SKYLINE CORP
Form 10-K
July 26, 2013
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

(Mark One)

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

**For the fiscal year ended May 31, 2013**

**or**

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

**For the transition period from to**

**Commission file number: 1-4714**

# SKYLINE CORPORATION

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Indiana** | **35-1038277** |
| *(State or other jurisdiction of* | *(I.R.S. Employer* |
| *incorporation or organization)* | *Identification No.)* |
| **P. O. Box 743, 2520 By-Pass Road** | **46515** |
| **Elkhart, Indiana** | *(Zip Code)* |
| *(Address of principal executive offices)* | |

**Registrant s telephone number, including area code:**

**(574) 294-6521**

**Securities registered pursuant to Section 12 (b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $.0277 Par Value | New York Stock Exchange |

**Securities registered pursuant to section 12 (g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or an amendment to this Form 10-K. ¨

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 þ |

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

The aggregate market value of the common stock held by non-affiliates of the registrant (6,853,780 shares) based on the closing price on the New York Stock Exchange on November 30, 2012 was $28,100,498.

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 July 22, 2013 |
|---|---|
| Common Stock | 8,391,244 |

**DOCUMENTS INCORPORATED BY REFERENCE**

| Title | Form 10-K |
|---|---|
| Portions of the Proxy Statement for the 2013 Annual Meeting of Shareholders to be held September 23, 2013 | Part III, Items 10 14 |

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**FORM 10-K**

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required to be included in Part III of this Form 10-K is also included in the registrant s Proxy Statement used in connection with its 2013 Annual Meeting of Shareholders to be held on September 23, 2013 ( 2013 Proxy Statement ).

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**PART I**

**Item 1.** *Business.*
**General Development of Business**

Skyline Corporation was originally incorporated in Indiana in 1959, as successor to a business founded in 1951. Skyline Corporation and its consolidated subsidiaries (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.

The Corporation, which is one of the largest producers of manufactured and modular housing in the United States, sold 1,851 manufactured homes and 370 modular homes in fiscal 2013.

The Corporation s housing products are marketed under a number of trademarks. They are available in lengths ranging from 30 to 76 and in singlewide widths from 12 to 16 , doublewide widths from 18 to 32 , and triplewide widths from 36 to 46 . The area of a singlewide ranges from approximately 400 to 1,200 square feet, a doublewide from approximately 700 to 2,400 square feet, and a triplewide from approximately 1,600 to 2,900 square feet.

The Corporation also sold 4,336 recreational vehicles in fiscal 2013, which are sold under a number of trademarks for travel trailers, fifth wheels and park models.

**Financial Information about Segments**

Net sales, operating results and total assets for the housing and recreational vehicle segments are included in Note 15, Industry Segment Information, in the Notes to Consolidated Financial Statements included in this document under Item 8.

**Narrative Description of Business**

***Principal Products and Markets***

The Corporation s homes are marketed under a number of trademarks, and are available in a variety of dimensions. Manufactured housing models 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. Each home typically includes two to four bedrooms, kitchen, dining area, living room, one or two bathrooms, kitchen appliances, central heating and cooling. Custom options may include but are not limited to: exterior dormers and windows; interior or exterior accent columns; fireplaces and whirlpool tubs. Materials used to construct a manufactured or a modular home are similar to those used in site-built housing. The Corporation also sells homes that are Energy-Star compliant.

The Corporation s recreational vehicles include travel trailers, fifth wheels and park models. Travel trailers and fifth wheels are marketed under the following trademarks: Aljo ; AlumaSky ; Koala ; Layton ; Mountain View ; Nomad ; Skycat ; Texan ; Wagoneer ; Walkabout ; Park models are marketed under the following trademarks: Cabin Series ; Cedar Cove ; Kensington ; Shore Park Homes ; Stone Harbor ; and Vacation Villa . The Corporation s recreational vehicles are intended to provide temporary living accommodations for individuals seeking leisure travel and outdoor recreation. A recreational vehicle typically includes sleeping, kitchen, dining and bath areas.

The principal markets for manufactured and modular housing are the suburban and rural areas of the continental United States and Canada. The principal buyers continue to be individuals over the age of fifty, but the market tends to broaden when conventional housing becomes more difficult to purchase and finance.

The recreational vehicle market is made up of primarily vacationing families, traveling retired couples and sports enthusiasts pursuing four-season hobbies.

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**Item 1.** ***Business (Continued).***
***Principal Products and Markets (Continued)***

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.

The amount and percentage of net sales contributed by the housing and recreational vehicle segments is noted in Items 7 and 8.

***Method of Distribution***

The Corporation s homes are distributed by approximately 190 independent dealers at 310 locations throughout the United States and Canada, and recreational vehicles are distributed by approximately 200 independent dealers at 430 locations throughout the United States and Canada. These are generally not exclusive dealerships and it is believed that most dealers also sell products of other manufacturers.

The Corporation s products are sold to dealers either through floor plan financing with various financial institutions or on a cash basis. Payments to the Corporation are made either directly by the dealer or by financial institutions, which have agreed to finance dealer purchases of the Corporation s products. In accordance with industry practice, certain financial institutions which finance dealer purchases require the Corporation to execute repurchase agreements in which the Corporation agrees, that in the event a dealer defaults on its repayment of the financing, the Corporation will repurchase its products from the financial institution in accordance with a declining repurchase price schedule agreed to by the financial institution and the Corporation. Any loss under these agreements is the difference between the repurchase cost and the resale value of the units repurchased. Further, the risk of loss is spread over numerous dealers.

The Corporation had no losses related to repurchases in fiscal years 2013 and 2012. Additional information regarding these repurchase agreements is included in Note 11, Commitments and Contingencies, in the Notes to Consolidated Financial Statements included in this document under Item 8.

***Raw Materials and Supplies***

The Corporation is basically an assembler and installer of components purchased from outside sources. The major components used by the Corporation are electrical components, lumber, plywood, shingles, vinyl and wood siding, steel, aluminum, insulation, home appliances, furnaces, plumbing fixtures, hardware, floor coverings and furniture. The suppliers are many and range in size from large national companies to very small local companies. At the present time the Corporation is obtaining sufficient materials to fulfill its needs.

***Patents, Trademarks, Licenses, Franchises and Concessions***

The Corporation does not rely upon any terminable or nonrenewable rights such as patents, licenses or franchises under the trademarks or patents of others, in the conduct of either segment of its business.

***Seasonal Fluctuations***

While the Corporation maintains production of homes and recreational vehicles throughout the year, seasonal fluctuations in sales do occur. Sales and production of homes are affected by winter weather conditions at the Corporation s northern plants. Recreational vehicle sales are generally higher in the spring and summer months than in the fall and winter months.

***Inventory***

The Corporation does not maintain significant inventories of either raw materials or finished goods. In addition, there are no inventories sold on consignment.

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**Item 1.** ***Business (Continued).***

***Dependence Upon Individual Customers***

The Corporation does not rely upon any single dealer for a significant percentage of its business in any industry segment.

***Backlog***

The Corporation does not consider the existence and extent of backlog to be significant in its business. The Corporation s production is based on a relatively short manufacturing cycle and dealers orders, which continuously fluctuate. As such, the existence of backlog is insignificant at any given date and does not typically provide a reliable indication of the status of the Corporation s business.

***Government Contracts***

The Corporation has had no government contracts during the past two years.

***Competitive Conditions***

The industries in which the Corporation operates are highly competitive, with particular emphasis on price and features offered. The Corporation s competitors are numerous, ranging from multi-billion dollar corporations to relatively small and specialized manufacturers. In addition, the housing segment also competes with companies that provide other forms of housing, such as new and existing site-built homes, apartments, condominiums and townhouses.

The following tables show the Corporation s competitive position on a calendar and fiscal year basis in the product lines it sells.

| | Units Shipped Calendar Year 2012 | | | Units Shipped Calendar Year 2011 | | |
|---|---|---|---|---|---|---|
| | Industry | Skyline | Market Share | Industry | Skyline | Market Share |
| Manufactured housing | 55,000 | 1,848 | 3.4% | 52,000 | 1,880 | 3.6% |
| Domestic modular housing | 13,000 | 301 | 2.3% | 12,000 | 246 | 2.1% |
| Travel trailer | 177,000 | 4,447 | 2.5% | 153,000 | 4,714 | 3.1% |
| Fifth wheels | 66,000 | 214 | 0.3% | 60,000 | 209 | 0.4% |

The competitive position for park models and Canadian modular housing is not listed because industry data is not available.

| | Units Shipped Fiscal Year 2013 | | | Units Shipped Fiscal Year 2012 | | |
|---|---|---|---|---|---|---|
| | Industry | Skyline | Market Share | Industry | Skyline | Market Share |
| Manufactured housing | 56,000 | 1,851 | 3.3% | 56,000 | 1,948 | 3.5% |
| Travel trailer | 188,000 | 4,003 | 2.1% | 161,000 | 4,610 | 2.9% |
| Fifth wheels | 68,000 | 165 | 0.2% | 62,000 | 232 | 0.4% |

The competitive position for modular housing is not listed because industry data is not available.

Both the housing and recreational vehicle segments of the Corporation s business are dependent upon the availability of wholesale and retail financing. Consequently, increases in interest rates and the availability of credit through governmental action or otherwise, have adversely affected the Corporation s business in the past and may do so in the future.

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**Item 1.** ***Business (Continued).***

***Regulation***

The manufacture, distribution and sale of manufactured housing, modular housing and recreational vehicles are subject to government regulations in both the United States and Canada, at federal, state or provincial and local levels.

***Environmental Quality***

The Corporation believes that compliance with federal, state and local requirements with respect to environmental quality will not require any material capital expenditures for plant or equipment modifications which would adversely affect earnings.

***Other Regulations***

The U.S. Department of Housing and Urban Development (HUD) has set national manufactured home construction and safety standards and implemented recall and other regulations since 1976. The National Manufactured Housing Construction and Safety Standards Act of 1974, as amended, under which such standards and regulations are promulgated, prohibits states from establishing or continuing in effect any manufactured home standard that is not identical to the federal standards as to any covered aspect of performance. Implementation of these standards and regulations involves inspection agency approval of manufactured home designs, plant and home inspection by states or other HUD-approved third parties, manufacturer certification that the standards are met, and possible recalls if they are not or if homes contain safety hazards.

HUD has promulgated rules requiring producers of manufactured homes to utilize wood products certified by their suppliers to meet HUD s established limits on formaldehyde emissions, and to place in each home written notice to prospective purchasers of possible adverse reaction from airborne formaldehyde in the homes. These rules are designated as preemptive of state regulation. Some components of manufactured and modular housing may also be subject to Consumer Product Safety Commission standards and recall requirements.

Regarding recreational vehicles, the Corporation has voluntarily subjected itself to third party inspection of all of its recreational vehicle products nationwide in order to further assure the Corporation, its dealers, and customers of compliance with established standards.

Manufactured housing, modular housing and recreational vehicles may be subject to the Magnuson-Moss Warranty Federal Trade Commission Improvement Act, which regulates warranties on consumer products.

The Corporation s travel trailers continue to be subject to safety standards and recall and other regulations promulgated by the U.S. Department of Transportation under the National Traffic and Motor Vehicle Safety Act of 1966 and the Transportation Recall Enhancement, Accountability and Documentation (TREAD) Act, as well as state laws and regulations.

The Corporation s operations are subject to the Federal Occupational Safety and Health Act, and are routinely inspected thereunder.

The transportation and placement (in the case of manufactured and modular housing) of the Corporation s products are subject to state highway use regulations and local ordinances which control the size of units that may be transported, the roads to be used, speed limits, hours of travel, and allowable locations for manufactured homes and communities.

The Corporation is also subject to many state manufacturer licensing and bonding requirements, and to dealer day in court requirements in some states.

The Corporation believes that it is currently in compliance with the above regulations.

***Number of Employees***

The Corporation employs approximately 1,100 people at the present time.

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**Item 1.** ***Business (Continued).***

***Executive Officers of the Corporation***

Information regarding the Corporation s executive officers is located in this document under Part III, Item 10.

**Available Information**

The Corporation makes available, free of charge, through the Investors section of its internet website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Proxy Statements and all amendments to those reports as soon as practicable after such material is electronically filed or furnished to the United States Securities and Exchange Commission (SEC). The Corporation s internet site is http://www.skylinecorp.com. A copy of the Corporation s annual report on Form 10-K will be provided without charge upon written request to Skyline Corporation, Investor Relations Department, Post Office Box 743, Elkhart, Indiana 46515.

The public may read and copy any materials the Corporation has filed with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet website (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

**Item 1A.** ***Risk Factors.***

Investors or potential investors should carefully consider the risks described below. Additional risks of which the Corporation is presently unaware or that the Corporation considers immaterial may also impair business operations and hinder financial performance.

**Retail Financing Availability**

Customers who purchase the Corporation s products generally obtain retail financing from third party lenders. The availability, terms and cost of retail financing depend on the lending practices of financial institutions, governmental policies and economic and other conditions, all of which are beyond the Corporation s control. A customer seeking to purchase a manufactured home without land will generally pay a higher interest rate and have a shorter loan maturity versus a customer financing the purchase of land and a home. This difference is due to most states classifying home-only manufactured housing loans as personal property rather than real property for purposes of taxation and lien perfection.

In recent years, many lenders of home-only financing have tightened credit underwriting standards, with some deciding to exit the industry. These actions resulted in decreased availability of retail financing, causing a negative effect on sales and operating results. If retail financing were to be further curtailed, net sales, operating results and cash flows could be adversely affected.

**Wholesale Financing Availability**

Independent dealers of the Corporation s products generally finance their inventory purchases with wholesale floor plan financing provided by lending institutions. A dealer s ability to obtain financing is significantly affected by the number of lending institutions offering floor planning, and by an institution s lending limits. In recent years, the industries in which the Corporation operates experienced a reduction in both the number of lenders offering floor planning and the amount of money available for financing. These events could have a negative impact on a dealer s ability to purchase manufactured housing, modular housing and recreational vehicle products, resulting in lower net sales, operating results and cash flows.

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**Item 1A. *Risk Factors (Continued).***

**Dependence on Independent Dealers**

The Corporation sells its manufactured homes, modular homes and recreational vehicles to independent dealers. These dealers are not obligated to exclusively sell the Corporation s products, and may choose to sell competitor s products. In addition, a dealer may become financially insolvent and be forced to close its business. Both scenarios could have an adverse effect on net sales, operating results and cash flows.

**Dealer Inventories**

As wholesale shipments of manufactured homes, modular homes and recreational vehicles exceed retail sales, dealer inventories increase to a level where dealers decrease orders from manufacturers. As manufacturers respond to reduced demand, many either offer discounts to maintain production volumes or curtail production levels. Both outcomes could have a negative impact on net sales, operating results and cash flows.

**Contingent Repurchase Agreements**

As referenced in Note 11 to the Notes to the Consolidated Financial Statements in Item 8, the Corporation is contingently liable under repurchase agreements with certain financial institutions providing inventory financing for retailers of its products. The Corporation could be required to fulfill some or all of the repurchase agreements, resulting in increased expense and reduced cash flows.

**Cost and Availability of Raw Materials**

Prices and availability of raw materials used to manufacture the Corporation s products can change significantly due to fluctuations in supply and demand. In addition, the cost of raw materials is also influenced by transportation costs. The Corporation has historically been able to have an adequate supply of raw materials by maintaining good relations with its vendors. Increased prices have historically been passed on to dealers by raising the price of manufactured housing, modular housing and recreational vehicles. There is no certainty that the Corporation will be able to pass on future price increases and maintain an adequate supply of raw materials. The inability to raise the price of its products and to maintain a proper supply of materials could have a negative impact on net sales, operating results and cash flows.

**Competition**

As noted in Item 1, the manufactured housing, modular housing and recreational vehicle industries are highly competitive with particular emphasis on price and features offered. Some of the Corporation s competitors are vertically integrated by owning retail, consumer finance and insurance operations. This integration may provide competitors with an advantage. In addition, the Corporation s housing products compete with other forms of housing, such as new and existing site-built homes, apartments, condominiums and townhouses. The inability to effectively compete in this environment could result in lower net sales, operating results and cash flows.

**Cyclical and Seasonal Nature of Business**

The industries in which the Corporation operates are highly cyclical, and are impacted by but not limited to the following conditions:

- Availability of wholesale and retail financing
- Consumer confidence
- Interest rates
- Demographic and employment trends

Availability of used or repossessed homes or recreational vehicles

Impact of inflation

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**Item 1A.** ***Risk Factors (Continued).***
**Cyclical and Seasonal Nature of Business (Continued)**

Sales of manufactured housing, modular housing and recreational vehicle industries are also seasonal in nature with sales being lowest in the winter months. Seasonal changes, in addition to weakness in demand in one or both of the Corporation s market segments, could materially impact the Corporation s net sales, operating results and cash flows.

**Changing Consumer Preferences**

Changes in consumer preferences for manufactured housing, modular housing and recreational vehicles occur over time, and consequently the Corporation responds to changing demand by evaluating the market acceptability of its products. Delays in responding to changing consumer preferences could have an adverse effect on net sales, operating results and cash flows.

**Increased Fuel Prices**

The Corporation s recreational vehicle products depend on the use of vehicles that operate on gasoline or diesel fuel. In the Corporation s history there have been periods where the price of gasoline and diesel fuel dramatically increased. These increases resulted in greater cost associated with recreational vehicle travel. This trend could result in decreased net sales, operating results and cash flows.

**Governmental Regulations**

As noted in Item 1, the Corporation is subject to various governmental regulations. Implementation of new regulations or amendments to existing regulations could significantly increase the cost of the Corporation s products. In addition, failure to comply with present or future regulations could result in fines or potential civil or criminal liability. Both scenarios could negatively impact net sales, operating results and cash flows.

**Dependence on Executive Officers and Other Key Personnel**

The Corporation depends on the efforts of its executive officers and certain key employees. The loss of the service of one or more of these individuals could have an adverse effect on net sales, operating results and cash flows of the Corporation.

**Incurrence of Net Losses**

Due to negative economic conditions that impacted the manufactured housing, modular housing and recreational vehicle industries, the Corporation incurred net losses from fiscal year 2008 to 2013. While the Corporation s management is pursuing strategies as referenced in Item 7 to increase sales and decrease costs, no one can predict with certainty what the future may hold. Continued losses could negatively affect the Corporation s liquidity.

**Item 1B.** ***Unresolved Staff Comments.***
None

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**Item 2.** ***Properties.***

The Corporation s 11 operating manufacturing facilities, 4 idle facilities and 3 corporate facilities, all of which are owned, are as follows:

| Location | Products | Approximate Square Footage |
|---|---|---|
| California, San Jacinto | Manufactured Housing | 84,000 |
| California, Woodland | Manufactured Housing | 81,000 |
| Florida, Ocala | Manufactured Housing | 139,000 |
| Florida, Ocala | Idle | 127,000 |
| Indiana, Bristol | Recreational Vehicles | 115,000 |
| Indiana, Elkhart | Recreational Vehicles | 75,000 |
| Indiana, Elkhart | Idle | 55,000 |
| Indiana, Elkhart | Corporate | 37,000 |
| Indiana, Elkhart | Corporate | 18,000 |
| Indiana, Elkhart | Corporate | 4,000 |
| Kansas, Arkansas City | Manufactured Housing | 83,000 |
| Kansas, Halstead | Idle | 84,000 |
| Ohio, Sugarcreek | Manufactured Housing | 149,000 |
| Oregon, McMinnville | Manufactured Housing | 246,000 |
| Pennsylvania, Leola | Manufactured Housing | 210,000 |
| Texas, Mansfield | Recreational Vehicles | 79,000 |
| Vermont, Fair Haven | Idle | 91,000 |
| Wisconsin, Lancaster | Manufactured Housing | 130,000 |

In addition, the Corporation owns undeveloped land in Elkhart, Indiana and McMinnville, Oregon. In the second quarter of fiscal 2013, two idle recreational vehicle facilities located in Hemet, California were sold for a gain of $1,411,000. In the fourth quarter of fiscal 2013, an idle manufactured housing facility located in Mocksville, North Carolina was sold for a gain of $230,000. In the second quarter of fiscal 2012, one idle housing facility located in Ocala, Florida and one located in Ephrata, Pennsylvania were sold for gains of $1,114,000 and $1,386,000, respectively.

It is extremely difficult to determine the unit productive capacity of the Corporation because of the ever-changing product mix. The Corporation believes that its plant facilities, machinery and equipment are well maintained and are in good operating condition.

**Item 3.** ***Legal Proceedings.***

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.

**Item 4.** ***Mine Safety Disclosures.***

Not applicable.

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## PART II

**Item 5.** ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Skyline Corporation (SKY) is traded on the New York Stock Exchange. At May 31, 2013, there were 746 shareholders of record of Skyline Corporation common stock. A quarterly summary of the market price and dividends declared per share are listed for the fiscal years ended May 31, 2013 and 2012. In the third quarter of fiscal 2012, 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.

| | Common Stock Price Range | | | | Dividends Declared Per Share | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | | |
| | High | Low | High | Low | 2013 | 2012 |
| First quarter | $ 5.50 | $ 4.14 | $ 18.25 | $ 8.79 | $ | $ .09 |
| Second quarter | $ 5.81 | $ 3.86 | $ 11.00 | $ 4.96 | $ | $ .09 |
| Third quarter | $ 5.00 | $ 3.60 | $ 8.34 | $ 4.02 | $ | $ |
| Fourth quarter | $ 6.16 | $ 4.07 | $ 8.16 | $ 4.50 | $ | $ |

The name, address and phone number of the Corporation s stock transfer agent and registrar is:

Computershare Trust Company, N.A.

P. O. Box 43078

Providence, RI 02940

(312) 588-4237

**Item 6.** ***Selected Financial Data.***

Not applicable.

**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

**Overview**

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

As referenced in Item 1, manufactured and modular housing are marketed under a number of trademarks, and are available in a variety of dimensions. Manufactured housing products are built according to standards established by the U.S. Department of Housing and Urban Development. Modular homes are built according to state, provincial or local building codes. Recreational vehicles include travel trailers, fifth wheels and park models. Travel trailers and fifth wheels are marketed under the following trademarks: Aljo ; AlumaSky ; Koala ; Layton ; Mountain View ; Nomad ; Skycat ; Texan ; Wagoneer ; Walkabout ; and Weekender . Park models are marketed under the following trade

Cabin Series ; Cedar Cove ; Kensington ; Shore Park Homes ; Stone Harbor ; and Vacation Villa . The Corporation s recreational vehicles ar
intended to provide temporary living accommodations for individuals seeking leisure travel and outdoor recreation.

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**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued).***

**Manufactured Housing, Modular Housing and Recreational Vehicle Industry Conditions**

Sales of manufactured housing, modular housing and recreational vehicles are affected by the strength of the U.S. economy, interest rate and employment levels, consumer confidence and the availability of wholesale and retail financing. The manufactured housing industry has until recently been affected by declining or stagnating unit shipments. This decline or stagnation, caused primarily by adverse economic conditions, tightening retail and wholesale credit markets and a depressed site-built housing market, is resulting in historically low industry shipments. Total shipments for calendar 2012 were approximately 55,000 units, a 6 percent increase from the previous year s total of approximately 52,000 units. In addition, total shipments from January to May 2013 were approximately 24,000 units, an approximately 5 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.

The domestic modular housing industry has challenges similar to the manufactured housing industry, such as restrictive retail and wholesale financing, and a depressed site-built housing market. From calendar 2006 to 2012, total shipments decreased from approximately 39,000 to 13,000 units, a decline of 67 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 continued growth in recreational vehicle shipments is due to a combination of easing credit terms and availability of loans, gains in household wealth and employment. These positive factors, however, could be negatively affected by adverse changes in federal policies and regulations in addition to adverse global economic conditions.

**Fiscal 2013 Results**

The Corporation experienced the following results during fiscal 2013:

Total net sales were $177,574,000, an approximate 3 percent decrease from the $182,846,000 reported in the same period a year ago.

Housing net sales were $111,104,000, an approximate 2 percent increase from the $109,157,000 realized in fiscal 2012.

Recreational vehicle net sales were $66,470,000 in fiscal 2013, an approximate 10 percent decrease from $73,689,000 in fiscal 2012.

Net loss for the fiscal 2013 was $10,513,000 as compared to $19,365,000 for fiscal 2012. On a per share basis, net loss was $1.25 as compared to $2.31 for the comparable period a year ago.

Two idle recreational vehicle facilities located in Hemet, California were sold for a gain of $1,411,000. In addition, an idle manufactured housing facility located in Mocksville, North Carolina was sold for a gain of $230,000.

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

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**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued).***
**Fiscal 2013 Results (Continued)**

The recreational vehicle segment experienced decreased net sales in fiscal 2013. Regarding the business environment for fiscal 2014, the RVIA forecasts calendar 2013 travel trailer and fifth wheel shipments of approximately 262,000 units; an 8 percent increase from calendar 2012 s total of approximately 243,000 units. In addition, the RVIA forecasts 2014 travel trailer and fifth wheel shipments of approximately 271,000 units; a 3 percent increase from 2013 s estimated total. Despite this favorable trend, business conditions for fiscal 2014 could be negatively impacted by adverse factors previously referenced by the RVIA.

**Management s Plan**

Due to recent losses, the Corporation is actively pursuing strategies to increase sales and decrease costs. These strategies include but are not limited to:

- Increasing efforts to increase sales of modular homes and park models in both the United States and Canada by cultivating relationships with modular housing developers and campground owners that are outside the Corporation s historical distribution channels
- Improving the process of developing homes and recreational vehicles to better meet ever changing preferences of consumers
- Maintaining the number of display models at housing facilities in order to provide dealers, communities and consumers with examples of newly designed product
- Utilizing social media to improve product exposure to customers and to better connect dealers to potential customers
- Selling non-strategic assets to generate cash and eliminate carrying costs
- Working with current and potential vendors to decrease costs
- Analyzing staffing needs and making reductions when considered appropriate by management

By implementing these strategies, and having a significant position of its working capital in cash and U.S. Treasury Bills, the Corporation s management believes the Corporation will have sufficient liquidity to meet its obligations through the next operating cycle.

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**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued).***

**Results of Operations Fiscal 2013 Compared to Fiscal 2012**

***Net Sales and Unit Shipments***

| | 2013 | Percent | 2012 (Dollars in thousands) | Percent | Increase (Decrease) |
|---|---|---|---|---|---|
| **Net sales** | | | | | |
| Domestic Manufactured | | | | | |
| Housing | $ 87,380 | 49 | $ 87,487 | 48 | (107) |
| Modular Housing | | | | | |
| Domestic | 18,562 | 11 | 15,852 | 9 | 2,710 |
| Canadian | 5,162 | 3 | 5,818 | 3 | (656) |
| | 23,724 | 14 | 21,670 | 12 | 2,054 |
| Total Housing | 111,104 | 63 | 109,157 | 60 | 1,947 |
| Recreational Vehicles | | | | | |
| Domestic | 53,267 | 30 | 55,003 | 30 | (1,736) |
| Canadian | 13,203 | 7 | 18,686 | 10 | (5,483) |
| Total Recreational Vehicles | 66,470 | 37 | 73,689 | 40 | (7,219) |
| Total Net Sales | $ 177,574 | 100 | $ 182,846 | 100 | $ (5,272) |
| **Unit shipments** | | | | | |
| Domestic Manufactured | | | | | |
| Housing | 1,851 | 28 | 1,948 | 27 | (97) |
| Modular Housing | | | | | |
| Domestic | 285 | 4 | 274 | 4 | 11 |
| Canadian | 85 | 2 | 106 | 1 | (21) |
| | 370 | 6 | 380 | 5 | (10) |
| Total Housing | 2,221 | 34 | 2,328 | 32 | (107) |
| Recreational Vehicles | | | | | |
| Domestic | 3,488 | 53 | 3,825 | 52 | (337) |
| Canadian | 848 | 13 | 1,179 | 16 | (331) |
| Total Recreational Vehicles | 4,336 | 66 | 5,004 | 68 | (668) |
| Total Unit Shipments | 6,557 | 100 | 7,332 | 100 | (775) |

Housing net sales increased approximately 2 percent. The increase was the outcome of the following factors:

Domestic manufactured housing net sales remaining relatively unchanged

- Domestic modular housing net sales increasing approximately 17 percent

- Canadian modular housing net sales decreasing approximately 11 percent

Housing unit shipments decreased approximately 5 percent. The decrease was the outcome of the following factors:

- Domestic manufactured housing shipments decreasing approximately 5 percent

- Domestic modular shipments increasing approximately 4 percent

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**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued).***
**Results of Operations Fiscal 2013 Compared to Fiscal 2012 (Continued)**

***Net Sales and Unit Shipments (Continued)***

- Canadian modular shipments decreasing approximately 20 percent

Total domestic manufactured housing unit shipments decreased approximately 5 percent. Industry unit shipments for these products remained relatively unchanged from fiscal 2012 to fiscal 2013. Current industry unit shipment data for modular housing is not available. Adverse conditions that caused the Corporation s unit shipments to lag the industry include:

- Competitors providing wholesale financing to dealers, thereby creating greater sales opportunities
- Unit shipment growth occurring in states where the Corporation has no or minimal sales activity due primarily to a lack of either manufacturing facilities or an established independent dealer network

Compared to prior year, the average net sales price for domestic manufactured housing increased approximately 5 percent primarily due to sales price adjustments resulting from higher material costs. The average net sales price for domestic modular and Canadian modular housing products increased approximately 13 percent and 11 percent, respectively. These increases are the result of homes sold with larger square footage and greater amenities; in addition to sales price adjustments resulting from higher material costs.

Recreational vehicles net sales revenue decreased approximately 10 percent. The decrease was the outcome of the following factors:

- Domestic recreational vehicle net sales decreasing approximately 3 percent
- Canadian recreational vehicle net sales decreasing approximately 29 percent

Recreational vehicle unit shipments decreased approximately 13 percent. The decrease was the outcome of the following factors:

- Domestic recreational vehicle shipments decreasing approximately 9 percent
- Canadian recreational vehicle shipments decreasing approximately 28 percent

Unit shipments for travel trailers and fifth wheels decreased approximately 14 percent. Industry shipments for these products in fiscal 2013 as compared to fiscal 2012 increased approximately 15 percent. The Corporation s unit shipments lagged the industry due to decreased demand from Canadian dealers. In addition, some competitors maintained larger quantities of finished goods inventory; resulting in the ability to meet dealer demand immediately. Current industry unit shipment data for park models is not available.

Compared to prior year, the average net sales price per unit for recreational vehicles sold domestically increased approximately 4 percent; primarily due to models sold with larger square footage and greater amenities.

***Cost of Sales***

| | 2013 | 2012 | Decrease |
|---|---|---|---|

| | | Percent of Net Sales* | | Percent of Net Sales* | |
|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | |
| Housing | $ 104,131 | 94 | $ 107,272 | 98 | $ 3,141 |
| Recreational vehicles | 61,980 | 93 | 70,690 | 96 | 8,710 |
| Consolidated | $ 166,111 | 94 | $ 177,962 | 97 | $ 11,851 |

* 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.

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**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued).***
**Results of Operations Fiscal 2013 Compared to Fiscal 2012 (Continued)**

***Cost of Sales (Continued)***

Housing cost of sales, in dollars and as a percentage of net sales, decreased due to lower manufacturing expenses and improved margins on products sold. Recreational vehicle cost of sales declined due to decreased unit shipments and lower manufacturing expenses. As a percentage of net sales, cost of sales decreased as a result of lower manufacturing expenses and improved margins on products sold.

***Selling and Administrative Expenses***

| | 2013 | Percent of Net Sales | 2012 | Percent of Net Sales | Decrease |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| Selling and administrative expenses | $ 23,681 | 13 | $ 27,450 | 15 | $ 3,769 |

Selling and administrative expenses, in dollars and as a percent of net sales, decreased primarily as a result of a decline in salaries and wages due to staff reductions, performance based compensation, dealer and trade show expenses, and the closure of the Corporation s aviation department.

***Gain on Sale of Idle Property, Plant and Equipment***

In the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities in Hemet, California for a gain of $1,411,000. In the fourth quarter of fiscal 2013, an idle manufactured housing facility located in Mocksville, North Carolina was sold for a gain of $230,000.

In the second quarter of fiscal 2012, the Corporation sold idle housing facilities located in Ocala, Florida and Ephrata, Pennsylvania for gains of $1,114,000 and $1,386,000, respectively. In addition, the Corporation sold its aircraft in the fourth quarter of fiscal 2012 for a gain of $684,000.

***Loss Before Income Taxes***

| | 2013 | Percent of Net Sales* | 2012 | Percent of Net Sales* |
|---|---|---|---|---|
| | | (Dollars in Thousands) | | |
| Housing | $ (6,867) | (6) | $ (13,440) | (12) |
| Recreational vehicles | (3,444) | (5) | (6,808) | (9) |
| General corporate expenses | (1,907) | (1) | (2,318) | (1) |
| Gain on sale of idle property, plant and equipment | 1,641 | 1 | 3,184 | 2 |
| Operating loss | (10,577) | (6) | (19,382) | (11) |
| Interest income | 64 | | 17 | |
| Loss before income taxes | $ (10,513) | (6) | $ (19,365) | (11) |

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

The operating loss for the housing segment decreased due to increased net sales, improved margins on products sold, and decreased manufacturing, selling and administrative expenses.

Recreational vehicle operating loss decreased primarily due to improved margins on products sold, and decreased manufacturing, selling and administrative expenses.

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**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued).***
**Results of Operations Fiscal 2013 Compared to Fiscal 2012 (Continued)**

***Loss Before Income Taxes (Continued)***

General corporate expenses decreased primarily as a result of the closure of the Corporation s aviation department.

Interest income for fiscal 2013 consisted of $55,000 from the Corporation s note receivable and $9,000 from investment in U.S Treasury Bills. Interest income for fiscal 2012 consisted of $17,000 from investment in U.S. Treasury Bills.

**Liquidity and Capital Resources**

| | May 31, 2013 | May 31, 2012 | Increase (Decrease) |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Cash, Restricted Cash and U.S. Treasury Bills | $ 16,438 | $ 29,009 | $ (12,571) |
| Current assets, exclusive of cash, restricted cash and U.S. Treasury Bills | $ 25,199 | $ 22,461 | $ 2,738 |
| Current liabilities | $ 14,207 | $ 14,681 | $ (474) |
| Working capital | $ 27,430 | $ 36,789 | $ (9,359) |

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 primarily due to a net loss of $10,513,000. Current assets, exclusive of cash and U.S. Treasury Bills, increased mainly due to a $2,273,000 increase in accounts receivable and a $373,000 increase in inventories. Accounts receivable increased mainly due to money owed from Stewart Homes, Inc. for the purchase of homes as referenced in Note 2, Restricted Cash, in the Notes to Consolidated Financial Statements included in this document under Item 8. Inventories increased primarily as a result of greater production occurring at May 31, 2013 as compared to May 31, 2012.

Current liabilities decreased primarily as a result of a $366,000 decrease in accrued salaries and wages. This decrease is due to the timing of payments to employees at May 31, 2013 as compared to May 31, 2012.

Capital expenditures totaled $75,000 for fiscal 2013 as compared to $614,000 for fiscal 2012. Capital expenditures were made primarily to replace or refurbish machinery and equipment.

The Corporation s current cash and other short-term investments are expected to be adequate to fund operating cash needs in addition to any capital expenditures for the upcoming fiscal year. Although the Corporation has experienced decreased liquidity, its financing needs have been met with a combination of cash on hand and funds generated through the sale of assets. In addition, various strategies are being pursued to improve financial performance. These strategies are referenced in the Fiscal 2013 section of Item 7.

**Critical Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Corporation to make certain estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Estimates are periodically evaluated using historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions. The following accounting policies are considered to require a significant estimate:

***Deferred Tax Assets***

Net deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted tax rates.

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**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued).***
**Critical Accounting Policies (Continued)**

***Deferred Tax Assets (Continued)***

The Corporation has a full valuation allowance against its deferred tax assets. In addition, net deferred tax assets consist of federal net operating loss and tax credit carryfowards, state net operating loss carryfowards and temporary differences between financial and tax reporting. Additional information regarding the increase in the valuation allowance is referenced in Note 10 of the Notes to Consolidated Financial Statements.

***Revenue Recognition***

The Corporation s accounting for revenue recognition is referenced in Note 1 of the Notes to Consolidated Financial Statements.

***Product Warranties***

As referenced in Note 1 of the Notes to Consolidated Financial Statements, homes are sold with a fifteen-month warranty and recreational vehicles are sold with a one-year warranty. Estimated warranty costs are accrued at the time of sale based upon sales, historical claims experience and management s judgment regarding anticipated rates of warranty claims. Significant changes in these factors could have a material impact on future results of operations.

**Newly Issued Accounting Standards**

The effect of newly issued accounting standards on the Corporation 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 adjusted 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 as a whole
- Federal, state and local regulations pertaining to the manufactured housing and industry
- 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

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**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued).***
**Forward Looking Information (Continued)**

- Impact of rising fuel costs
- Cost of labor and raw materials
- Competitive pressures on pricing and promotional costs
- Catastrophic events impacting insurance costs
- The availability of insurance coverage for various risks to the Corporation
- Market demographics
- Management s ability to attract and retain executive officers and key personnel

**Item 7A.** ***Quantitative and Qualitative Disclosures About Market Risk.***

Not applicable.

**Item 8.** ***Financial Statements and Supplementary Data.***

Index to Consolidated Financial Statements



All other supplementary data is omitted because it is not applicable or the required information is shown in the financial statements or notes thereto.

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Skyline Corporation:

We have audited the accompanying consolidated balance sheets of Skyline Corporation and subsidiary companies (the Corporation ) as of May 31, 2013 and 2012, and the related consolidated statements of operations and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of May 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Crowe Horwath LLP

Fort Wayne, Indiana

July 26, 2013

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**Skyline Corporation and Subsidiary Companies**

**Consolidated Balance Sheets**

**May 31, 2013 and 2012**

**(Dollars in thousands)**

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash | $ 11,838 | $ 12,011 |
| Restricted cash | 600 | |
| U.S. Treasury Bills, at cost plus accrued interest | 4,000 | 16,998 |
| Accounts receivable | 13,472 | 11,199 |
| Note receivable, current | 47 | |
| Inventories | 8,732 | 8,359 |
| Workers compensation security deposit | 2,597 | 2,402 |
| Other current assets | 351 | 501 |
| Total Current Assets | 41,637 | 51,470 |
| **Note Receivable, non-current** | 1,631 | |
| **Property, Plant and Equipment, at Cost:** | | |
| Land | 3,918 | 3,918 |
| Buildings and improvements | 40,960 | 40,891 |
| Machinery and equipment | 17,918 | 18,122 |
| | 62,796 | 62,931 |
| Less accumulated depreciation | 47,355 | 45,856 |
| | 15,441 | 17,075 |
| Idle property, net of accumulated depreciation | 2,901 | 4,121 |
| Net Property, Plant and Equipment | 18,342 | 21,196 |
| **Other Assets** | 6,317 | 6,190 |
| Total Assets | $ 67,927 | $ 78,856 |

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

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**Skyline Corporation and Subsidiary Companies**

**Consolidated Balance Sheets (Continued)**

**May 31, 2013 and 2012**

**(Dollars in thousands, except share and per share amounts)**

| | 2013 | 2012 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| **Current Liabilities:** | | |
| Accounts payable, trade | $ 3,675 | $ 3,296 |
| Accrued salaries and wages | 2,624 | 2,990 |
| Accrued marketing programs | 1,965 | 2,215 |
| Accrued warranty and related expenses | 3,682 | 3,870 |
| Other accrued liabilities | 2,261 | 2,310 |
| Total Current Liabilities | 14,207 | 14,681 |
| **Other Deferred Liabilities** | 8,069 | 8,011 |
| **Commitments and Contingencies See Note 11** | | |
| **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 | 106,155 | 116,668 |
| Treasury stock, at cost, 2,825,900 shares | (65,744) | (65,744) |
| Total Shareholders Equity | 45,651 | 56,164 |
| Total Liabilities and Shareholders Equity | $ 67,927 | $ 78,856 |

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

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**Skyline Corporation and Subsidiary Companies**

**Consolidated Statements of Operations and Retained Earnings**

**For the Years Ended May 31, 2013 and 2012**

**(Dollars in thousands, except share and per share amounts)**

| | 2013 | 2012 |
|---|---|---|
| **OPERATIONS** | | |
| Net sales | $ 177,574 | $ 182,846 |
| Cost of sales | 166,111 | 177,962 |
| Gross profit | 11,463 | 4,884 |
| Selling and administrative expenses | 23,681 | 27,450 |
| Gain on sale of idle property, plant and equipment | 1,641 | 3,184 |
| Operating loss | (10,577) | (19,382) |
| Interest income | 64 | 17 |
| Loss before income taxes | (10,513) | (19,365) |
| Benefit from income taxes | | |
| Net loss | $ (10,513) | $ (19,365) |
| Basic loss per share | $ (1.25) | $ (2.31) |
| Cash dividends per share | $ | $ .18 |
| Weighted average number of common shares outstanding | 8,391,244 | 8,391,244 |
| **RETAINED EARNINGS** | | |
| Balance at beginning of year | $ 116,668 | $ 137,543 |
| Net loss | (10,513) | (19,365) |
| Cash dividends paid | | (1,510) |
| Balance at end of year | $ 106,155 | $ 116,668 |

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

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**Skyline Corporation and Subsidiary Companies**

**Consolidated Statements of Cash Flows**

**For the Years Ended May 31, 2013 and 2012**

**(Dollars in thousands)**

| | 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (10,513) | $ (19,365) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 2,002 | 2,359 |
| Gain on sale of idle property, plant and equipment | (1,641) | (3,184) |
| Change in assets and liabilities: | | |
| Restricted cash | (600) | |
| Accrued interest receivable | 3 | 5 |
| Accounts receivable | (2,273) | 278 |
| Inventories | (373) | 361 |
| Workers compensation security deposit | (195) | 615 |
| Other current assets | 150 | (55) |
| Accounts payable, trade | 379 | (96) |
| Accrued liabilities | (853) | 61 |
| Other, net | (125) | 424 |
| Net cash used in operating activities | (14,039) | (18,597) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Proceeds from principal payments of U.S. Treasury Bills | 58,988 | 67,979 |
| Purchase of U.S. Treasury Bills | (45,993) | (49,988) |
| Proceeds from sale of idle property, plant and equipment | 819 | 5,054 |
| Proceeds from note receivable | 22 | |
| Purchase of property, plant and equipment | (75) | (614) |
| Other, net | 105 | (40) |
| Net cash provided by investing activities | 13,866 | 22,391 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Cash dividends paid | | (1,510) |
| Net cash used in financing activities | | (1,510) |
| Net (decrease) increase in cash | (173) | 2,284 |
| Cash at beginning of year | 12,011 | 9,727 |
| Cash at end of year | $ 11,838 | $ 12,011 |
| **NON-CASH TRANSACTIONS:** | | |
| Note receivable from sale of idle property, plant and equipment | $ 1,700 | $ |

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

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements**

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

*Nature of operations* Skyline 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 throughout the United States and Canada. Manufactured housing represents homes built according to a national code; modular housing represents homes built to a local code. These dealers and communities often utilize floor plan financing arrangements with lending institutions.

The following is a summary of the accounting policies that have a significant effect on the consolidated financial statements.

*Basis of presentation* The consolidated financial statements include the accounts of Skyline Corporation and its wholly-owned subsidiaries as referenced in Exhibit 21 (the Corporation ). All intercompany transactions have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation.

*Accounting Estimates* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Key estimates would include accruals for warranty, workers compensation, marketing programs and health insurance as well as valuations for long-lived assets and deferred tax assets.

*Revenue recognition* Substantially all of the Corporation s products are made to order. Revenue is recognized upon completion of the following: an order for a unit is received from a dealer or community (customer); written or verbal approval for payment is received from a customer s financial institution or payment is received; a common carrier signs documentation accepting responsibility for the unit as agent for the customer; and the unit is removed from the Corporation s premises for delivery to a customer. Freight billed to customers is considered sales revenue, and the related freight costs are cost of sales. Volume based rebates paid to dealers are classified as a reduction of sales revenue. Sales of parts are classified as revenue.

*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.

*Workers Compensation Security Deposit* Deferred worker s compensation deposit represents funds placed with the Corporation s worker s compensation insurance carrier to offset future medical claims and benefits.

*Note Receivable* The Corporation s note receivable represents the amount owed for the sale of two idle recreational vehicle facilities in Hemet, California; less cash received on the date of closing and cash received from principal repayments through May 31, 2013. Interest is accrued on a monthly basis. No allowance for credit losses exists due to favorable collections experience. The Corporation s management evaluates the credit quality of the note on a monthly basis. The Corporation s policy is to recognize a loss in the period when collectability cannot be reasonably assured.

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

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

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

*Property, Plant and Equipment (Continued)*

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 May 31, 2013, Idle property, net of accumulated depreciation consisted of manufacturing facilities in the following locations: Ocala, Florida; Elkhart, Indiana; Halstead, Kansas; and Fair Haven, Vermont. At May 31, 2012, Idle property, net of accumulated depreciation consisted of manufacturing facilities in the following locations: Hemet, California; Ocala, Florida; Elkhart, Indiana; Halstead, Kansas; Mocksville, North Carolina and Fair Haven, Vermont.

Long-lived assets are reviewed for impairment whenever events indicate that the carrying amount of an asset may not be recoverable from projected future cash flows. If the carrying value of a long-lived asset is impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. The Company believes no impairment of long-lived assets exists at May 31, 2013.

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

*Income Taxes* The Corporation recognizes deferred tax assets based on differences between the carrying values of assets for financial and tax reporting purposes. The realization of the deferred tax assets is dependent upon the generation of sufficient future taxable income. Generally accepted accounting principles require that an entity consider both negative and positive evidence in determining whether a valuation allowance is warranted. In comparing negative and positive evidence, continual losses in recent years is considered significant, negative, objective evidence that deferred tax assets may not be realized in the future, and generally is assigned more weight than subjective positive evidence of the realizability of deferred tax assets. As a result of its extensive evaluation of both positive and negative evidence, management maintains a full valuation allowance against its deferred tax assets. The Corporation reports a liability, if any, for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Corporation recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

*Consolidated statements of cash flows* For purposes of the consolidated statements of cash flows, investments in U. S. Treasury Bills and Notes are included as investing activities. The Corporation s cash flows from operating activities were not affected by income taxes in fiscal 2013 and 2012.

*Recently issued accounting pronouncements* There have been no recently issued accounting pronouncements that have had or will have a material effect on the Corporation s financial condition or results of operations.

*Management s Plan* Due to recent losses, the Corporation is pursuing strategies to increase sales and decrease costs. These strategies include but are not limited to:

- Increasing efforts to increase sales of modular homes and park models in both the United States and Canada by cultivating relationships with modular housing developers and campground owners that are outside the Corporation s historical distribution channels

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

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

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

*Management s Plan (Continued)*

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

Utilizing social media to improve product exposure to customers and to better connect dealers to potential customers

Selling non-strategic assets to generate cash and eliminate carrying costs

Working with current and potential vendors to decrease costs

Analyzing staffing and making reductions when considered appropriate by management

By implementing these strategies, and having a significant position of its working capital in cash and U.S. Treasury Bills, the Corporation s management believes the Corporation will have sufficient liquidity to meet its obligations through the next operating cycle.

**NOTE 2 Restricted Cash**

During fiscal 2013, the Corporation entered into an agreement to build and sell 60 manufactured homes to Stewart Homes, Inc., one of its dealers. Stewart Homes Inc. also entered into an agreement to sell these homes to Oakridge Family Homes, L.P., a California limited partnership. As a function of Oakridge Family Homes, L.P. purchasing the 60 homes, the Corporation pledged a $600,000 certificate of deposit as security for certain performances. The certificate of deposit will remain pledged until terms of the certificate of deposit proceeds and security agreement between the Corporation and Oakridge Family Homes, L.P. are completed, which is expected to occur by November 30, 2013. Based on the terms of the arrangement, the Corporation expects this cash will be available for unrestricted use within the next operating cycle and accordingly has classified this as a current asset.

**NOTE 3 Investments**

The following is a summary of investments:

| | Amortized Costs | Gross Unrealized Gain (Dollars in thousands) | Fair Value |
|---|---|---|---|
| **May 31, 2013** | | | |

| | | | |
|---|---|---|---|
| U. S. Treasury Bills | $ 4,000 | $ | $ 4,000 |
| **May 31, 2012** | | | |
| U. S. Treasury Bills | $ 16,998 | $ 5 | $ 17,003 |

The fair value is determined by a secondary market for U.S. Government Securities. At May 31, 2012, the U.S. Treasury Bills matured within four months. At May 31, 2013, the U.S. Treasury Bills matures within three months.

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

**NOTE 4 Inventories**

Total inventories consist of the following:

| | May 31, 2013 | May 31, 2012 |
|---|---|---|
| | (Dollars in thousands) | |
| Raw materials | $ 5,104 | $ 4,743 |
| Work in process | 2,863 | 2,543 |
| Finished goods | 765 | 1,073 |
| | $ 8,732 | $ 8,359 |

**NOTE 5 Note Receivable**

During the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities in Hemet, California. The sale of the facilities included a down payment of $500,000 and a promissory note of $1,700,000 to the Corporation. Selling expenses related to the sale, which were paid by the Corporation, were approximately $152,000. This resulted in net cash received from the transaction of approximately $348,000. The note bears an interest rate of 6 percent per annum, requires monthly payments following a 20 year amortization schedule, and provides for a final payment after 6 years. In addition, the two facilities are collateral for the note. The current and non-current balance of $1,678,000 represents the original amount of the note less principal payments received through May 31, 2013.

**NOTE 6 Property, Plant and Equipment**

During the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities located in Hemet, California for a gain of $1,411,000. During the fourth quarter of fiscal 2013, an idle manufactured housing facility located in Mocksville, North Carolina was sold for a gain of $230,000. During fiscal 2012, two idle housing facilities, one located in Ocala, Florida and one located in Ephrata, Pennsylvania were sold for gains of $1,114,000 and $1,386,000, respectively. In addition, an aircraft was sold for a gain of $684,000.

**NOTE 7 Other Assets**

Other assets consist primarily of the cash surrender value of life insurance policies which aggregated $6,231,000 and $6,126,000 at May 31, 2013 and 2012, respectively.

**NOTE 8 Warranty**

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

| | Year ended May 31, 2013 | Year ended May 31, 2012 |
|---|---|---|

| | (Dollars in thousands) | |
|---|---|---|
| Balance at the beginning of the period | $ 5,870 | $ 4,966 |
| Accruals for warranties | 5,191 | 5,990 |
| Settlements made during the period | (5,179) | (5,086) |
| Balance at the end of the period | 5,882 | 5,870 |
| Non-current balance included in other deferred liabilities | 2,200 | 2,000 |
| Accrued warranty and related expenses | $ 3,682 | $ 3,870 |

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

**NOTE 9 Other Deferred Liabilities**

Other deferred liabilities consist of the following:

| | May 31, 2013 | May 31, 2012 |
|---|---|---|
| | (Dollars in thousands) | |
| Deferred compensation expense | $ 5,869 | $ 6,011 |
| Accrued warranty and related expenses | 2,200 | 2,000 |
| | $ 8,069 | $ 8,011 |

Additional information regarding deferred compensation expense is in Note 14.

**NOTE 10 Income Taxes**

The Corporation had no federal and state income tax benefit for the years ended May 31, 2013 and 2012.

The difference between the Corporation s statutory federal income tax rate of 34 percent in fiscal 2013 and 2012, and the effective income tax rate is due primarily to state income taxes and changes in deferred tax assets valuation allowance and are as follows:

| | Year ended May 31, 2013 | Year ended May 31, 2012 |
|---|---|---|
| | (Dollars in thousands) | |
| Income taxes at statutory federal rate | $ (3,574) | $ (6,584) |
| State income taxes | 93 | (47) |
| State net operating loss | (605) | (1,047) |
| New Energy Efficient Home Credit | (91) | (117) |
| Alternative Fuel Credit | | (12) |
| Other federal credits | | (7) |
| Increase in deferred tax assets valuation allowance | 4,189 | 7,436 |
| Other, net | (12) | 378 |
| Income tax benefit | $ | $ |
| Effective tax rate | 0% | 0% |

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

**NOTE 10 Income Taxes (Continued)**

Components of the net deferred tax assets include:

| | May 31, 2013 | May 31, 2012 |
|---|---|---|
| | (Dollars in thousands) | |
| Current deferred tax assets | | |
| Accrued marketing programs | $ 55 | $ 207 |
| Accrued warranty expense | 1,466 | 1,560 |
| Accrued workers compensation | 638 | 843 |
| Accrued vacation | 319 | 345 |
| Other | 143 | 180 |
| Gross current deferred tax assets | 2,621 | 3,135 |
| Noncurrent deferred tax assets | | |
| Liability for certain post-retirement benefits | 2,252 | 2,286 |
| Accrued warranty expense | 876 | 807 |
| Federal net operating loss carryforward | 26,616 | 22,747 |
| Federal tax credit carryforward | 1,205 | 1,038 |
| State net operating loss carryforward | 7,380 | 6,775 |
| Depreciation | 735 | 755 |
| Other | (43) | (90) |
| Gross noncurrent deferred tax assets | 39,021 | 34,318 |
| Total gross deferred tax assets | 41,642 | 37,453 |
| Valuation allowance | (41,642) | (37,453) |
| Net deferred tax assets | $ | $ |

At May 31, 2013, the Corporation had gross federal net operating loss carryforwards of approximately $78 million and gross state net operating loss carryforwards of approximately $95 million. 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.

Income tax returns are filed in the U.S. federal jurisdiction and in several state jurisdictions. For the majority of taxing jurisdictions the Corporation is no longer subject to examination by taxing authorities for years before 2009. The Corporation did not incur any interest or penalties related to income tax matters in fiscal years 2013 and 2012.

The Corporation has no unrecognized tax benefits in its financial statements during fiscal years 2013 and 2012, and does not expect any significant changes related to unrecognized tax benefits in the twelve months following May 31, 2013.

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

**NOTE 11 Commitments and Contingencies**

The Corporation was contingently liable at May 31, 2013, 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 $71 million at May 31, 2013 and $64 million at May 31, 2012. As a result of favorable experience regarding repurchased units, which is largely due to the strength of dealers selling the Corporation s products, the Corporation maintained at May 31, 2013 and 2012 a $100,000 loss reserve that is a component of other accrued liabilities.

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 May 31, 2013 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:

| | **Year ended May 31,** | |
|---|---|---|
| | **2013** | **2012** |
| | **(Dollars in thousands)** | |
| Number of units repurchased | 3 | |
| Obligations from units repurchased | $ 31 | $ |
| 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.

As referenced in Note 2, the Corporation pledged a $600,000 certificate of deposit as security for certain performances in providing 60 manufactured homes to Oakridge Family Homes, L.P. The certificate of deposit will remain pledged until terms of the certificate of deposit proceeds and security agreement between the Corporation and Oakridge Family Homes, L.P. are completed, which is expected to occur by November 30, 2013.

The Corporation leases office and manufacturing equipment under non-cancelable operating lease agreements. Leases have various renewal terms, and generally provide that the Corporation pays the cost of insurance, taxes and maintenance. Lease expense totaled approximately $372,000 and $440,000 for fiscal years 2013 and 2012, respectively.

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

**NOTE 11 Commitments and Contingencies (Continued)**

Future minimum lease commitments under operating leases are as follows:

| Year ending May 31, | Amount (Dollars in thousands) |
|---|---|
| 2014 | $ 352 |
| 2015 | 269 |
| 2016 | 192 |
| 2017 | 95 |
| 2018 | 36 |
| Thereafter | 10 |
| | $ 954 |

The Corporation utilizes a combination of insurance coverage and self-insurance for certain items, including workers compensation and group health benefits. Liabilities for workers compensation are recognized for estimated future medical costs and indemnity costs. Liabilities for group health benefits are recognized for claims incurred but not paid. Insurance reserves are estimated based upon a combination of historical data and actuarial information. Actual results could differ from these estimates.

**NOTE 12 Treasury Stock**

The Corporation s Board of directors from time to time has authorized the repurchase of shares of the Corporation s common stock, in the open market or through negotiated transactions, at such times and at such prices as management may decide. In fiscal 2013 and 2012, the Corporation did not acquire any shares of its common stock. At May 31, 2013, the Corporation had authorization to repurchase an additional 391,300 of its common stock.

**NOTE 13 401(K) Plan**

The Corporation has an employee savings plan (the 401(k) Plan ) that is intended to provide participating employees with an additional method of saving for retirement. The 401(k) Plan covers all employees who meet certain minimum participation requirements. The Corporation does not provide a matching contribution to the 401(k) Plan, but can make discretionary profit sharing contributions. No profit sharing contributions were made in fiscal 2013 and 2012.

**NOTE 14 Retirement and Death Benefit Plans**

The Corporation has entered into various arrangements with certain employees or former employees for benefits to be paid in the following manner:

to an employee s estate in the event of death

to an employee in the event of retirement or disability to be paid over 10 years beginning at the date of retirement or disability

in the event of death, the employee s beneficiary will receive the balance due the employee

The Corporation also purchased life insurance contracts on the covered employees or former employees. The present value of the principal cost of such arrangements is being accrued over the period from the date of

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

**NOTE 14 Retirement and Death Benefit Plans (Continued)**

such arrangements to full eligibility using a discount rate of 4.0 percent in fiscal 2013 and 4.5 percent in fiscal 2012. The current and non-current amounts accrued for such arrangements totaled $6,309,000 and $6,316,000 at May 31, 2013 and 2012, respectively. The amount charged to operations under these arrangements was $187,000 and $414,000 for fiscal 2013 and 2012, respectively.

**NOTE 15 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 housing and recreational vehicle net sales is:

| | Year Ended May 31, 2013 | 2012 |
|---|---|---|
| Domestic Manufactured Housing | 49% | 48% |
| Modular Housing | | |
| Domestic | 11 | 9 |
| Canadian | 3 | 3 |
| | 14 | 12 |
| Total Housing | 63 | 60 |
| Recreational Vehicles | | |
| Domestic | 30 | 30 |
| Canadian | 7 | 10 |
| Total Recreational Vehicles | 37 | 40 |
| | 100% | 100% |

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 net sales. General corporate expenses are not allocated to the industry segments.

Identifiable assets, depreciation and capital expenditures, by industry segment, are those items that are used in operations in each industry segment, with jointly used items being allocated based on a percentage of net sales.

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

**NOTE 15 Industry Segment Information (Continued)**

| | Year Ended May 31, 2013 | 2012 |
|---|---|---|
| | (Dollars in thousands) | |
| **NET SALES** | | |
| Domestic Manufactured Housing | $ 87,380 | $ 87,487 |
| Modular Housing | | |
| Domestic | 18,562 | 15,852 |
| Canadian | 5,162 | 5,818 |
| | 23,724 | 21,670 |
| Total Housing | 111,104 | 109,157 |
| Recreational Vehicles | | |
| Domestic | 53,267 | 55,003 |
| Canadian | 13,203 | 18,686 |
| Total Recreational Vehicles | 66,470 | 73,689 |
| Total Net sales | $ 177,574 | $ 182,846 |
| **LOSS BEFORE INCOME TAXES** | | |
| Operating Loss | | |
| Housing | $ (6,867) | $ (13,440) |
| Recreational vehicles | (3,444) | (6,808) |
| General corporate expense | (1,907) | (2,318) |
| Gain on sale of idle property, plant and equipment | 1,641 | 3,184 |
| Total operating loss | (10,577) | (19,382) |
| Interest income | 64 | 17 |
| Loss before income taxes | $ (10,513) | $ (19,365) |
| **IDENTIFIABLE ASSETS** | | |
| Operating assets | | |
| Housing | $ 45,072 | $ 40,985 |
| Recreational vehicles | 18,855 | 20,873 |
| Total operating assets | 63,927 | 61,858 |
| U.S. Treasury bills | 4,000 | 16,998 |
| Total assets | $ 67,927 | $ 78,856 |

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**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

**NOTE 15 Industry Segment Information (Continued)**

| | Year Ended May 31, 2013 | 2012 |
|---|---|---|
| | (Dollars in thousands) | |
| **DEPRECIATION** | | |
| Housing | $ 1,490 | $ 1,762 |
| Recreational vehicles | 512 | 597 |
| Total depreciation | $ 2,002 | $ 2,359 |
| **CAPITAL EXPENDITURES** | | |
| Housing | $ 48 | $ 450 |
| Recreational vehicles | 27 | 164 |
| Total capital expenditures | $ 75 | $ 614 |

**NOTE 16 Financial Summary by Quarter Unaudited**

**Financial Summary by Quarter**

| **2013** | **1st Quarter** | **2nd Quarter** | **3rd Quarter** | **4th Quarter** | **Year** |
|---|---|---|---|---|---|
| | (Dollars in thousands, except per share amounts) | | | | |
| Net sales | $ 49,920 | $ 41,836 | $ 36,986 | $ 48,832 | $ 177,574 |
| Gross profit | 3,059 | 2,674 | 471 | 5,259 | 11,463 |
| Net (loss) income | (3,468) | (1,725) | (5,365) | 45 | (10,513) |
| Basic (loss) income per share | (.41) | (.21) | (.64) | .01 | (1.25) |

| **2012** | **1st Quarter** | **2nd Quarter** | **3rd Quarter** | **4th Quarter** | **Year** |
|---|---|---|---|---|---|
| | (Dollars in thousands, except per share amounts) | | | | |
| Net sales | $ 50,284 | $ 45,296 | $ 36,805 | $ 50,461 | $ 182,846 |
| Gross profit (loss) | 1,044 | 1,265 | (692) | 3,267 | 4,884 |
| Net loss | (6,845) | (3,422) | (7,387) | (1,711) | (19,365) |
| Basic loss per share | (.82) | (.40) | (.88) | (.21) | (2.31) |

**Item 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*.**
None

**Item 9A.** ***Controls and Procedures.***
**Evaluation of Disclosure Controls and Procedures**

As of May 31, 2013, 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 May 31, 2013.

**Management s Assessment on Internal Controls Over Financial Reporting**

Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Corporation s internal control over financial reporting includes policies and procedures that: pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Corporation s assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Corporation s receipts and expenditures are being made only in accordance with authorizations of management and directors; provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation s assets that could have a material effect on the financial statements.

Management of the Corporation has assessed the effectiveness of the Corporation s internal control over financial reporting based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management s assessment included an evaluation of the design of the Corporation s internal control over financial reporting, and testing of the operational effectiveness of the Corporation s internal control over financing reporting. Based on this assessment, management has concluded that the Corporation s internal control over financial reporting was effective as of May 31, 2013. This annual report does not include an attestation report of the Corporation s registered public accounting firm regarding internal control over financial reporting. Management s report is not subject to attestation by the Corporation s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Corporation to provide only management s report in this annual report.

**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 fiscal quarter ended May 31, 2013 that materially affected, or is reasonably likely to materially affect, the Corporation s internal control over financial reporting.

**Chief Executive Officer and Chief Financial Officer Certifications**

The Corporation s Chief Executive Officer and Chief Financial Officer have filed with the Securities and Exchange Commission the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to the Corporation s Annual Report on Form 10-K for the fiscal year ended May 31, 2013. In addition, on September 24, 2012 the Corporation s Chief Executive Officer certified to the New York Stock Exchange (NYSE) that he was not aware of any violation by the Corporation of the NYSE corporate governance listing standards as in effect on September 24, 2012. The foregoing certification was unqualified.

**Item 9B.** ***Other Information.***
None

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# PART III

**Item 10.** ***Directors, Executive Officers and Corporate Governance (Officers are elected annually.)***

| Name | Age | Position |
|---|---|---|
| Bruce G. Page | 63 | President and Chief Executive Officer |
| Terrence M. Decio | 61 | Vice President, Marketing and Sales |
| Martin R. Fransted | 61 | Corporate Controller and Secretary |
| Jon S. Pilarski | 50 | Vice President, Finance & Treasurer, Chief Financial Officer |

*Bruce G. Page*, President and Chief Executive Officer, joined the Corporation in 1969 and was elected President and Chief Executive Officer in 2012. He previously served as Chief Operating Officer from 2011 to 2012, and Vice President-Operations from 2006 to 2011.

*Terrence M. Decio*, Vice President, Marketing and Sales, joined the Corporation in 1973. He was elected Vice President in 1985, Senior Vice President in 1991, Senior Executive Vice President in 1993 and Vice President-Marketing and Sales in 2004.

*Martin R. Fransted,* Corporate Controller and Secretary, joined the Corporation in 1981 and was elected Corporate Controller and Secretary in 2007.

*Jon S. Pilarski*, Vice President, Finance & Treasurer, Chief Financial Officer, joined the Corporation in 1994. He served as Corporate Controller from 1997 to 2007 and was elected Vice President in 2007.

Information regarding the Corporation s directors, and other information required by this Item 10 is available in the following sections of the Corporation s Proxy Statement: Director Qualifications and Biographical Information ; Committees ; Code of Business Conduct and Ethics ; and Section 16(a) Beneficial Ownership Reporting Compliance. The Proxy Statement for the Annual Meeting of Shareholders to be held on September 23, 2013 is incorporated herein by reference.

**Item 11.** ***Executive Compensation.***

Information regarding executive compensation is available in the Executive Compensation section of the Corporation s Proxy Statement.

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Information regarding certain beneficial owners is available in the Security Ownership of Management and Certain Other Beneficial Owners section of the Corporation s Proxy Statement.

**Item 13.** ***Certain Relationships and Related Transactions, and Director Independence.***

Information regarding related party transactions and director independence is available in the following sections of the Corporation s Proxy Statement: Transactions with Management and Director Independence and Executive Sessions.

**Item 14.** ***Principal Accounting Fees and Services.***

Information regarding accounting fees and services is located in the Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees sections of th Corporation s Proxy Statement.

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## PART IV

**Item 15.** ***Exhibits, Financial Statement Schedules.***

(a)(1) Financial Statements

Financial statements for the Corporation are listed in the index under Item 8 of this document.

(a) (2) Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable, not material or the required information is shown in the financial statements or notes thereto.

(a)(3) Index to Exhibits

Exhibits (Numbered according to Item 601 of Regulation S-K, Exhibit Table)

| | |
|---|---|
| (3) | (i) Articles of Incorporation |
| (3) | (ii) By-Laws |
| (14) | Code of Business Conduct and Ethics |
| (21) | Subsidiaries of the Registrant |
| (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 Periodic Financial Reports 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.DEF) | XBRL Taxonomy Definition Linkbase Document |
| (101.LAB) | XBRL Taxonomy Extension Label Linkbase Document |
| (101.PRE) | XBRL Taxonomy Extension Presentation Linkbase Document |

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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

Registrant

BY: /s/ Bruce G. Page
Bruce G. Page
Chief Executive Officer

DATE: July 22, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| | | | |
|---|---|---|---|
| BY: | /s/ Jon S. Pilarski | Vice President, Finance & Treasurer, | July 22, 2013 |
| | Jon S. Pilarski | Chief Financial Officer | |
| BY | /s/ Martin R. Fransted | Corporate Controller and Secretary | July 22, 2013 |
| | Martin R. Fransted | | |
| BY: | /s/ Arthur J. Decio | Director | July 22, 2013 |
| | Arthur J. Decio | | |
| BY: | /s/ John C. Firth | Director | July 22, 2013 |
| | John C. Firth | | |
| BY: | /s/ Jerry Hammes | Director | July 22, 2013 |
| | Jerry Hammes | | |
| BY: | | Director | July 22, 2013 |
| | William H. Lawson | | |
| BY: | /s/ David T. Link | Director | July 22, 2013 |
| | David T. Link | | |

| | | | |
|---|---|---|---|
| BY: | /s/ Andrew J. McKenna | Director | July 22, 2013 |
| | Andrew J. McKenna | | |
| BY: | /s/ Samuel S. Thompson | Director | July 22, 2013 |
| | Samuel S. Thompson | | |