

SKYLINE CORP
Form 10-Q
January 04, 2008

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, 2007

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 35-1038277

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

P. O. Box 743, 2520 By-Pass Road Elkhart, Indiana 46515

(Address of principal executive offices) (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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 4, 2008 8,391,244 |

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PART I. Financial Information**Item 1. Financial Statements**

Skyline Corporation and Subsidiary Companies

Consolidated Balance Sheets

| | November 30, 2007 (Unaudited) | May 31, 2007 |
|---|--|--------------|
| | (Dollars in thousands) | |
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 8,314 | \$ 8,376 |
| U.S. Treasury Bills, at cost plus accrued interest | 115,740 | 115,864 |
| Accounts receivable, trade, less allowance for doubtful accounts of \$100 | 13,995 | 22,760 |
| Inventories | 10,978 | 10,561 |
| Other current assets | 11,783 | 11,381 |
| Total Current Assets | 160,810 | 168,942 |
| Property, Plant and Equipment, at Cost: | | |
| Land | 5,557 | 5,557 |
| Buildings and improvements | 67,088 | 66,629 |
| Machinery and equipment | 31,036 | 30,712 |
| | 103,681 | 102,898 |
| Less accumulated depreciation | 68,173 | 67,092 |
| Net Property, Plant and Equipment | 35,508 | 35,806 |
| Other Assets | 10,365 | 10,192 |
| Total Assets | \$ 206,683 | \$ 214,940 |

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

Item 1. Financial Statements (Continued).Skyline Corporation and Subsidiary Companies
Consolidated Balance Sheets

| | November 30, 2007 (Unaudited) | May 31, 2007 |
|--|--|-----------------|
| | (Dollars in thousands, except share and per share data) | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts payable, trade | \$ 2,397 | \$ 5,162 |
| Accrued salaries and wages | 4,040 | 6,064 |
| Accrued profit sharing | 1,182 | 1,684 |
| Accrued marketing programs | 5,570 | 3,823 |
| Accrued warranty and related expenses | 7,343 | 7,300 |
| Other accrued liabilities | 2,581 | 3,081 |
| Total Current Liabilities | 23,113 | 27,114 |
| Other Deferred Liabilities | 9,952 | 10,011 |
| 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 | 234,122 | 238,319 |
| Treasury stock, at cost, 2,825,900 shares | (65,744) | (65,744) |
| Total Shareholders Equity | 173,618 | 177,815 |
| Total Liabilities and Shareholders Equity | \$ 206,683 | \$ 214,940 |

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

Item 1. Financial Statements (Continued).

Skyline Corporation and Subsidiary Companies

Consolidated Statements of Earnings and Retained Earnings

For the three-month and six-month periods ended November 30, 2007 and 2006

| | Three-Months Ended | | Six-Months Ended | |
|--|---|-------------|-------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| | (Unaudited) | | | |
| | (Dollars in thousands, except per share amounts) | | | |
| EARNINGS | | | | |
| Sales | \$ 77,198 | \$ 94,786 | \$ 173,592 | \$ 210,592 |
| Cost of sales | 71,375 | 84,477 | 157,450 | 187,227 |
| Gross profit | 5,823 | 10,309 | 16,142 | 23,365 |
| Selling and administrative expense | 9,747 | 10,779 | 20,350 | 22,249 |
| Operating (loss) earnings | (3,924) | (470) | (4,208) | 1,116 |
| Interest income | 1,158 | 1,476 | 2,541 | 2,936 |
| (Loss) earnings before income taxes | (2,766) | 1,006 | (1,667) | 4,052 |
| (Benefit) provision for income taxes: | | | | |
| Federal | (911) | 343 | (589) | 1,378 |
| State | 31 | 38 | 99 | 153 |
| | (880) | 381 | (490) | 1,531 |
| Net (loss) earnings | \$ (1,886) | \$ 625 | \$ (1,177) | \$ 2,521 |
| Basic (loss) earnings per share | \$ (.22) | \$.07 | \$ (.14) | \$.30 |
| Cash dividends per share | \$.18 | \$.18 | \$.36 | \$ 2.36 |
| 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 | \$ 237,518 | \$ 241,860 | \$ 238,319 | \$ 258,258 |
| Net (loss) earnings | (1,886) | 625 | (1,177) | 2,521 |
| Cash dividends paid | (1,510) | (1,510) | (3,020) | (19,804) |
| Balance at end of period | \$ 234,122 | \$ 240,975 | \$ 234,122 | \$ 240,975 |

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

Item 1. Financial Statements (Continued).

Skyline Corporation and Subsidiary Companies

Consolidated Statements of Cash Flows

For the six-month periods ended November 30, 2007 and 2006

| | 2007 | 2006 |
|--|------------------------|-----------|
| | (Unaudited) | |
| | (Dollars in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) earnings | \$ (1,177) | \$ 2,521 |
| Adjustments to reconcile net (loss) earnings to net cash provided from operating activities: | | |
| Depreciation | 1,504 | 1,478 |
| Working capital items: | | |
| Accrued interest receivable | 251 | (700) |
| Accounts receivable | 8,765 | 12,821 |
| Inventories | (417) | (658) |
| Other current assets | (402) | (1,744) |
| Accounts payable, trade | (2,765) | (5,290) |
| Accrued liabilities | (1,236) | (3,272) |
| Income taxes payable | | (1,416) |
| Other, net | (118) | (27) |
| Net cash provided from operating activities | 4,405 | 3,713 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from principal payments of U.S. Treasury Bills | 206,176 | 76,769 |
| Purchase of U.S. Treasury Bills | (206,303) | (147,113) |
| Proceeds from maturity of U.S. Treasury Notes | | 90,000 |
| Purchase of property, plant and equipment | (1,260) | (2,664) |
| Other, net | (60) | (58) |
| Net cash (used in) provided from investing activities | (1,447) | 16,934 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash dividends paid | (3,020) | (19,804) |
| Net cash used in financing activities | (3,020) | (19,804) |
| Net (decrease) increase in cash | (62) | 843 |
| Cash at beginning of year | 8,376 | 10,059 |
| Cash at end of quarter | \$ 8,314 | \$ 10,902 |

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

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, 2007, in addition to the consolidated results of operations and consolidated cash flows for the three-month and six-month periods ended November 30, 2007 and 2006. 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, 2007 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 cost, determined under the first-in, first-out method, which is not in excess of market.

Physical inventory counts are taken at the end of each reporting quarter.

Total inventories consist of the following:

| | November 30, 2007 | May 31, 2007 |
|-----------------|----------------------------------|--------------|
| | (Dollars in thousands) | |
| Raw Materials | \$ 5,032 | \$ 5,098 |
| Work In Process | 5,430 | 5,463 |
| Finished Goods | 516 | |
| | \$ 10,978 | \$ 10,561 |

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.

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, | |
|--|----------------------------------|-----------|
| | 2007 | 2006 |
| | (Dollars in thousands) | |
| Balance at the beginning of the period | \$ 10,600 | \$ 12,111 |
| Accruals for warranties | 4,515 | 6,340 |
| Settlements made during the period | (4,472) | (5,993) |
| Balance at the end of the period | 10,643 | 12,458 |
| Non-current balance included in other deferred liabilities | 3,300 | 4,000 |
| Accrued warranty and related expenses | \$ 7,343 | \$ 8,458 |

The Corporation was contingently liable at November 30, 2007 under repurchase 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 all the Corporation's independent dealers. The maximum potential repurchase liability, without reduction for the resale value of the repurchased units, was approximately \$78 million at November 30, 2007 and \$89 million at May 31, 2007.

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.

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 Corporation believes that any likely loss under the agreements in effect at November 30, 2007 will not be material to the Corporation's financial position or results of operations.

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

| | Three-Months Ended November 30, | | Six-Months Ended November 30, | |
|------------------------------------|------------------------------------|--------|----------------------------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | (Dollars in thousands) | | | |
| Number of units repurchased | 43 | 21 | 43 | 58 |
| Obligations from units repurchased | \$ 736 | \$ 310 | \$ 736 | \$ 941 |
| Net losses on repurchased units | | | | |

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.

In the first quarter of fiscal 2008, the Corporation adopted Financial Accounting Standards Board, (FASB), Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN No. 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. The Corporation adopted FIN No. 48 with no material impact on its consolidated financial statements.

The amount of unrecognized tax benefit at June 1, 2007 totaled approximately \$100,000. This amount would increase operating income thus impacting the Corporation's effective tax rate, if ultimately recognized in income.

For the majority of taxing jurisdictions the Corporation is no longer subject to examination by taxing authorities for years before 2004. State income tax expense reflects minimum amounts required by certain taxing jurisdictions in which the Corporation operates.

The Corporation does not expect the amount of unrecognized tax benefits to significantly increase in the next twelve months. Interest and penalties related to income tax matters are recognized in income tax expense. Accruals for interest and penalties at November 30, 2007 were insignificant.

The Corporation has also determined that the adoption of any other recently issued accounting standard is not expected to have a material impact on its future financial condition or results of operation.

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, multi-section and modular homes) and towable recreational vehicles (travel trailers, fifth wheels and park models). In the first six months of fiscal years 2008 and 2007, manufactured housing represented approximately 75 percent of total sales, while recreational vehicles accounted for approximately 25 percent.

Total operating (loss) earnings represent (loss) earnings before 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 November 30, | | Six Months Ended November 30, | |
|--|------------------------------------|-----------|----------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| | (Dollars in thousands) | | | |
| SALES | | | | |
| Manufactured housing | \$ 58,383 | \$ 72,618 | \$ 130,711 | \$ 157,101 |
| Recreational vehicles | 18,815 | 22,168 | 42,881 | 53,491 |
| Total sales | \$ 77,198 | \$ 94,786 | \$ 173,592 | \$ 210,592 |
| (LOSS) EARNINGS BEFORE INCOME TAXES | | | | |
| Operating (Loss) Earnings | | | | |
| Manufactured housing | \$ (944) | \$ 1,268 | \$ 1,143 | \$ 3,786 |
| Recreational vehicles | (2,352) | (823) | (4,109) | (1,050) |
| General corporate expense | (628) | (915) | (1,242) | (1,620) |
| Total operating (loss) earnings | (3,924) | (470) | (4,208) | 1,116 |
| Interest income | 1,158 | 1,476 | 2,541 | 2,936 |
| (Loss) earnings before income taxes | \$ (2,766) | \$ 1,006 | \$ (1,667) | \$ 4,052 |

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 trailer, 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 twenty-one manufacturing facilities in eleven 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 protracted downturn. This downturn, caused primarily by restrictive retail financing and economic uncertainty, has resulted in industry sales which over the last four years have been the lowest in decades. The manufactured housing industry has been further negatively impacted by the decline in the U.S housing market. In the recreational vehicle segment, the Corporation sells travel trailers, fifth wheels and park models. Industry demand for travel trailers and fifth wheels has softened in the current fiscal year. Based on the latest information available from the Recreational Vehicle Industry Association, national shipments of travel trailers and fifth wheels totaled approximately 135,000 units for the six-months ending October 31, 2007. This amount is lower than the approximately 140,000 units shipped during the six-months ending October 31, 2006.

Demand remains stronger for multi-section versus single-section homes. Multi-section homes are often sold as part of a land-home package and are financed with a conventional mortgage. These homes have an appearance similar to site-built homes and are notably less expensive. Ten of the Corporation's manufactured housing facilities have obtained approval from applicable state and local governmental entities to produce modular homes, which will help meet the demand for multi-section homes.

The recreational vehicle segment in which the Corporation operates is a very competitive ever-changing market. Similar to the trend in the non-motorized recreational vehicle industry as a whole, this segment is currently experiencing decreased demand for travel trailers and fifth wheels.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).**Results of Operations Three-Month Period Ended November 30, 2007 Compared to the Three-Month Period Ended November 30, 2006 (Unaudited)
Sales and Unit Shipments**

| | 2007 | Percent | 2006 | Percent | Decrease |
|-----------------------|------------------|----------------|------------------------|----------------|-----------------|
| | | | (Dollars in thousands) | | |
| Sales | | | | | |
| Manufactured Housing | \$ 58,383 | 75.6 | \$ 72,618 | 76.6 | \$ 14,235 |
| Recreational Vehicles | 18,815 | 24.4 | 22,168 | 23.4 | 3,353 |
| Total Sales | \$ 77,198 | 100.0 | \$ 94,786 | 100.0 | \$ 17,588 |
| Unit Shipments | | | | | |
| Manufactured Housing | 1,283 | 51.8 | 1,487 | 51.2 | 204 |
| Recreational Vehicles | 1,192 | 48.2 | 1,416 | 48.8 | 224 |
| Total Unit Shipments | 2,475 | 100.0 | 2,903 | 100.0 | 428 |

Manufactured housing sales decreased due to an overall softening of demand, which is consistent with the experience of the manufactured housing industry as a whole.

Recreational vehicle sales decreased due to an overall softening of demand. Furthermore, sales were negatively impacted by an increase in consumer demand for fiberglass bonded wall construction. The Corporation addressed this shift in demand by opening a previously idled facility which is dedicated to producing travel trailers with fiberglass bonded wall construction. This facility commenced operations in the third quarter of fiscal year 2007.

Cost of Sales

| | 2007 | Percent of Sales* | 2006 | Percent of Sales* | Decrease |
|-----------------------|------------------|--------------------------|------------------------|--------------------------|-----------------|
| | | | (Dollars in thousands) | | |
| Manufactured Housing | \$ 52,715 | 90.3 | \$ 63,935 | 88.0 | \$ 11,220 |
| Recreational Vehicles | 18,660 | 99.2 | 20,542 | 92.7 | 1,882 |
| Consolidated | \$ 71,375 | 92.5 | \$ 84,477 | 89.1 | \$ 13,102 |

*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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).**Results of Operations Three-Month Period Ended November 30, 2007 Compared to the Three-Month Period Ended November 30, 2006 (Unaudited) (Continued)****Operating (Loss) Earnings (Continued)**

Operating earnings for manufactured housing decreased primarily due to the impact of decreased sales on the components of earnings as noted above.

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

Decreases in general corporate expenses occurred primarily in costs associated with performance based compensation.

Interest Income

| | 2007 | 2006 | Decrease |
|---|------------------------|----------|----------|
| | (Dollars in thousands) | | |
| Interest Income | \$ 1,158 | \$ 1,476 | \$ 318 |
| Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government Securities. | | | |

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

**Results of Operations Six-Month Period Ended November 30, 2007 Compared to the
Six-Month Period Ended November 30, 2006 (Unaudited)**
Sales and Unit Shipments

| | 2007 | Percent | 2006 | Percent | Decrease |
|-----------------------------|-------------------|----------------|------------------------|----------------|-----------------|
| | | | (Dollars in thousands) | | |
| Sales | | | | | |
| Manufactured Housing | \$ 130,711 | 75.3 | \$ 157,101 | 74.6 | \$ 26,390 |
| Recreational Vehicles | 42,881 | 24.7 | 53,491 | 25.4 | 10,610 |
| Total Sales | \$ 173,592 | 100.0 | \$ 210,592 | 100.0 | \$ 37,000 |
| Unit Shipments | | | | | |
| Manufactured Housing | 2,780 | 49.3 | 3,272 | 48.5 | 492 |
| Recreational Vehicles | 2,855 | 50.7 | 3,481 | 51.5 | 626 |
| Total Unit Shipments | 5,635 | 100.0 | 6,753 | 100.0 | 1,118 |

Manufactured housing sales decreased due to an overall softening of demand, which is consistent with the experience of the manufactured housing industry as a whole.

Recreational vehicle sales decreased due to an overall softening of demand. Furthermore, sales were negatively impacted by an increase in consumer demand for fiberglass bonded wall construction. The Corporation addressed this shift in demand by opening a previously idled facility which is dedicated to producing travel trailers with fiberglass bonded wall construction. This facility commenced operations in the third quarter of fiscal year 2007.

Cost of Sales

| | 2007 | Percent of Sales* | 2006 | Percent of Sales* | Decrease |
|-----------------------|-------------------|----------------------------------|------------------------|----------------------------------|-----------------|
| | | | (Dollars in thousands) | | |
| Manufactured Housing | \$ 115,701 | 88.5 | \$ 138,422 | 88.1 | \$ 22,721 |
| Recreational Vehicles | 41,749 | 97.4 | 48,805 | 91.2 | 7,056 |
| Consolidated | \$ 157,450 | 90.7 | \$ 187,227 | 88.9 | \$ 29,777 |

*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.

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

**Results of Operations – Six-Month Period Ended November 30, 2007 Compared to the
Six-Month Period Ended November 30, 2006 (Unaudited) (Continued)**

Cost of Sales (Continued)

Manufactured housing 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 remaining relatively constant despite lower sales.

Recreational vehicle cost of sales decreased due to less sales volume and the variable nature of many of direct manufacturing costs. As a percentage of sales, cost of sales increased due to the introduction of various option packages. These packages, designed to meet competition in the marketplace, are aggressively priced relative to option packages sold in the previous year. The cost of sales percentage also increased as a result of certain manufacturing overhead costs remaining relatively constant despite lower sales.

Selling and Administrative Expenses

| | 2007 | Percent of Sales | 2006 | Percent of Sales | Decrease |
|---|------------------------|---------------------|-----------|---------------------|----------|
| | (Dollars in thousands) | | | | |
| Selling and Administrative Expenses | \$ 20,350 | 11.7 | \$ 22,249 | 10.6 | \$ 1,899 |
| Selling and administrative expenses decreased primarily due to a decrease in performance based compensation along with certain selling and administrative expenses. As a percentage of sales, selling and administrative expenses increased due to certain costs being fixed despite lower sales. | | | | | |

Operating (Loss) Earnings

| | 2007 | Percent of Sales* | 2006 | Percent of Sales* | Decrease |
|---------------------------------|------------------------|-------------------------|----------|-------------------------|----------|
| | (Dollars in thousands) | | | | |
| Manufactured Housing | \$ 1,143 | 0.9 | \$ 3,786 | 2.4 | \$ 2,643 |
| Recreational Vehicles | (4,109) | (9.6) | (1,050) | (2.0) | 3,059 |
| General Corporate Expenses | (1,242) | (0.7) | (1,620) | (0.8) | 378 |
| Total Operating (Loss) Earnings | \$ (4,208) | (2.4) | \$ 1,116 | (0.5) | \$ 5,324 |

*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.

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

**Results of Operations Six-Month Period Ended November 30, 2007 Compared to the
Six-Month Period Ended November 30, 2006 (Unaudited) (Continued)**

Operating (Loss) Earnings (Continued)

Operating earnings for manufactured housing decreased primarily due to the impact of decreased sales on the components of earnings as noted above.

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

Decreases in general corporate expenses occurred primarily in costs associated with performance based compensation.

Interest Income

| | 2007 | 2006 | Decrease |
|-----------------|------------------------|----------|----------|
| | (Dollars in thousands) | | |
| Interest Income | \$ 2,541 | \$ 2,936 | \$ 395 |

Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government Securities.

Liquidity and Capital Resources

| | November 30, 2007 | May 31, 2007 | Decrease |
|---|-------------------------|-----------------|----------|
| | (Dollars in thousands) | | |
| Cash and U.S. Treasury Bills | \$ 124,054 | \$ 124,240 | \$ 186 |
| Current assets, exclusive of cash and U.S. Treasury Bills | \$ 36,756 | \$ 44,702 | \$ 7,946 |
| Current liabilities | \$ 23,113 | \$ 27,114 | \$ 4,001 |
| Working capital | \$ 137,697 | \$ 141,828 | \$ 4,131 |

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

Liquidity and Capital Resources (Continued)

The Corporation's policy is to invest its excess cash, which exceeds its operating needs, in U.S. Government Securities. Current assets, exclusive of cash and U.S. Treasury Bills, declined primarily due to a decrease in accounts receivable of \$8,765,000. This decrease is attributed to lower sales in November 2007 as compared to May 2007. Current liabilities decreased due to a decline in accrued salaries and wages of \$2,024,000, and accounts payable of \$2,765,000. Accrued salaries and wages decreased due to the timing of payroll payments at November 30, 2007 as compared to May 31, 2007. In addition, the Corporation's employee headcount was lower at November 30, 2007 as compared to May 31, 2007. Accounts payable, trade declined due to decreased sales activity.

Capital expenditures totaled \$1,260,000 for the six months ended November 30, 2007 as compared to \$2,664,000 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 overall effective tax (benefit) rate declined due to certain state taxing authorities in jurisdictions in which the Corporation operates assessing a minimum tax.

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. The Corporation believes that inflation has not had a material effect on its operations during the first six months of fiscal 2008.

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 intended to be 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, 2007, 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 as of November 30, 2007.

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, 2007 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, 2007 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, 2007.

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

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 4, 2008

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

DATE: January 4, 2008

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