

SKYLINE CORP
Form 10-Q
April 08, 2011

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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 February 28, 2011

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 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 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 | April 8, 2011 8,391,244 |

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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)

| | February 28, 2011 (Unaudited) | May 31, 2010 |
|--|--|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 4,407 | \$ 9,268 |
| U.S. Treasury Bills, at cost plus accrued interest | 48,991 | 67,989 |
| Accounts receivable | 9,788 | 9,778 |
| Inventories | 8,090 | 6,756 |
| Other current assets | 3,071 | 4,540 |
| | | |
| Total Current Assets | 74,347 | 98,331 |
| | | |
| Property, Plant and Equipment, at Cost: | | |
| Land | 4,063 | 4,063 |
| Buildings and improvements | 45,561 | 45,296 |
| Machinery and equipment | 23,148 | 22,972 |
| | 72,772 | 72,331 |
| Less accumulated depreciation | 52,392 | 50,912 |
| | 20,380 | 21,419 |
| Idle property, net of accumulated depreciation | 4,815 | 5,303 |
| | | |
| Net Property, Plant and Equipment | 25,195 | 26,722 |
| | | |
| Other Assets | 5,774 | 5,660 |
| | | |
| Total Assets | \$ 105,316 | \$ 130,713 |

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)

| | February 28, 2011 (Unaudited) | May 31, 2010 |
|--|--|---------------------|
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts payable, trade | \$ 3,357 | \$ 3,136 |
| Accrued salaries and wages | 2,839 | 2,505 |
| Accrued marketing programs | 2,537 | 1,524 |
| Accrued warranty and related expenses | 3,324 | 3,339 |
| Accrued workers compensation | 1,153 | 1,083 |
| Other accrued liabilities | 1,882 | 1,796 |
| | | |
| Total Current Liabilities | 15,092 | 13,383 |
| | | |
| Other Deferred Liabilities | 7,611 | 7,623 |
| | | |
| 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 | 143,117 | 170,211 |
| Treasury stock, at cost, 2,825,900 shares | (65,744) | (65,744) |
| | | |
| Total Shareholders Equity | 82,613 | 109,707 |
| | | |
| Total Liabilities and Shareholders Equity | \$ 105,316 | \$ 130,713 |

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 Nine-Month Periods Ended February 28, 2011 and 2010
(Dollars in thousands, except share and per share amounts)

| | Three-Months Ended | | Nine-Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| | (Unaudited) | | (Unaudited) | |
| OPERATIONS | | | | |
| Sales | \$ 31,776 | \$ 25,415 | \$ 114,224 | \$ 95,535 |
| Cost of sales | 33,494 | 26,236 | 114,818 | 95,013 |
| Gross (loss) profit | (1,718) | (821) | (594) | 522 |
| Selling and administrative expenses | (7,039) | (6,282) | (22,020) | (20,317) |
| Income from life insurance proceeds | | | | 412 |
| Gain on sale of idle property, plant and equipment | | 1,544 | | 1,544 |
| Operating loss | (8,757) | (5,559) | (22,614) | (17,839) |
| Interest income | 15 | 5 | 51 | 50 |
| Loss before income taxes | (8,742) | (5,554) | (22,563) | (17,789) |
| Benefit from income taxes: | | | | |
| Federal | | 1,714 | | 5,854 |
| State | | 143 | | 523 |
| | | 1,857 | | 6,377 |
| Net loss | \$ (8,742) | \$ (3,697) | \$ (22,563) | \$ (11,412) |
| Basic loss per share | \$ (1.04) | \$ (.44) | \$ (2.69) | \$ (1.36) |
| Cash dividends per share | \$.18 | \$.18 | \$.54 | \$.54 |
| 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 | \$ 153,369 | \$ 194,510 | \$ 170,211 | \$ 205,246 |
| Net loss | (8,742) | (3,697) | (22,563) | (11,412) |
| Cash dividends paid | (1,510) | (1,510) | (4,531) | (4,531) |
| Balance at end of period | \$ 143,117 | \$ 189,303 | \$ 143,117 | \$ 189,303 |

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 Nine-Month Periods Ended February 28, 2011 and 2010
(Dollars in thousands)

| | 2011 | 2010 |
|---|--------------------|-------------|
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (22,563) | \$ (11,412) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 2,020 | 1,641 |
| Gain on sale of idle property, plant and equipment | | (1,544) |
| Change in assets and liabilities: | | |
| Accrued interest receivable | 2 | 58 |
| Accounts receivable | (10) | (618) |
| Inventories | (1,334) | 602 |
| Other current assets | 1,469 | (6,587) |
| Accounts payable, trade | 221 | 627 |
| Accrued liabilities | 1,488 | (1,754) |
| Other, net | 13 | 1,044 |
| Net cash used in operating activities | (18,694) | (17,943) |
| CASH FROM INVESTING ACTIVITIES: | | |
| Proceeds from principal payments of U.S. Treasury Bills | 189,947 | 224,862 |
| Purchase of U.S. Treasury Bills | (170,951) | (209,968) |
| Proceeds from sale of idle property, plant and equipment | | 4,082 |
| Purchase of property, plant and equipment | (528) | (610) |
| Other, net | (104) | 685 |
| Net cash provided by investing activities | 18,364 | 19,051 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash dividends paid | (4,531) | (4,531) |
| Net cash used in financing activities | (4,531) | (4,531) |
| Net decrease in cash | (4,861) | (3,423) |
| Cash at beginning of period | 9,268 | 9,836 |
| Cash at end of period | \$ 4,407 | \$ 6,413 |

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

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 February 28, 2011, in addition to the consolidated results of operations and consolidated cash flows for the three-month and nine-month periods ended February 28, 2011 and 2010. 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, 2010 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. Certain prior period amounts have been reclassified to conform to current year presentation.

In July 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2010-20,

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires entities to provide new financial statement disclosures regarding financing receivables, including credit risk exposures and the allowance for credit losses. For public entities, this ASU is effective for reporting periods ending on or after December 15, 2010 for disclosures of financing receivables as of the end of a reporting period. Financing receivables disclosures relating to activity occurring during a reporting period are required to be adopted for periods beginning on or after December 15, 2010. The Corporation adopted the financing receivables reporting requirement with no material effect on its future financial condition or results of operations. The Corporation does not expect the adoption of the disclosure requirement related to activity occurring during a reporting period to have a material effect on its future financial condition 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 2 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. The following is a summary of the securities (dollars in thousands):

| | Gross Amortized Costs | Gross Unrealized (Losses) Gains | Fair Value |
|--------------------------|--------------------------------------|--|-----------------------|
| February 28, 2011 | | | |
| U. S. Treasury Bills | \$ 48,991 | \$ 5 | \$ 48,996 |
| May 31, 2010 | | | |
| U. S. Treasury Bills | \$ 67,989 | \$ 3 | \$ 67,992 |

The fair value is determined by a secondary market for U.S. Government Securities. At February 28, 2011 and May 31, 2010, the U.S. Treasury Bills matured within five and four months, respectively.

NOTE 3 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.

NOTE 4 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.

Total inventories consist of the following:

| | February 28, 2011 | May 31, 2010 |
|-----------------|-------------------------------|---------------------|
| | (Dollars in thousands) | |
| Raw materials | \$ 5,142 | \$ 3,774 |
| Work in process | 2,589 | 2,941 |
| Finished goods | 359 | 41 |
| | \$ 8,090 | \$ 6,756 |

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Notes to the Consolidated Financial Statements (Unaudited) (Continued)****NOTE 5 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. 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. Idle property, net of accumulated depreciation represents the net book value of idle manufacturing facilities in the following locations: Hemet, California; Ocala, Florida; Halstead, Kansas; Mocksville, North Carolina and Ephrata, Pennsylvania.

NOTE 6 Warranty

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.

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:

| | Nine-Months Ended February 28, 2011 2010 (Dollars in thousands) | |
|--|---|----------|
| Balance at the beginning of the period | \$ 4,839 | \$ 7,019 |
| Accruals for warranties | 3,692 | 2,560 |
| Settlements made during the period | (3,707) | (4,062) |
| Balance at the end of the period | 4,824 | 5,517 |
| Non-current balance included in other deferred liabilities | 1,500 | 2,400 |
| Accrued warranty and related expenses | \$ 3,324 | \$ 3,117 |

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Item 1. Financial Statements (Continued).

Skyline Corporation and Subsidiary Companies

Notes to the Consolidated Financial Statements (Unaudited) (Continued)

NOTE 7 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 recorded a full valuation allowance against its deferred tax assets during the fourth quarter of fiscal 2010. The Corporation's gross deferred tax assets of approximately \$27 million consist of approximately \$15 million in federal net operating loss and tax credit carryforwards, \$6 million in state net operating loss carryforwards, and \$6 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 February 28, 2011 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 \$58 million at February 28, 2011 and approximately \$49 million at May 31, 2010.

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 February 28, 2011 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 8 Commitments and Contingencies (Continued)**

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

| | Three-Months Ended | | Nine-Months Ended | |
|------------------------------------|-------------------------------|-------------|--------------------------|-------------|
| | February 28, | | February 28, | |
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in thousands) | | | |
| Number of units repurchased | 1 | 2 | 1 | 8 |
| Obligations from units repurchased | \$ 11 | \$ 35 | \$ 11 | \$ 220 |
| Net losses on repurchased units | \$ 1 | \$ 4 | \$ 1 | \$ 11 |

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.

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 and recreational vehicle sales is:

| | Three-Months Ended | | Nine-Months Ended | |
|----------------------------------|---------------------------|-------------|--------------------------|-------------|
| | February 28, | | February 28, | |
| | 2011 | 2010 | 2011 | 2010 |
| Manufactured and Modular Housing | | | | |
| Manufactured Housing | | | | |
| Domestic | 45% | 52% | 54% | 57% |
| Canadian | 1 | | 1 | |
| | 46 | 52 | 55 | 57 |
| Modular Housing | | | | |
| Domestic | 11 | 7 | 9 | 9 |
| Canadian | 1 | 1 | 1 | 3 |
| | 12 | 8 | 10 | 12 |
| Total Housing | 58 | 60 | 65 | 69 |
| Recreational Vehicles | | | | |
| Domestic | 31 | 26 | 26 | 23 |
| Canadian | 11 | 14 | 9 | 8 |
| Total Recreational Vehicles | 42 | 40 | 35 | 31 |
| | 100% | 100% | 100% | 100% |

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

| | Three-Months Ended | | Nine-Months Ended | |
|--|-------------------------------|-------------|-------------------------------|-------------|
| | February 28, | | February 28, | |
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in thousands) | | (Dollars in thousands) | |
| SALES | | | | |
| Manufactured and Modular Housing | | | | |
| Manufactured Housing | | | | |
| Domestic | \$ 14,462 | \$ 13,201 | \$ 61,562 | \$ 54,341 |
| Canadian | 245 | 18 | 827 | 182 |
| | 14,707 | 13,219 | 62,389 | 54,523 |
| Modular Housing | | | | |
| Domestic | 3,592 | 1,665 | 10,125 | 8,887 |
| Canadian | 198 | 468 | 1,169 | 2,645 |
| | 3,790 | 2,133 | 11,294 | 11,532 |
| Total Housing | 18,497 | 15,352 | 73,683 | 66,055 |
| Recreational Vehicles | | | | |
| Domestic | 9,852 | 6,608 | 30,282 | 21,940 |
| Canadian | 3,427 | 3,455 | 10,259 | 7,540 |
| Total Recreational Vehicles | 13,279 | 10,063 | 40,541 | 29,480 |
| Total Sales | \$ 31,776 | \$ 25,415 | \$ 114,224 | \$ 95,535 |
| LOSS BEFORE INCOME TAXES | | | | |
| Operating Loss | | | | |
| Manufactured and modular housing | \$ (5,359) | \$ (4,905) | \$ (14,305) | \$ (12,371) |
| Recreational vehicles | (2,812) | (1,601) | (6,537) | (5,162) |
| General corporate expense | (586) | (597) | (1,772) | (2,262) |
| Income from life insurance proceeds | | | | 412 |
| Gain on sale of idle property, plant and equipment | | 1,544 | | 1,544 |
| Total operating loss | (8,757) | (5,559) | (22,614) | (17,839) |
| Interest income | 15 | 5 | 51 | 50 |
| Loss before income taxes | \$ (8,742) | \$ (5,554) | \$ (22,563) | \$ (17,789) |

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.

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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. Manufactured housing represents homes built according to a national building code; modular housing represents homes built to a local building code. To better serve the needs of its dealers and communities, the Corporation has fourteen manufacturing facilities in ten states; including a recreational vehicle facility that commenced operations in the third quarter of fiscal 2011. This facility, located in Elkhart, Indiana, produces and sells the Koala ; a product that combines aerodynamic design and lightweight material composition. 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.

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 a continuing decline in sales. This decline, 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. In calendar 2010 total shipments were approximately 50,000 units, a less than 1 percent increase from the same period a year ago.

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.

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 continues to date.

The Recreational Vehicle Industry Association (RVIA), notes that slow growth in jobs and incomes, continued weakness in the housing market, and slowly improving credit to consumers could slow the pace of the recovery.

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

The Corporation's manufacturing and modular housing segment encountered increased sales in the first three quarters of fiscal 2011, and management cannot determine with certainty if the increase is sustainable. This uncertainty is based on continuing negative economic conditions previously referenced.

The recreational vehicle segment experienced increased sales in the first three quarters of fiscal 2011. Regarding the business environment for the last quarter of fiscal 2011 and the first half of fiscal 2012, the RVIA forecasts calendar 2011 travel trailer and fifth wheel sales of approximately 217,000 units; a 9 percent increase from calendar 2010's total of approximately 199,000 units. Despite this favorable trend, business conditions for calendar 2011 could be negatively impacted by adverse factors previously referenced by the RVIA.

With a significant position in cash and U.S. Treasury Bills, no bank 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 February 28, 2011 Compared to Three-Month Period
Ended February 28, 2010 (Unaudited)****Sales and Unit Shipments**

| | February 28, 2011 | Percent | February 28, 2010 | Percent | Increase (Decrease) |
|----------------------------------|-------------------------|---------|-------------------------|---------|------------------------|
| | (Dollars in thousands) | | | | |
| Sales | | | | | |
| Manufactured and Modular Housing | | | | | |
| Manufactured Housing | | | | | |
| Domestic | \$ 14,462 | 45% | \$ 13,201 | 52% | \$ 1,261 |
| Canadian | 245 | 1 | 18 | | 227 |
| | 14,707 | 46 | 13,219 | 52 | 1,488 |
| Modular Housing | | | | | |
| Domestic | 3,592 | 11 | 1,665 | 7 | 1,927 |
| Canadian | 198 | 1 | 468 | 1 | (270) |
| | 3,790 | 12 | 2,133 | 8 | 1,657 |
| Total Housing | 18,497 | 58 | 15,352 | 60 | 3,145 |
| Recreational Vehicles | | | | | |
| Domestic | 9,852 | 31 | 6,608 | 26 | 3,244 |
| Canadian | 3,427 | 11 | 3,455 | 14 | (28) |
| Total Recreational Vehicles | 13,279 | 42 | 10,063 | 40 | 3,216 |
| Total Sales | \$ 31,776 | 100% | \$ 25,415 | 100% | \$ 6,361 |

Unit shipments

Manufactured and Modular Housing

Manufactured Housing

| | | | | | |
|----------|-----|-----|-----|-----|----|
| Domestic | 329 | 24% | 309 | 30% | 20 |
| Canadian | 9 | 1 | 1 | | 8 |
| | 338 | 25 | 310 | 30 | 28 |

Modular Housing

| | | | | | |
|----------|----|---|----|---|-----|
| Domestic | 55 | 4 | 30 | 3 | 25 |
| Canadian | 4 | | 8 | 1 | (4) |
| | 59 | 4 | 38 | 4 | 21 |

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| | | | | | |
|-----------------------------|-------|------|-------|------|-----|
| Total Housing | 397 | 29 | 348 | 34 | 49 |
| Recreational Vehicles | | | | | |
| Domestic | 736 | 54 | 468 | 46 | 268 |
| Canadian | 236 | 17 | 210 | 20 | 26 |
| Total Recreational Vehicles | 972 | 71 | 678 | 66 | 294 |
| Total Unit Shipments | 1,369 | 100% | 1,026 | 100% | 343 |

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Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).*
Results of Operations Three-Month Period Ended February 28, 2011 Compared to Three-Month Period Ended February 28, 2010 (Unaudited) (Continued)

Sales and Unit Shipments (Continued)

Manufactured and modular housing sales revenue increased approximately 20 percent. The increase was the result of:

- Domestic manufactured housing sales increasing approximately 10 percent
- Canadian manufactured housing sales increasing twelvefold
- Domestic modular housing sales increasing approximately 116 percent
- Canadian modular housing sales decreasing approximately 58 percent.

In addition, total manufactured and modular housing unit shipments increased approximately 14 percent. The increase was the result of:

- Domestic manufactured housing shipments increasing approximately 6 percent
- Canadian manufactured housing shipments increasing eightfold
- Domestic modular housing shipments increasing approximately 83 percent
- Canadian modular housing shipments decreasing 50 percent.

Total manufactured housing unit shipments increased approximately 9 percent. Industry unit shipments for these products decreased approximately 14 percent from November 2010 to January 2011 as compared to the same period a year ago. Industry data from November 2010 to January 2011 is the latest three month period available. Current industry unit shipment data for modular housing is not available.

The average sales per unit for domestic manufactured housing, Canadian manufactured housing and domestic modular housing products in the third quarter as compared to prior year increased approximately 3, 51 and 18 percent, respectively. The increase is due to consumer preference toward homes with higher price points. The average sales per unit for Canadian modular housing products decreased approximately 15 percent due to consumer preferring homes with lower price points.

Recreational vehicle sales revenue increased approximately 32 percent. The increase was the result of:

- Domestic recreational vehicle sales increasing approximately 49 percent
- Canadian recreational vehicle sales decreasing approximately 1 percent.

In addition, total recreational vehicle unit shipments increased approximately 43 percent. The increase was the result of:

- Domestic recreational vehicle shipments increasing approximately 57 percent
- Canadian recreational vehicle shipments increasing 12 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 February 28, 2011 Compared to Three-Month Period
Ended February 28, 2010 (Unaudited) (Continued)****Sales and Unit Shipments (Continued)**

Sales revenue and unit shipments were positively impacted by the opening of a new recreational vehicle facility in Elkhart, Indiana. As previously referenced, the facility produces and markets the Koala.

During the third quarter, unit shipments for travel trailers and fifth wheels increased approximately 44 percent as compared to prior year while industry shipments of these products from December 2010 to February 2011 increased 11 percent. Current industry unit shipment data for park models is not available.

The average sales per unit for recreational vehicle products in the third quarter as compared to prior year decreased approximately 8 percent. The decrease is primarily due to a shift in consumer preference toward recreational vehicles with lower price points, and discounting to meet competitive market conditions.

In response to higher material costs, the Corporation increased its pricing on all the Corporation's products. Due to competitive conditions, however, the Corporation was unable to fully increase pricing to counteract all the higher material costs.

Cost of Sales

| | February 28, 2011 | Percent of Sales* | February 28, 2010 | Percent of Sales* | Increase |
|----------------------------------|----------------------------------|------------------------------|------------------------------|------------------------------|-----------------|
| | (Dollars in Thousands) | | | | |
| Manufactured and modular housing | \$ 19,783 | 107 | \$ 16,562 | 108 | \$ 3,221 |
| Recreational vehicles | 13,711 | 103 | 9,674 | 96 | 4,037 |
| Consolidated | \$ 33,494 | 105 | \$ 26,236 | 103 | \$ 7,258 |

* 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 and modular housing cost of sales, as well as recreational vehicle cost of sales, increased due to increased material costs and an improvement in unit shipments. In addition, prior year's cost of sales included a \$700,000 reduction in manufacturing costs related to reduced warranty costs in line with the lower sales level.

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 February 28, 2011 Compared to Three-Month Period
Ended February 28, 2010 (Unaudited) (Continued)****Cost of Sales (Continued)**

For the manufactured and modular housing segment, manufacturing expenses as a percentage of sales decreased due to certain costs being fixed amid rising sales. In addition, material costs and direct labor as a percentage of sales increased. The material cost percentage increased as a result of higher amounts charged for items including but not limited to steel, aluminum, copper, lumber and petroleum based products. The direct labor percentage increased due to homes sold in the current year that are more labor intensive relative to homes sold in the prior year.

As a percentage of sales, recreational vehicle cost of sales increased due to a product mix shift toward product sold in the current year that has a higher material cost percentage relative to product sold in the prior year. In addition, the cost of sales percentage increased as a result of higher material costs, discounting to meet competitive market conditions and reduced warranty costs that occurred due to lower sales levels in the prior year.

Selling and Administrative Expenses

| | February 28, 2011 | Percent of Sales | February 28, 2010 | Percent of Sales | Increase |
|--|----------------------------------|-----------------------------|------------------------------|-----------------------------|-----------------|
| | (Dollars in thousands) | | | | |

| | | | | | |
|-------------------------------------|----------|----|----------|----|--------|
| Selling and administrative expenses | \$ 7,039 | 22 | \$ 6,282 | 25 | \$ 757 |
|-------------------------------------|----------|----|----------|----|--------|

Selling and administrative expenses increased primarily due to an increase in sales based compensation, selling expenses and the commencement of operations at the new recreational vehicle facility. As a percentage of sales, selling and administrative expenses decreased due to costs being fixed amid rising sales.

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 February 28, 2011 Compared to Three-Month Period
Ended February 28, 2010 (Unaudited) (Continued)****Operating Loss**

| | February 28, 2011 | Percent of Sales* | February 28, 2010 | Percent of Sales* |
|--|----------------------------------|------------------------------|------------------------------|------------------------------|
| | (Dollars in Thousands) | | | |
| Manufactured and modular housing | \$ (5,359) | (29) | \$ (4,905) | (32) |
| Recreational vehicles | (2,812) | (21) | (1,601) | (16) |
| General corporate expenses | (586) | (2) | (597) | (2) |
| Gain on sale of idle property, plant and equipment | | | 1,544 | 6 |
| Total Operating Loss | \$ (8,757) | (28) | \$ (5,559) | (22) |

* 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 and modular housing was higher primarily due to a reduction in warranty costs that occurred in prior year.

The operating loss for recreational vehicles, increased primarily due to:

A product mix shift toward lower priced products. These products have lower margins relative to products sold in the prior year.

A reduction in warranty costs that occurred in prior year

Increased material costs

Increased discounts in order to meet competitive market conditions.

In the third quarter of fiscal 2010, the Corporation sold an idle manufactured housing facility in Bossier City, Louisiana. The sale resulted in a pre-tax gain of \$1,544,000.

Interest Income

| | February 28, 2011 | February 28, 2010 | Increase |
|-----------------|----------------------------------|------------------------------|-----------------|
| | (Dollars in thousands) | | |
| Interest income | \$ 15 | \$ 5 | \$ 10 |

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

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 February 28, 2011 Compared to Three-Month Period
Ended February 28, 2010 (Unaudited) (Continued)****Interest Income (Continued)**

In the third quarter of fiscal 2011, the average amount available for investment was approximately \$54 million with a weighted average yield of 0.07 percent. In the third quarter of fiscal 2010, the average amount available for investment was approximately \$76 million with a weighted average yield of 0.02 percent.

Benefit from Income Taxes

| | February 28, 2011 | February 28, 2010 | Decrease in Benefit |
|---------|----------------------------------|------------------------------|--------------------------------|
| | (Dollars in thousands) | | |
| Federal | \$ | \$ 1,714 | \$ 1,714 |
| State | | 143 | 143 |
| Total | \$ | \$ 1,857 | \$ 1,857 |

The benefit from federal income taxes in the third quarter of fiscal 2010 approximates the statutory rate, while the benefit 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 pretax losses that occurred in the third quarter of fiscal 2010. The Corporation recorded a full valuation allowance against its deferred tax assets at May 31, 2010 and, as a result, reflects no income tax benefit during the current period, as any benefit is directly offset by a change in the valuation allowance. Additional information regarding income taxes is located in Note 7 in Notes to Consolidated Financial Statements included in this document under Item 1.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Results of Operations - Nine-Month Period Ended February 28, 2011 Compared to Nine-Month Period Ended
February 28, 2010 (Unaudited)****Sales and Unit Shipments**

| | February 28, 2011 | Percent | February 28, 2010 | Percent | Increase (Decrease) |
|----------------------------------|-------------------------|---------|-------------------------|---------|------------------------|
| | (Dollars in thousands) | | | | |
| Sales | | | | | |
| Manufactured and Modular Housing | | | | | |
| Manufactured Housing | | | | | |
| Domestic | \$ 61,562 | 54% | \$ 54,341 | 57% | \$ 7,221 |
| Canadian | 827 | 1 | 182 | | 645 |
| | 62,389 | 55 | 54,523 | 57 | 7,866 |
| Modular Housing | | | | | |
| Domestic | 10,125 | 9 | 8,887 | 9 | 1,238 |
| Canadian | 1,169 | 1 | 2,645 | 3 | (1,476) |
| | 11,294 | 10 | 11,532 | 12 | (238) |
| Total Housing | 73,683 | 65 | 66,055 | 69 | 7,628 |
| Recreational Vehicles | | | | | |
| Domestic | 30,282 | 26 | 21,940 | 23 | 8,342 |
| Canadian | 10,259 | 9 | 7,540 | 8 | 2,719 |
| Total Recreational Vehicles | 40,541 | 35 | 29,480 | 31 | 11,061 |
| Total Sales | \$ 114,224 | 100% | \$ 95,535 | 100% | \$ 18,689 |

Unit shipments

Manufactured and Modular Housing

Manufactured Housing

| | | | | | |
|----------|-------|-----|-------|-----|-----|
| Domestic | 1,432 | 31% | 1,247 | 36% | 185 |
| Canadian | 32 | 1 | 6 | | 26 |
| | 1,464 | 32 | 1,253 | 36 | 211 |

Modular Housing

| | | | | | |
|----------|-----|---|-----|---|------|
| Domestic | 176 | 4 | 157 | 5 | 19 |
| Canadian | 22 | | 50 | 1 | (28) |
| | 198 | 4 | 207 | 6 | (9) |

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| | | | | | |
|-----------------------------|-------|------|-------|------|-------|
| Total Housing | 1,662 | 36 | 1,460 | 42 | 202 |
| Recreational Vehicles | | | | | |
| Domestic | 2,225 | 48 | 1,561 | 45 | 664 |
| Canadian | 725 | 16 | 447 | 13 | 278 |
| Total Recreational Vehicles | 2,950 | 64 | 2,008 | 58 | 942 |
| Total Unit Shipments | 4,612 | 100% | 3,468 | 100% | 1,144 |

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Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).*
Results of Operations – Nine-Month Period Ended February 28, 2011 Compared to Nine-Month Period Ended February 28, 2010 (Unaudited) (Continued)

Sales and Unit Shipments (Continued)

Manufactured housing and modular housing sales revenue increased approximately 12 percent. The increase was the result of:

- Domestic manufactured housing sales increasing approximately 13 percent
- Canadian manufactured housing sales increasing approximately 354 percent
- Domestic modular housing sales increasing approximately 14 percent
- Canadian modular housing sales decreasing approximately 56 percent.

Total manufactured and modular housing unit shipments increased approximately 14 percent. The increase was the result of:

- Domestic manufactured housing shipments increasing approximately 15 percent
- Canadian manufactured housing shipments increasing 433 percent
- Domestic modular shipments increasing approximately 12 percent
- Canadian modular shipments decreasing approximately 56 percent.

Total manufactured housing unit shipments increased approximately 17 percent. Industry unit shipments for these products decreased approximately 1 percent from May 2010 to January 2011 as compared to the same period a year ago. Industry data from May 2010 to January 2011 is the latest nine month period available. Current industry unit shipment data for modular housing is not available.

The average sales per unit for domestic and Canadian manufactured housing products in the first three quarters as compared to prior year decreased approximately 1 and 15 percent, respectively. The decrease is primarily due to a shift in consumer preference towards homes with lower price points. The average sales per unit for domestic modular housing products increased 2 percent due to consumers preferring higher price points. The average price per unit for Canadian modular housing products remained unchanged from prior year.

The Corporation's recreational vehicles sales revenue increased approximately 38 percent. The increase was the result of:

- Domestic recreational vehicle sales increasing approximately 38 percent
- Canadian recreational vehicle sales increasing approximately 36 percent

In addition, total recreational vehicle unit shipments increased approximately 47 percent. The increase the result of:

- Domestic recreational vehicle shipments increasing approximately 43 percent
- Canadian recreational vehicle shipments increasing 62 percent.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Results of Operations - Nine-Month Period Ended February 28, 2011 Compared to Nine-Month Period Ended
February 28, 2010 (Unaudited) (Continued)****Sales and Unit Shipments (Continued)**

Sales revenue and unit shipments were positively impacted by the opening in the third quarter of a new recreational vehicle facility in Elkhart, Indiana. As previously referenced, the facility produces and markets the Koala. Unit shipments for travel trailers and fifth wheels increased approximately 46 percent while industry shipments for these products from June 2010 to February 2011 increased 16 percent. Current industry unit shipment data for park models is not available.

The average sales per unit for recreational vehicle products in the first three quarters as compared to prior year decreased approximately 6 percent. The decrease is primarily due to a shift in consumer preference toward recreational vehicles with lower price points, and discounting to meet competitive market conditions.

In response to higher material costs, the Corporation increased its pricing on all the Corporation's products. Due to competitive conditions, however, the Corporation was unable to fully increase pricing to counteract all the higher material costs.

Cost of Sales

| | February 28, 2011 | Percent of Sales* | February 2010 | Percent of Sales* | Increase |
|----------------------------------|----------------------------------|------------------------------|--------------------------|------------------------------|-----------------|
| | (Dollars in Thousands) | | | | |
| Manufactured and modular housing | \$ 74,374 | 101 | \$ 65,962 | 100 | \$ 8,412 |
| Recreational vehicles | 40,444 | 100 | 29,051 | 99 | 11,393 |
| Consolidated | \$ 114,818 | 101 | \$ 95,013 | 99 | \$ 19,805 |

* 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 and modular housing cost of sales, as well as recreational vehicle cost of sales, increased due to increased material costs and higher unit shipments. In addition, prior year's cost of sales included a \$1,500,000 reduction in manufacturing costs related to reduced warranty costs in line with lower sales levels.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Results of Operations - Nine-Month Period Ended February 28, 2011 Compared to Nine-Month Period Ended
February 28, 2010 (Unaudited) (Continued)****Cost of Sales (Continued)**

As a percentage of sales, cost of sales was negatively impacted by a product mix shift in the current year toward product that has a higher material cost percentage relative to product sold in the prior year. In addition, cost of sales as a percentage of sales increased as a result of higher material costs in the current year and reduced warranty costs that occurred due to lower sales levels in prior year. Cost of sales, as a percentage of sales, for both segments were positively impacted by certain manufacturing costs being fixed amid rising sales.

Selling and Administrative Expenses

| | February 28, 2011 | Percent of Sales | February 28, 2010 | Percent of Sales | Increase |
|-------------------------------------|----------------------------------|-----------------------------|------------------------------|-----------------------------|-----------------|
| | (Dollars in thousands) | | | | |
| Selling and administrative expenses | \$ 22,020 | 19 | \$ 20,317 | 21 | \$ 1,703 |

Selling and administrative expense increased primarily due to an increase in sales based compensation and dealer promotional programs. As a percentage of sales, selling and administrative expenses decreased due to certain costs being fixed amid rising sales.

Operating Loss

| | February 28, 2011 | Percent of Sales* | February 28, 2010 | Percent of Sales* |
|--|----------------------------------|------------------------------|------------------------------|------------------------------|
| | (Dollars in Thousands) | | | |
| Manufactured and modular housing | \$ (14,305) | (19) | \$ (12,371) | (19) |
| Recreational vehicles | (6,537) | (16) | (5,162) | (18) |
| General corporate expenses | (1,772) | (2) | (2,262) | (2) |
| Income from life insurance proceeds | | | 412 | |
| Gain on sale of idle property, plant and equipment | | | 1,544 | 2 |
| Total Operating Loss | \$ (22,614) | (20) | \$ (17,839) | (19) |

* The percentages for manufactured housing and recreational vehicles are based on segment sales. The percentage for general corporate expenses, income from life insurance proceeds and total operating loss are based on total sales.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Results of Operations - Nine-Month Period Ended February 28, 2011 Compared to Nine-Month Period Ended
February 28, 2010 (Unaudited) (Continued)*****Operating Loss (Continued)***

The operating loss for manufactured and modular housing, as well as recreational vehicles, increased primarily due to:

A product mix shift toward lower priced products. These products have lower margins relative to products sold in the prior year.

A reduction in warranty costs that occurred in prior year

Increased material costs

Increased discounts and selling expenses in order to meet competitive market conditions.

General corporate expenses decreased due to a \$600,000 charge in the prior year for the Corporation's liability for retirement and death benefits offered to certain employees.

The Corporation owns life insurance contracts on certain employees. The Corporation realized in the first quarter of fiscal 2010 non-taxable income from life insurance proceeds in the amount of \$412,000, which is separately stated in the Consolidated Statement of Operations and Retained Earnings.

In the third quarter of fiscal 2010, the Corporation sold an idle manufactured housing facility in Bossier City, Louisiana. The sale resulted in a pre-tax gain of \$1,544,000.

Interest Income

| | February 28, 2011 | February 28, 2010 | Increase |
|-----------------|----------------------------------|------------------------------|-----------------|
| | (Dollars in thousands) | | |
| Interest income | \$ 51 | \$ 50 | \$ 1 |

Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government Securities. In the first nine months of fiscal 2011, the average amount available for investment was approximately \$61 million with a weighted average yield of 0.1 percent. During the same period of fiscal 2010, the average amount available for investment was approximately \$78 million with a weighted average yield of .09 percent.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Results of Operations - Nine-Month Period Ended February 28, 2011 Compared to Nine-Month Period Ended
February 28, 2010 (Unaudited) (Continued)****Benefit from Income Taxes**

| | February 28, 2011 | February 28, 2010 | Decrease in Benefit |
|---------|----------------------------------|------------------------------|--------------------------------|
| | (Dollars in thousands) | | |
| Federal | \$ | \$ 5,854 | \$ 5,854 |
| State | | 523 | 523 |
| Total | \$ | \$ 6,377 | \$ 6,377 |

The benefit from federal income taxes in the first three quarters of fiscal 2010 approximates the statutory rate, while the benefit 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 pretax losses that occurred in the first three quarters of fiscal 2010. The Corporation recorded a full valuation allowance against its deferred tax assets at May 31, 2010 and, as a result, reflects no income tax benefit during the current period, as any benefit is directly offset by a change in the valuation allowance. Additional information regarding income taxes is located in Note 7 in Notes to Consolidated Financial Statements included in this document under Item 1.

Liquidity and Capital Resources

| | February 28, 2011 | May 31, 2010 | Increase (Decrease) |
|---|----------------------------------|-------------------------|--------------------------------|
| | (Dollars in thousands) | | |
| Cash and U.S. Treasury Bills | \$ 53,398 | \$ 77,257 | \$ (23,859) |
| Current assets, exclusive of cash and US Treasury Bills | \$ 20,949 | \$ 21,074 | \$ (125) |
| Current liabilities | \$ 15,092 | \$ 13,383 | \$ 1,709 |
| Working capital | \$ 59,255 | \$ 84,948 | \$ (25,693) |

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 \$22,563,000 and dividends paid of \$4,531,000. Current assets, exclusive of cash and U.S. Treasury Bills, decreased primarily due to a \$1,368,000 increase in raw materials inventory, and a \$1,469,000 decrease in other current assets. Raw materials inventory increased as a result of the new recreational vehicle facility, increased material costs and to more quickly respond to orders from dealer and communities. Other current assets decreased as a result of a \$1,200,000 partial refund of a workers' compensation liability deposit.

Current liabilities changed as a result of a \$1,013,000 increase in accrued marketing programs. Accrued marketing programs increased due to accruals for an ongoing marketing program for the Corporation's manufactured housing dealers. Accruals are made monthly, and the majority of payments due to dealers are paid during the Corporation's fourth fiscal quarter.

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Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).*
Results of Operations – Nine-Month Period Ended February 28, 2011 Compared to Nine-Month Period Ended February 28, 2010 (Unaudited) (Continued)

Liquidity and Capital Resources (Continued)

Capital expenditures totaled \$528,000 for the first three quarters of fiscal 2011 as compared to \$610,000 for the first three quarters of fiscal 2010. Capital expenditures were made primarily to replace or refurbish machinery and equipment in addition to improving manufacturing efficiencies. In the third quarter of fiscal 2009, the Corporation began a project to implement an enterprise resource planning (ERP) system. The project is expected to last until the end of fiscal 2012, and the cost is to be paid out of the Corporation's normal budget for capital expenditures. The amount of capital expended for this project through February 28, 2010 is approximately \$899,000. The amount of capital expended in the first nine months of fiscal 2011 was approximately \$45,000, while the amount expended in the same period of fiscal 2010 was approximately \$350,000. The goal of the ERP system is to obtain better decision-making information, to react quicker to changes in market conditions, and lower the Corporation's technology costs.

The Corporation's current cash and other short-term investments are expected to be adequate to fund any capital expenditures and treasury stock purchases during the year. The Corporation's financing needs have been met with a combination of cash on hand and funds generated through the sale of assets.

Recently Issued Accounting Standards

The effect on newly issued account standards is addressed in Note 1 of the Notes to Consolidated Financial Statements.

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.

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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:

- Availability of wholesale and retail financing
- The health of the U.S. housing market as a whole
- 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
- 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
- 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 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.

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Item 4. Controls and Procedures.

Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

As of February 28, 2011, 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 February 28, 2011.

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 third quarter ended February 28, 2011 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, 2011 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, 2010.

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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: April 8, 2011

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

DATE: April 8, 2011

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

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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) |
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