

SKYLINE CORP
Form 10-Q
January 06, 2012

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended November 30, 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting
company ☒

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

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

Title of Class
Common Stock

Shares Outstanding
January 6, 2012
8,391,244

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

| | November 30, 2011 (Unaudited) | May 31, 2011 |
|----------------------------------------------------|----------------------------------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 8,056 | \$ 9,727 |
| U.S. Treasury Bills, at cost plus accrued interest | 30,995 | 34,994 |
| Accounts receivable | 7,944 | 11,477 |
| Inventories | 10,034 | 8,720 |
| Other current assets | 3,103 | 3,463 |
| Total Current Assets | 60,132 | 68,381 |
| Property, Plant and Equipment, at Cost: | | |
| Land | 4,063 | 4,063 |
| Buildings and improvements | 45,845 | 45,760 |
| Machinery and equipment | 23,460 | 23,300 |
| | 73,368 | 73,123 |
| Less accumulated depreciation | 53,815 | 52,998 |
| | 19,553 | 20,125 |
| Idle property, net of accumulated depreciation | 2,970 | 4,677 |
| Net Property, Plant and Equipment | 22,523 | 24,802 |
| Other Assets | 5,993 | 5,916 |
| Total Assets | \$ 88,648 | \$ 99,099 |

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

Table of Contents**Item 1. Financial Statements (Continued).**

Skyline Corporation and Subsidiary Companies
Consolidated Balance Sheets (Continued)
(Dollars in thousands, except share and per share amounts)

| | November 30, 2011 (Unaudited) | May 31, 2011 |
|--------------------------------------------------------------------------------------------|----------------------------------------------|-------------------------|
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Accounts payable, trade | \$ 2,664 | \$ 3,392 |
| Accrued salaries and wages | 3,021 | 3,089 |
| Accrued marketing programs | 3,222 | 1,573 |
| Accrued warranty and related expenses | 3,609 | 3,366 |
| Accrued workers compensation | 1,509 | 822 |
| Other accrued liabilities | 1,926 | 2,474 |
| Total Current Liabilities | 15,951 | 14,716 |
| Other Deferred Liabilities | 7,436 | 7,344 |
| Commitments and Contingencies | See Note 6 | |
| 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 | 125,765 | 137,543 |
| Treasury stock, at cost, 2,825,900 shares | (65,744) | (65,744) |
| Total Shareholders Equity | 65,261 | 77,039 |
| Total Liabilities and Shareholders Equity | \$ 88,648 | \$ 99,099 |

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

Table of Contents**Item 1. Financial Statements (Continued).**

Skyline Corporation and Subsidiary Companies
Consolidated Statements of Operations and Retained Earnings
For the Three-Month and Six-Month Periods Ended November 30, 2011 and 2010
(Dollars in thousands, except share and per share amounts)

| | Three-Months Ended | | Six-Months Ended | |
|------------------------------------------------------|--------------------|------------|------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| | (Unaudited) | | (Unaudited) | |
| OPERATIONS | | | | |
| Net sales | \$ 45,296 | \$ 36,621 | \$ 95,580 | \$ 82,448 |
| Cost of sales | 44,031 | 37,244 | 93,271 | 81,324 |
| Gross profit (loss) | 1,265 | (623) | 2,309 | 1,124 |
| Selling and administrative expenses | 7,191 | 7,151 | 15,087 | 14,981 |
| Gain on sale of idle property, plant and equipment | 2,500 | | 2,500 | |
| Operating loss | (3,426) | (7,774) | (10,278) | (13,857) |
| Interest income | 4 | 18 | 11 | 36 |
| Loss before income taxes | (3,422) | (7,756) | (10,267) | (13,821) |
| Benefit from income taxes | | | | |
| Net loss | \$ (3,422) | \$ (7,756) | \$ (10,267) | \$ (13,821) |
| Basic loss per share | \$ (.40) | \$ (.93) | \$ (1.22) | \$ (1.65) |
| Cash dividends per share | \$.09 | \$.18 | \$.18 | \$.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 | \$ 129,943 | \$ 162,636 | \$ 137,543 | \$ 170,211 |
| Net loss | (3,422) | (7,756) | (10,267) | (13,821) |
| Cash dividends paid | (756) | (1,511) | (1,511) | (3,021) |
| Balance at end of period | \$ 125,765 | \$ 153,369 | \$ 125,765 | \$ 153,369 |

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

Table of Contents**Item 1. Financial Statements (Continued).**

Skyline Corporation and Subsidiary Companies
Consolidated Statements of Cash Flows
For the Six-Month Periods Ended November 30, 2011 and 2010
(Dollars in thousands)

| | 2011 | 2010 |
|-----------------------------------------------------------------------------|--------------------|-------------|
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (10,267) | \$ (13,821) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 1,203 | 1,357 |
| Gain on sale of idle property, plant and equipment | (2,500) | |
| Change in assets and liabilities: | | |
| Accrued interest receivable | 5 | (1) |
| Accounts receivable | 3,533 | 3,648 |
| Inventories | (1,314) | (166) |
| Other current assets | 360 | 1,346 |
| Accounts payable, trade | (728) | (1,183) |
| Accrued liabilities | 1,963 | 1,239 |
| Other, net | 31 | (17) |
| Net cash used in operating activities | (7,714) | (7,598) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from principal payments of U.S. Treasury Bills | 34,985 | 129,966 |
| Purchase of U.S. Treasury Bills | (30,991) | (116,967) |
| Proceeds from sale of idle property, plant and equipment | 4,071 | |
| Purchase of property, plant and equipment | (466) | (306) |
| Other, net | (45) | (73) |
| Net cash provided by investing activities | 7,554 | 12,620 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash dividends paid | (1,511) | (3,021) |
| Net cash used in financing activities | (1,511) | (3,021) |
| Net (decrease) increase in cash | (1,671) | 2,001 |
| Cash at beginning of period | 9,727 | 9,268 |
| Cash at end of period | \$ 8,056 | \$ 11,269 |

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 November 30, 2011, in addition to the consolidated results of operations and consolidated cash flows for the three-month and six-month periods ended November 30, 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, 2011 and the unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation's latest annual report on Form 10-K. The following is a summary of the accounting policies that have a significant effect on the Consolidated Financial Statements.

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

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

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

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

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

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. At November 30, 2011, 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; and Mocksville, North Carolina. At May 31, 2011, Idle property, net of accumulated depreciation consisted of the aforementioned facilities, and manufacturing facilities in Ocala, Florida and Ephrata, Pennsylvania that were sold in the second quarter of fiscal 2012.

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 in fiscal 2010 and continued to maintain a full valuation allowance through the second quarter of fiscal 2012.

NOTE 2 Investments

The following is a summary of investments:

| | Gross Amortized Costs | Gross Unrealized Gains (Dollars in thousands) | Fair Value |
|--------------------------|--------------------------------------|------------------------------------------------------------------|-------------------|
| November 30, 2011 | | | |
| U. S. Treasury Bills | \$ 30,995 | \$ 6 | \$ 31,001 |
| May 31, 2011 | | | |
| U. S. Treasury Bills | \$ 34,994 | \$ 11 | \$ 35,005 |

The fair value is determined by a secondary market for U.S. Government Securities. At November 30 and May 31, 2011 the U.S. Treasury Bills matured within seven and five months, respectively.

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

Total inventories consist of the following:

| | November 30, 2011 | May 31, 2011 |
|-----------------|-------------------------------|---------------------|
| | (Dollars in thousands) | |
| Raw materials | \$ 4,752 | \$ 5,016 |
| Work in process | 2,414 | 3,300 |
| Finished goods | 2,868 | 404 |
| | \$ 10,034 | \$ 8,720 |

NOTE 4 Warranty

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

| | Six-Months Ended November 30, 2011 | 2010 |
|------------------------------------------------------------|---------------------------------------------------|-----------------|
| | (Dollars in thousands) | |
| Balance at the beginning of the period | \$ 4,966 | \$ 4,839 |
| Accruals for warranties | 2,936 | 2,608 |
| Settlements made during the period | (2,693) | (2,603) |
| Balance at the end of the period | 5,209 | 4,844 |
| Non-current balance included in other deferred liabilities | 1,600 | 1,500 |
| Accrued warranty and related expenses | \$ 3,609 | \$ 3,344 |

NOTE 5 Income Taxes

The Corporation's gross deferred tax assets of approximately \$34 million consist of approximately \$21 million in federal net operating loss and tax credit carryforwards, \$6 million in state net operating loss carryforwards, and \$7 million resulting from temporary differences between financial and tax reporting. The federal net operating loss and tax credit carryforwards have a life expectancy of twenty years. The state net operating loss carryforwards have a life expectancy, depending on the state where a loss was incurred, between five and twenty years. If the Corporation, after considering future negative and positive evidence regarding the realization of deferred tax assets, determines that a lesser valuation allowance is warranted, it would record a reduction to income tax expense and the valuation allowance in the period of determination.

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

The Corporation was contingently liable at November 30, 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 \$66 million at November 30, 2011 and approximately \$52 million at May 31, 2011.

The risk of loss under these agreements is spread over many dealers and financial institutions. The loss, if any, under these agreements is the difference between the repurchase cost and the resale value of the units. The Corporation estimates the fair value of this commitment considering both the contingent losses and the value of the guarantee. This amount has historically been insignificant. The Corporation believes that any potential loss under the agreements in effect at November 30, 2011 will not be material to its 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 | | Six-Months Ended | |
|--|-------------------------------|-------------|-------------------------|-------------|
| | November 30, | | November 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| | (Dollars in thousands) | | | |

Number of units repurchased

| | | | | |
|------------------------------------|----|----|----|----|
| Obligations from units repurchased | \$ | \$ | \$ | \$ |
|------------------------------------|----|----|----|----|

| | | | | |
|---------------------------------|----|----|----|----|
| 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.

Table of Contents**Item 1. Financial Statements (Continued).****Skyline Corporation and Subsidiary Companies****Notes to the Consolidated Financial Statements (Unaudited) (Continued)****NOTE 7 Industry Segment Information**

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

| | Three-Months Ended November 30, | | Six-Months Ended November 30, | |
|-----------------------------|--------------------------------------------|-------------|------------------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Housing | | | | |
| Manufactured Housing | | | | |
| Domestic | 55% | 59% | 51% | 57% |
| Canadian | | | | 1 |
| | 55 | 59 | 51 | 58 |
| Modular Housing | | | | |
| Domestic | 10 | 7 | 9 | 8 |
| Canadian | 6 | 1 | 4 | 1 |
| | 16 | 8 | 13 | 9 |
| Total Housing | 71 | 67 | 64 | 67 |
| Recreational Vehicles | | | | |
| Domestic | 25 | 25 | 29 | 25 |
| Canadian | 4 | 8 | 7 | 8 |
| Total Recreational Vehicles | 29 | 33 | 36 | 33 |
| | 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 7 Industry Segment Information (Continued)**

| | Three-Months Ended November 30, 20112010 (Dollars in thousands) | | Six-Months Ended November 30, 20112010 (Dollars in thousands) | |
|----------------------------------------------------|--------------------------------------------------------------------------|-----------|------------------------------------------------------------------------|------------|
| NET SALES | | | | |
| Housing | | | | |
| Manufactured Housing | | | | |
| Domestic | \$25,117 | \$21,427 | \$48,793 | \$47,100 |
| Canadian | | 96 | | 582 |
| | 25,117 | 21,523 | 48,793 | 47,682 |
| Modular Housing | | | | |
| Domestic | 4,541 | 2,656 | 8,754 | 6,533 |
| Canadian | 2,502 | 378 | 3,756 | 971 |
| | 7,043 | 3,034 | 12,510 | 7,504 |
| Total Housing | 32,160 | 24,557 | 61,303 | 55,186 |
| Recreational Vehicles | | | | |
| Domestic | 11,437 | 9,129 | 27,599 | 20,430 |
| Canadian | 1,699 | 2,935 | 6,678 | 6,832 |
| Total Recreational Vehicles | 13,136 | 12,064 | 34,277 | 27,262 |
| Total Net Sales | \$45,296 | \$36,621 | \$95,580 | \$82,448 |
| LOSS BEFORE INCOME TAXES | | | | |
| Operating Loss | | | | |
| Housing | \$(3,400) | \$(5,118) | \$(7,806) | \$(8,946) |
| Recreational vehicles | (1,865) | (2,092) | (3,740) | (3,725) |
| General corporate expense | (661) | (564) | (1,232) | (1,186) |
| Gain on sale of idle property, plant and equipment | 2,500 | | 2,500 | |
| Total operating loss | (3,426) | (7,774) | (10,278) | (13,857) |
| Interest income | 4 | 18 | 11 | 36 |
| Loss before income taxes | \$(3,422) | \$(7,756) | \$(10,267) | \$(13,821) |

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 1. *Financial Statements* (Continued).

Skyline Corporation and Subsidiary Companies

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

NOTE 8 Gain on Sale of Idle Property, Plant and Equipment

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

NOTE 9 Subsequent Event

Subsequent to November 30, 2011, the Board of Directors approved a resolution to suspend dividend payments on the outstanding shares of the Corporation's common stock until further notice. The suspension was for cash preservation purposes. The Board will evaluate financial performance and liquidity needs in determining the timing and amount of future dividend payments.

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

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

Manufactured Housing, Modular Housing and Recreational Vehicle Industry Conditions

Sales of manufactured housing, modular housing and recreational vehicles are affected by the strength of the U.S. economy, interest rate and employment levels, consumer confidence and the availability of wholesale and retail financing. The manufactured housing industry has 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. From January to October of 2011 total shipments were approximately 42,000 units, a 3 percent decrease 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.

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

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

The domestic modular housing industry has challenges similar to the manufactured housing industry, such as restrictive retail and wholesale financing, and a depressed site-built housing market. Comparing calendar 2004 to 2010, total shipments decreased from approximately 43,000 to 13,000 units, a decline of 70 percent. Information related to the Canadian modular housing industry is not available.

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

Second Quarter Fiscal 2012 Results

The Corporation experienced the following results during the second quarter of fiscal 2012:

Total net sales were \$45,296,000, an approximate 24 percent increase from the \$36,621,000 reported in the same period a year ago.

Housing net sales were \$32,160,000, an approximate 31 percent increase from the \$24,557,000 realized in the second quarter of fiscal 2011.

Recreational vehicle net sales were \$13,136,000 in the second quarter of fiscal 2012, an approximate 9 percent increase from \$12,064,000 in the second quarter of fiscal 2011.

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

Net loss for the second quarter of fiscal 2012 was \$3,422,000 as compared to \$7,756,000 for the second quarter of fiscal 2011. On a per share basis, net loss was \$.40 as compared to \$.93 for the same period a year ago.

The Corporation continues to maintain a full valuation allowance for deferred tax assets, and as a result recognized no benefit from income taxes from its current period loss.

The Corporation commenced recreational vehicle production at its Bristol, Indiana facility. The amount of capital expenditures and expenses incurred to convert this facility from housing to recreational vehicle production was approximately \$300,000.

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

Second Quarter Fiscal 2012 Results (Continued)

The Corporation closed its housing facility in Fair Haven, Vermont due to weak demand in the New England market. Independent dealers and communities that purchased homes from the Fair Haven facility will have their product and service needs met by the Corporation's facility in Leola, Pennsylvania.

A dividend of \$.09 per share was paid. Subsequent to November 30, 2011, the Board of Directors approved a resolution to suspend dividend payments on the outstanding shares of the Corporation's common stock until further notice. The suspension was for cash preservation purposes. The Board will evaluate financial performance and liquidity needs in determining the timing and amount of future dividend payments.

The Corporation's housing segment experienced increased net sales in second quarter and first half of fiscal 2012 as compared to the same periods in prior year. Management cannot determine with certainty if this trend will continue. This uncertainty is based on continuing negative economic conditions previously referenced.

The recreational vehicle segment experienced increased net sales in second quarter and first half of fiscal 2012 as compared to the second quarter and first half of fiscal 2011. Regarding the business environment for the remaining quarters of fiscal 2012, the RVIA forecasts calendar 2011 travel trailer and fifth wheel shipments of approximately 207,000 units; a 4 percent increase from calendar 2010's total of approximately 199,000 units. The RVIA also forecasts calendar 2012 travel trailer and fifth wheel shipments of approximately 203,000 units; a 2 percent decrease from calendar year 2011's total. Given this trend, business conditions in fiscal 2012 could be negatively impacted by adverse factors previously referenced by the RVIA.

The Corporation has a significant position of its working capital in cash and U.S. Treasury Bills, and no bank debt. With experienced employees, the Corporation is meeting the challenges ahead by continuing to evaluate its cost structure; by analyzing staffing needs, negotiating with current and potential product and service providers, and selling when possible non-strategic assets. In addition, the Corporation is seeking opportunities for domestic and Canadian revenue growth; especially products such as modular housing and park models.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
(Continued).****Results of Operations Three-Month Period Ended November 30, 2011 Compared to Three-Month Period Ended November 30, 2010 (Unaudited)****Net Sales and Unit Shipments**

| | November 30, 2011 | Percent | November 30, 2010 (Dollars in thousands) | Percent | Increase (Decrease) |
|-----------------------------|----------------------------------|----------------|-------------------------------------------------------------|----------------|--------------------------------|
| Net Sales | | | | | |
| Housing | | | | | |
| Manufactured Housing | | | | | |
| Domestic | \$ 25,117 | 55% | \$ 21,427 | 59% | \$ 3,690 |
| Canadian | | | 96 | | (96) |
| | 25,117 | 55 | 21,523 | 59 | 3,594 |
| Modular Housing | | | | | |
| Domestic | 4,541 | 10 | 2,656 | 7 | \$ 1,885 |
| Canadian | 2,502 | 6 | 378 | 1 | 2,124 |
| | 7,043 | 16 | 3,034 | 8 | 4,009 |
| Total Housing | 32,160 | 71 | 24,557 | 67 | 7,603 |
| Recreational Vehicles | | | | | |
| Domestic | 11,437 | 25 | 9,129 | 25 | 2,308 |
| Canadian | 1,699 | 4 | 2,935 | 8 | (1,236) |
| Total Recreational Vehicles | 13,136 | 29 | 12,064 | 33 | 1,072 |
| Total Net Sales | \$ 45,296 | 100% | \$ 36,621 | 100% | \$ 8,675 |
| Unit shipments | | | | | |
| Housing | | | | | |
| Manufactured Housing | | | | | |
| Domestic | 566 | 36% | 507 | 34% | 59 |
| Canadian | | | 4 | | (4) |
| | 566 | 36 | 511 | 34 | 55 |
| Modular Housing | | | | | |
| Domestic | 83 | 5 | 51 | 4 | 32 |
| Canadian | 47 | 3 | 7 | | 40 |
| | 130 | 8 | 58 | 4 | 72 |

| | | | | | |
|-----------------------------|-------|------|-------|------|-------|
| Total Housing | 696 | 44 | 569 | 38 | 127 |
| Recreational Vehicles | | | | | |
| Domestic | 799 | 50 | 691 | 46 | 108 |
| Canadian | 95 | 6 | 245 | 16 | (150) |
| Total Recreational Vehicles | 894 | 56 | 936 | 62 | (42) |
| Total Unit Shipments | 1,590 | 100% | 1,505 | 100% | 85 |

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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 November 30, 2011 Compared to Three-Month Period Ended November 30, 2010 (Unaudited) (Continued)

Net Sales and Unit Shipments (Continued)

Housing net sales increased approximately 31 percent. The increase was the outcome of:

Domestic manufactured housing net sales increasing approximately 17 percent

Canadian manufactured housing net sales decreasing 100 percent

Domestic modular housing net sales increasing approximately 71 percent

Canadian modular housing net sales increasing approximately sixfold.

Housing unit shipments increased approximately 22 percent. The increase was the outcome of:

Domestic manufactured housing shipments increasing approximately 12 percent

Canadian manufactured housing shipments decreasing 100 percent

Domestic modular housing shipments increasing approximately 63 percent

Canadian modular housing shipments increasing approximately sixfold.

Total domestic manufactured housing unit shipments increased approximately 17 percent. From August to October 2011, the latest three months available, industry unit shipments for these products increased approximately 19 percent as compared to the same period a year ago. Current industry unit shipment data for modular housing is not available.

Compared to prior year's second quarter, the average net sales price for domestic housing products increased approximately 5 percent due to sales price adjustments resulting from increased material costs. The average net sales price of Canadian modular housing products decreased approximately 1 percent due to a shift in consumer preference toward homes with lower price points; either through less square footage or fewer amenities.

Recreational vehicle net sales increased approximately 9 percent. The increase was the outcome of:

Domestic recreational vehicle net sales increasing approximately 25 percent

Canadian recreational vehicle net sales decreasing approximately 42 percent.

Recreational vehicle unit shipments decreased approximately 4 percent. The decrease was the outcome of:

Domestic recreational vehicle shipments increasing approximately 16 percent

Canadian recreational vehicle shipments decreasing 61 percent.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
(Continued).**Results of Operations Three-Month Period Ended November 30, 2011 Compared to Three-Month Period Ended November 30, 2010 (Unaudited) (Continued)****Net Sales and Unit Shipments (Continued)**

Unit shipments for travel trailers and fifth wheels decreased approximately 5 percent. From August to October 2011, the latest three months available, industry shipments for these products increased approximately 7 percent as compared to the same period a year ago. Current industry unit shipment data for park models is not available. The average net sales per unit for recreational vehicle products in the second quarter of fiscal year 2012 as compared to the second quarter of fiscal year 2011 increased approximately 14 percent. The increase is due to sales price adjustments with respect to increased material costs. In addition, the average net sales price increased as result of a shift in consumer preference toward recreational vehicles with higher price points; either through more square footage or greater amenities.

Cost of Sales

| | November 30, 2011 | Percent of Sales* | November 30, 2010 | Percent of Sales* | Increase |
|-----------------------|----------------------------------|------------------------------|------------------------------|------------------------------|-----------------|
| | (Dollars in Thousands) | | | | |
| Housing | \$ 31,246 | 97 | \$ 25,099 | 102 | \$ 6,147 |
| Recreational vehicles | 12,785 | 97 | 12,145 | 101 | 640 |
| Consolidated | \$ 44,031 | 97 | \$ 37,244 | 102 | \$ 6,787 |

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

Housing cost of sales increased due to higher unit shipments. As a percentage of net sales, cost of sales decreased as a result of certain manufacturing expenses being fixed amid rising sales.

Recreational vehicle cost of sales increased due to higher material costs. As a percentage of net sales, cost of sales decreased due to material cost as a percentage of net sales decreasing as a result of sales price adjustments. In addition, direct labor as a percentage of net sales declined due to a shift in consumer preference toward products that have lower direct labor per unit as compared to prior year.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
(Continued).**Results of Operations Three-Month Period Ended November 30, 2011 Compared to Three-Month Period Ended November 30, 2010 (Unaudited) (Continued)*****Selling and Administrative Expenses***

| | November 30, 2011 | Percent of Sales | November 30, 2010 | Percent of Sales | Increase |
|-------------------------------------|----------------------------------|-----------------------------|-------------------------------|-----------------------------|-----------------|
| | | | (Dollars in thousands) | | |
| Selling and administrative expenses | \$ 7,191 | 16 | \$ 7,151 | 20 | \$ 40 |

Selling and administrative expenses increased as a result of a charge for the Corporation's liability for retirement and death benefits offered to certain current or former employees. The charge occurred due to a change in the interest rate in valuing the liability. As a percentage of net sales, selling and administrative expenses decreased due to certain costs being fixed amid rising net sales.

Gain on Sale of Idle Property, Plant and Equipment

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

Operating Loss

| | November 30, 2011 | Percent of Sales* | November 30, 2010 | Percent of Sales* |
|----------------------------------------------------|----------------------------------|------------------------------|-------------------------------|------------------------------|
| | | | (Dollars in thousands) | |
| Housing | \$ (3,400) | (11) | \$ (5,118) | (21) |
| Recreational vehicles | (1,865) | (14) | (2,092) | (17) |
| General corporate expenses | (661) | (1) | (564) | (2) |
| Gain on sale of idle property, plant and equipment | 2,500 | 6 | | |
| Total Operating loss | \$ (3,426) | (8) | \$ (7,774) | (21) |

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

The operating loss for housing decreased due to increased unit shipments. The operating loss for recreational vehicles decreased as a result of increased net sales resulting from price adjustments. In addition, this segment benefited from a shift in consumer preference toward product with improved margins as compared to prior year.

General corporate expenses increased due to a charge for the corporation's liability for retirement and death benefits offered to certain current employees or former employees. The charge occurred as a result of a change in the interest rate used in valuing the liability.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
(Continued).****Results of Operations Six-Month Period Ended November 30, 2011 Compared to Six-Month Period Ended November 30, 2010 (Unaudited)****Net Sales and Unit Shipments**

| | November 30, 2011 | Percent | November 30, 2010 (Dollars in thousands) | Percent | Increase (Decrease) |
|-----------------------------|----------------------------------|----------------|-------------------------------------------------------------|----------------|--------------------------------|
| Net Sales | | | | | |
| Housing | | | | | |
| Manufactured Housing | | | | | |
| Domestic | \$ 48,793 | 51% | \$ 47,100 | 57% | \$ 1,693 |
| Canadian | | | 582 | 1 | (582) |
| | 48,793 | 51 | 47,682 | 58 | 1,111 |
| Modular Housing | | | | | |
| Domestic | 8,754 | 9 | 6,533 | 8 | \$ 2,221 |
| Canadian | 3,756 | 4 | 971 | 1 | 2,785 |
| | 12,510 | 13 | 7,504 | 9 | 5,006 |
| Total Housing | 61,303 | 64 | 55,186 | 67 | 6,117 |
| Recreational Vehicles | | | | | |
| Domestic | 27,599 | 29 | 20,430 | 25 | 7,169 |
| Canadian | 6,678 | 7 | 6,832 | 8 | (154) |
| Total Recreational Vehicles | 34,277 | 36 | 27,262 | 33 | 7,015 |
| Total Net Sales | \$ 95,580 | 100% | \$ 82,448 | 100% | \$ 13,132 |
| Unit shipments | | | | | |
| Housing | | | | | |
| Manufactured Housing | | | | | |
| Domestic | 1,085 | 29% | 1,103 | 34% | (18) |
| Canadian | | | 23 | 1 | (23) |
| | 1,085 | 29 | 1,126 | 35 | (41) |
| Modular Housing | | | | | |
| Domestic | 155 | 4 | 121 | 3 | 34 |
| Canadian | 69 | 2 | 18 | 1 | 51 |
| | 224 | 6 | 139 | 4 | 85 |

| | | | | | |
|-----------------------------|-------|------|-------|------|------|
| Total Housing | 1,309 | 35 | 1,265 | 39 | 44 |
| Recreational Vehicles | | | | | |
| Domestic | 1,972 | 54 | 1,489 | 46 | 483 |
| Canadian | 407 | 11 | 489 | 15 | (82) |
| Total Recreational Vehicles | 2,379 | 65 | 1,978 | 61 | 401 |
| Total Unit Shipments | 3,688 | 100% | 3,243 | 100% | 445 |

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

Results of Operations Six-Month Period Ended November 30, 2011 Compared to Six-Month Period Ended November 30, 2010 (Unaudited) (Continued)

Net Sales and Unit Shipments (Continued)

Housing net sales increased approximately 11 percent. The increase was the outcome of:

Domestic manufactured housing net sales increasing approximately 4 percent

Canadian manufactured housing net sales decreasing 100 percent

Domestic modular housing net sales increasing approximately 34 percent

Canadian modular housing net sales increasing approximately threefold.

Housing unit shipments increased approximately 3 percent. The increase was the outcome of:

Domestic manufactured housing shipments decreasing approximately 2 percent

Canadian manufactured housing shipments decreasing 100 percent

Domestic modular shipments increasing approximately 28 percent

Canadian modular shipments increasing approximately threefold.

Total domestic manufactured housing unit shipments decreased approximately 2 percent. From May to October 2011, the latest six months available, industry unit shipments for these products increased approximately 3 percent as compared to the same period a year ago. Current industry unit shipment data for modular housing is not available. Compared to prior year's first six months, the average net sales price for domestic housing and Canadian modular housing products increased approximately 5 percent and 1 percent, respectively. The increase is primarily due to sales price adjustments resulting from higher material costs.

Recreational vehicles net sales revenue increased approximately 26 percent. The increase was the outcome of:

Domestic recreational vehicle net sales increasing approximately 35 percent

Canadian recreational vehicle net sales decreasing approximately 2 percent.

Recreational vehicle unit shipments increased approximately 20 percent. The increase the outcome of:

Domestic recreational vehicle shipments increasing approximately 32 percent

Canadian recreational vehicle shipments decreasing 17 percent.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
(Continued).**Results of Operations Six-Month Period Ended November 30, 2011 Compared to Six-Month Period Ended November 30, 2010 (Unaudited) (Continued)****Net Sales and Unit Shipments (Continued)**

Unit shipments for travel trailers and fifth wheels increased approximately 21 percent. From May to October 2011, the latest six months available, industry shipments for these products increased 5 percent as compared to the same period a year ago. Current industry unit shipment data for park models is not available.

The average net sales price per unit for recreational vehicle products in the first half of fiscal year 2012 as compared to the first half of fiscal year 2011 increased approximately 5 percent. The increase is primarily due to sales price adjustments with respect to increased material costs. In addition, the average net sales price increased as result of a shift in consumer preference toward recreational vehicles with higher price points; either through more square footage or greater amenities.

Cost of Sales

| | November 30, 2011 | Percent of Sales* | November 30, 2010 | Percent of Sales* | Increase |
|-----------------------|----------------------------------|------------------------------|------------------------------|------------------------------|-----------------|
| | (Dollars in Thousands) | | | | |
| Housing | \$ 60,354 | 98 | \$ 54,591 | 99 | \$ 5,763 |
| Recreational vehicles | 32,917 | 96 | 26,733 | 98 | 6,184 |
| Consolidated | \$ 93,271 | 98 | \$ 81,324 | 99 | \$ 11,947 |

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

Housing cost of sales increased due to higher unit shipments. As a percentage of net sales, cost of sales decreased due to certain manufacturing expenses being fixed amid rising sales.

Recreational vehicle cost of sales increased due to higher unit shipments. As a percentage of net sales, cost of sales decreased due to certain manufacturing cost being fixed amid rising sales. In addition, direct labor as a percentage of net sales declined as a result of a shift in consumer preference toward products that have lower direct labor per unit as compared to prior year.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
(Continued).**Results of Operations Six-Month Period Ended November 30, 2011 Compared to Six-Month Period Ended November 30, 2010 (Unaudited) (Continued)*****Selling and Administrative Expenses***

| | November 30, 2011 | Percent of Sales | November 30, 2010 (Dollars in thousands) | Percent of Sales | Increase |
|-------------------------------------|----------------------------------|-----------------------------|---------------------------------------------------------|-----------------------------|-----------------|
| Selling and administrative expenses | \$ 15,087 | 16 | \$ 14,981 | 18 | \$ 106 |

Selling and administrative expenses increased as a result of a charge in the second quarter for the Corporation's liability for retirement and death benefits offered to certain current or former employees. The charge occurred due to a change in the interest rate in valuing the liability. As a percent of net sales, selling and administrative expenses decreased due to certain cost being fixed amid rising sales.

Gain on Sale of Idle Property, Plant and Equipment

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

Operating Loss

| | November 30, 2011 | Percent of Sales* | November 30, 2010 (Dollars in Thousands) | Percent of Sales* |
|----------------------------------------------------|----------------------------------|------------------------------|---------------------------------------------------------|------------------------------|
| Housing | \$ (7,806) | (13) | \$ (8,946) | (16) |
| Recreational vehicles | (3,740) | (11) | (3,725) | (14) |
| General corporate expenses | (1,232) | (1) | (1,186) | (1) |
| Gain on sale of idle property, plant and equipment | 2,500 | 3 | | |
| Total Operating loss | \$ (10,278) | (11) | \$ (13,857) | (17) |

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

The operating loss for housing decreased due to higher unit shipments. The operating loss for recreational vehicles includes an additional \$177,000 of non-traceable operating expenses allocated to industry segments based on a percentage of sales. In the first half of fiscal 2012, recreational vehicle net sales were approximately 36 percent of total net sales as compared to 33 percent in the same period of prior year.

General corporate expenses increased primarily due to a charge for the corporation's liability for retirement and death benefits offered to certain employees or former employees. The charge occurred as a result of a change in the interest rate used in valuing the liability.

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

| | November 30, 2011 | May 31, 2011 | Increase (Decrease) |
|---------------------------------------------------------------|-------------------------|-----------------|------------------------|
| | (Dollars in thousands) | | |
| Cash and U.S. Treasury Bills | \$ 39,051 | \$ 44,721 | \$ (5,670) |
| Current assets, exclusive of cash and U. S. Treasury Bills | \$ 21,081 | \$ 23,660 | \$ (2,579) |
| Current liabilities | \$ 15,951 | \$ 14,716 | \$ 1,235 |
| Working capital | \$ 44,181 | \$ 53,665 | \$ (9,484) |

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 \$10,267,000 and dividends paid of \$1,511,000; offset by \$4,071,000 received from the sale of idle property, plant and equipment. Current assets, exclusive of cash and U.S. Treasury Bills, decreased primarily due to a \$3,533,000 decrease in accounts receivable, and a \$1,314,000 increase in inventories. Accounts receivable decreased due to the timing of payments from financial institutions, and sales activity being lower at November 30, 2011 as compared to May 31, 2011. Inventories increased primarily as a result of a greater number of homes and recreational vehicles being used as displays at trade shows and the Corporation's facilities. In addition, the Corporation has completed recreational vehicles in inventory; allowing for a faster response to fulfilling orders from dealers.

Current liabilities changed as a result of a \$1,649,000 increase in marketing programs. The increase is due to accruals for an ongoing marketing program for manufactured housing dealers. Accruals are made monthly, and the majority of payments are made during the Corporation's fourth fiscal quarter.

Capital expenditures totaled \$466,000 for the first half of fiscal 2012 as compared to \$306,000 for the first half of fiscal 2011. Included in current year's capital expenditures is approximately \$200,000 related to the conversion of the Bristol, Indiana facility. 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 November 30, 2011 is approximately \$956,000. The amount of capital expended in the first half of fiscal 2012 was approximately \$21,000, while the amount expended in the first half of fiscal 2011 was approximately \$20,000. 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 potential treasury stock purchases during fiscal 2012. Although the Corporation has experienced decreased liquidity, its financing needs have been met with a combination of cash on hand and funds generated through the sale of assets.

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

Subsequent Event

Subsequent to November 30, 2011, the Board of Directors approved a resolution to suspend dividend payments on the outstanding shares of the Corporation's common stock until further notice. The suspension was for cash preservation purposes. The Board will evaluate financial performance and liquidity needs in determining the timing and amount of future dividend payments.

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.

Forward Looking Information

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

Consumer confidence and economic uncertainty

Availability of wholesale and retail financing

The health of the U.S. housing market

Cyclical nature of the manufactured housing and recreational vehicle industries

General or seasonal weather conditions affecting sales

Potential impact of natural disasters on sales and raw material costs

Potential periodic inventory adjustments by independent retailers

Interest rate levels

Impact of inflation

Impact of rising fuel costs

Cost of labor and raw materials

Competitive pressures on pricing and promotional costs

Catastrophic events impacting insurance costs

The availability of insurance coverage for various risks to the Corporation

Market demographics

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

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

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

Item 4. *Controls and Procedures.*

Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

As of November 30, 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 November 30, 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 second quarter ended November 30, 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, 2011.

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PART II OTHER INFORMATION (Continued)

Item 6. Exhibits.

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

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 6, 2012

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

DATE: January 6, 2012

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