | (Dollars in thousands) | | |
| Interest Income | \$ 330 | \$ 1,158 | \$ 828 |

Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government Securities. In the second quarter of fiscal 2009, the average amount available for investment was approximately \$97 million with a weighted average yield of 1.6 percent. In the second quarter of fiscal 2008, the average amount available for investment was approximately \$114 million with a weighted average yield of 4.2 percent.

(Benefit) Provision for Income Taxes

| | November 30, 2008 | November 30, 2007 | Increase in Benefit |
|---------|----------------------------------|------------------------------|--------------------------------|
| | (Dollars in thousands) | | |
| Federal | \$ (2,232) | \$ (911) | \$ 1,321 |
| State | (296) | 31 | 327 |
| Total | \$ (2,528) | \$ (880) | \$ 1,648 |

The (benefit) provision for federal income taxes approximates the statutory rate and for state income taxes reflects current state rates effective for the period based upon activities within the taxable entities. The benefit for federal and state income tax is the result of a pretax loss that occurred in the second quarter of fiscal 2009.

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, 2008 Compared to Six-Month Period Ended
November 30, 2007 (Unaudited)*****Sales and Unit Shipments***

| | November 30, 2008 | Percent | November 30, 2007 (Dollars in thousands) | Percent | Decrease |
|-----------------------|----------------------------------|----------------|---|----------------|-----------------|
| Sales | | | | | |
| Manufactured housing | \$ 83,568 | 76.1 | \$ 130,711 | 75.3 | \$ 47,143 |
| Recreational vehicles | 26,239 | 23.9 | 42,881 | 24.7 | 16,642 |
| Total Sales | \$ 109,807 | 100.0 | \$ 173,592 | 100.0 | \$ 63,785 |
| Unit Shipments | | | | | |
| Manufactured housing | 1,841 | 51.7 | 2,780 | 49.3 | 939 |
| Recreational vehicles | 1,721 | 48.3 | 2,855 | 50.7 | 1,134 |
| Total Unit Shipments | 3,562 | 100.0 | 5,635 | 100.0 | 2,073 |

Manufactured housing unit sales decreased approximately 34 percent, while the industry during the June to November 2008 period decreased approximately 20 percent. In certain geographic markets, such as Florida and Ohio, unit sales declined at a greater rate than the overall industry. Adverse conditions that affected the Corporation's unit sales include:

- competitors owning retail sales centers, giving them an advantage in displaying their product
- decreased sales to manufactured housing communities as a result of the communities managing inventory levels
- changing consumer preference toward product with lower price points where the Corporation has limited models.

In addressing these conditions, the Corporation is working with the communities as they manage inventory levels, and developing product with lower price points that will meet consumer demand.

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, 2008 Compared to Six-Month Period Ended
November 30, 2007 (Unaudited) (Continued)****Sales and Unit Shipments (Continued)**

Recreational vehicle sales decreased due to an overall softening of demand. Unit sales for travel trailers, fifth wheels and park models declined approximately 40 percent, while industry unit sales for travel trailers and fifth wheels during June to November 2008 compared to the same period in 2007 decreased approximately 42 percent. Current industry unit sales data for park models is not available.

Cost of Sales

| | November 30, 2008 | Percent of Sales* | November 30, 2007 | Percent of Sales* | Decrease |
|-----------------------|----------------------------------|------------------------------|------------------------------|------------------------------|-----------------|
| | (Dollars in Thousands) | | | | |
| Manufactured housing | \$ 80,075 | 95.8 | \$ 115,701 | 88.5 | \$ 35,626 |
| Recreational vehicles | 26,700 | 101.8 | 41,749 | 97.4 | 15,049 |
| Consolidated | \$ 106,775 | 97.2 | \$ 157,450 | 90.7 | \$ 50,675 |

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

Manufactured housing and recreational vehicle cost of sales decreased due to less sales volume and the variable nature of many of the direct manufacturing costs. As a percentage of sales, cost of sales increased as a result of certain manufacturing overhead costs such as depreciation and property taxes remaining relatively constant despite lower sales.

Selling and Administrative Expenses

| | November 30, 2008 | Percent of Sales | November 30, 2007 | Percent of Sales | Decrease |
|-------------------------------------|----------------------------------|-----------------------------|------------------------------|-----------------------------|-----------------|
| | (Dollars in thousands) | | | | |
| Selling and Administrative Expenses | \$ 17,229 | 15.7 | \$ 20,350 | 11.7 | \$ 3,121 |

Selling and administrative expenses decreased due to a decrease in salaries, performance based compensation, a continuing effort to control costs and a change in the discount rate used to value the Corporation's liability for retirement and death benefits offered to certain employees. As a percentage of sales, selling and administrative expenses increased due to certain costs being fixed.

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, 2008 Compared to Six-Month Period Ended
November 30, 2007 (Unaudited) (Continued)****Operating (Loss) Earnings**

| | November 30, 2008 | Percent of Sales* | November 30, 2007 | Percent of Sales* |
|----------------------------|-------------------------|----------------------|----------------------|----------------------|
| | (Dollars in thousands) | | | |
| Manufactured housing | \$ (8,205) | (9.8) | \$ 1,143 | 0.9 |
| Recreational vehicles | (4,993) | (19.0) | (4,109) | (9.6) |
| General Corporate Expenses | (999) | (0.9) | (1,242) | (0.7) |
| Total Operating Loss | \$ (14,197) | (12.9) | \$ (4,208) | (2.4) |

* The percentages for manufactured housing and recreational vehicles are based on segment sales. The percentage for general corporate expenses and total operating (loss) earnings are based on total sales.

The operating loss for manufactured housing was primarily due to the impact of decreased sales on the components of earnings as noted above. This segment was also negatively affected by single-section unit sales increasing from 25 percent, as a percentage of segment sales, in the second quarter of fiscal 2008 to 34 percent in the second quarter of fiscal 2009. Single-section homes have lower margins as compared to multi-section homes.

The operating loss for recreational vehicles increased primarily due to the impact of decreased sales on the components of earnings as noted above.

The decrease in general corporate expenses occurred primarily due to a change in the discount rate used to value the Corporation's liability for retirement and death benefits offered to certain employees as noted above.

Income from Life Insurance Proceeds

The Corporation has arrangements with certain employees which provide benefits to be paid to the employee's estates in the event of death during active employment. To fund such arrangements, the Corporation purchased life insurance contracts on the covered employees. The Corporation realized non-taxable income from life insurance proceeds in the amount of \$380,000, which is separately stated in the Consolidated Statement of Operations for the three-month and

six-month periods ended November 30, 2008.

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, 2008 Compared to Six-Month Period Ended
November 30, 2007 (Unaudited) (Continued)****Interest Income**

| | November 30, 2008 | November 30, 2007 | Decrease |
|-----------------|----------------------------------|------------------------------|-----------------|
| | (Dollars in thousands) | | |
| Interest Income | \$ 720 | \$ 2,541 | \$ 1,821 |

Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government Securities. In the first six months of fiscal 2009, the average amount available for investment was approximately \$97 million with a weighted average yield of 1.7 percent. In the first six months of fiscal 2008, the average amount available for investment was approximately \$115 million with a weighted average yield of 4.6 percent.

(Benefit) Provision for Income Taxes

| | November 30, 2008 | November 30, 2007 | Increase in Benefit |
|---------|----------------------------------|------------------------------|--------------------------------|
| | (Dollars in thousands) | | |
| Federal | \$ (4,411) | \$ (589) | \$ 3,822 |
| State | (442) | 99 | 541 |
| Total | \$ (4,853) | \$ (490) | \$ 4,363 |

The (benefit) provision for federal income taxes approximates the statutory rate and for state income taxes reflects current state rates effective for the period based upon activities within the taxable entities. The benefit for federal and state income tax is the result of a pretax loss that occurred in the first six months of fiscal 2009.

Subsequent Events

Subsequent to November 30, 2008, the Corporation announced to its employees that the consolidation of production and personnel would occur at the two manufactured housing facilities located in Ocala, Florida. The cost to consolidate, which is not expected to exceed \$200,000, will be recognized in the third quarter of fiscal 2009. Also, subsequent to November 30, 2008, the Corporation completed the sale of an idle recreational vehicle facility located in McMinnville, Oregon. The pretax gain on the sale of this facility, which will be recognized in the third quarter, will be approximately \$3,400,000.

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

| | November 30, 2008 | May 31, 2008 | Decrease |
|---|-------------------------|-----------------|-----------|
| | (Dollars in thousands) | | |
| Cash and U.S. Treasury Bills | \$ 103,409 | \$ 111,579 | \$ 8,170 |
| Current assets, exclusive of cash and U.S. Treasury Bills | \$ 36,605 | \$ 42,628 | \$ 6,023 |
| Current liabilities | \$ 18,475 | \$ 21,613 | \$ 3,138 |
| Working capital | \$ 121,539 | \$ 132,594 | \$ 11,055 |

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 to a net loss of \$8,244,000, and payment of approximately \$3,021,000 in dividends. Current assets, exclusive of cash and U.S. Treasury Bills, declined primarily due to a decrease in accounts receivable of \$9,893,000. This decrease is attributed to lower sales in November 2008 as compared to May 2008. Other current assets increased \$4,220,000 primarily due to an increase in the deferred tax asset for federal income taxes.

Current liabilities decreased due to a \$2,223,000 decline in accounts payable, caused primarily by lower sales occurring in November 2008 as compared to May 2008.

Capital expenditures totaled \$725,000 for the six months ended November 30, 2008 as compared to \$1,260,000 in the comparable period of the previous year. Capital expenditures were made primarily to replace or refurbish machinery and equipment in addition to improving manufacturing efficiencies.

The cash provided by operating activities, along with current cash and other short-term investments, is expected to be adequate to fund any capital expenditures and treasury stock purchases during the year. Historically, the Corporation's financing needs have been met through funds generated internally.

Other Matters

The provision for federal income taxes in each year approximates the statutory rate and for state income taxes reflects current state rates effective for the period based upon activities within the taxable entities.

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. During the first quarter of fiscal 2009, however, the Corporation was unable to increase its selling prices on its manufactured housing product to cover an increase in material costs during that period. Increased selling prices were realized by the end of the second quarter.

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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:

- Cyclical nature of the manufactured housing and recreational vehicle industries
- General or seasonal weather conditions affecting sales
- Potential impact of hurricanes and other natural disasters on sales and raw material costs
- Potential periodic inventory adjustments by independent retailers
- Availability of wholesale and retail financing
- 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
- Consumer confidence and economic uncertainty
- The health of the U.S. housing market as a whole
- Market demographics
- Management's ability to attract and retain executive officers and key personnel
- Increased global tensions, market disruption resulting from a terrorist or other attack and any armed conflict involving the United States.

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

The Corporation invests in United States Government Securities. These securities are typically held until maturity and are therefore classified as held-to-maturity and carried at amortized cost. Changes in interest rates do not have a significant effect on the fair value of these investments.

Item 4. *Controls and Procedures.*

Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

As of November 30, 2008, 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, 2008.

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Item 4. Controls and Procedures (Continued).

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, 2008 that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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, 2008 filed by the registrant with the Commission.

Item 1A. Risk Factors.

As noted in Part I. Item 2, manufactured housing sales were negatively affected by vertically integrated competitors, manufactured housing communities buying fewer homes in order to manage its existing inventory, and consumer demand shifting toward lower priced models. In addition, retail customers and independent dealers are having difficulty obtaining financing to purchase product. The Corporation is also affected by vendors remaining in business, where a reduction in vendors impacts the availability and cost of its raw materials. Continuation of these events could have a negative impact on the Corporation's sales, operating results, financial position and cash flows.

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)
- (32.1) Certification of Periodic Financial Reports Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (32.2) Certification of Periodic Financial Reports Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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 9, 2009

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

DATE: January 9, 2009

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

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INDEX TO EXHIBITS

| Exhibit Number | Descriptions |
|----------------|---|
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