SKYLINE CORP
Form 10-Q
January 14, 2015
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended November 30, 2014**

**or**

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

**For the transition period from _____ to _____**

**Commission file number: 1-4714**

## SKYLINE CORPORATION

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

| **Indiana** | **35-1038277** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**P. O. Box 743, 2520 By-Pass Road**

| **Elkhart, Indiana** | **46515** |
|---|---|
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code: (574) 294-6521**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

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

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer ¨ | Smaller reporting company x |

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

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

| **Title of Class** | **Shares Outstanding January 14, 2015** |
|---|---|
| Common Stock | 8,391,244 |

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## PART I FINANCIAL INFORMATION

**Item 1.** ***Financial Statements.***

**Skyline Corporation and Subsidiary Companies**

**Consolidated Balance Sheets**

**(Dollars in thousands)**

| | November 30, 2014 (Unaudited) | May 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash | $ 4,824 | $ 6,031 |
| Accounts receivable | 13,590 | 16,259 |
| Note receivable, current | 51 | 50 |
| Inventories | 9,155 | 8,627 |
| Workers compensation security deposit | 2,137 | 2,688 |
| Other current assets | 974 | 542 |
| Assets of discontinued operations | 2,372 | 7,473 |
| Total Current Assets | 33,103 | 41,670 |
| **Note Receivable, non-current** | 1,555 | 1,581 |
| **Property, Plant and Equipment, at Cost:** | | |
| Land | 3,586 | 3,586 |
| Buildings and improvements | 39,706 | 39,254 |
| Machinery and equipment | 17,001 | 17,238 |
| | 60,293 | 60,078 |
| Less accumulated depreciation | 46,738 | 46,036 |
| | 13,555 | 14,042 |
| Assets of discontinued operations, net of accumulated depreciation | | 1,911 |
| | 13,555 | 15,953 |
| **Other Assets** | 6,855 | 6,550 |
| Total Assets | $ 55,068 | $ 65,754 |

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

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**Item 1.** ***Financial Statements*** ***(Continued).***

**Skyline Corporation and Subsidiary Companies**

**Consolidated Balance Sheets (Continued)**

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

| | November 30, 2014 (Unaudited) | May 31, 2014 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| **Current Liabilities:** | | |
| Accounts payable, trade | $ 2,034 | $ 3,050 |
| Accrued salaries and wages | 2,171 | 2,255 |
| Accrued marketing programs | 4,151 | 2,526 |
| Accrued warranty and related expenses | 3,738 | 3,697 |
| Other accrued liabilities | 2,482 | 3,695 |
| Liabilities of discontinued operations | 339 | 3,024 |
| Total Current Liabilities | 14,915 | 18,247 |
| **Long-Term Liabilities:** | | |
| Other deferred liabilities | 7,249 | 7,386 |
| Life insurance loans | 6,334 | 6,334 |
| Total Long-Term Liabilities | 13,583 | 13,720 |
| **Commitments and Contingencies See Note 9** | | |
| **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 | 87,074 | 94,291 |
| Treasury stock, at cost, 2,825,900 shares | (65,744) | (65,744) |
| Total Shareholders Equity | 26,570 | 33,787 |
| Total Liabilities and Shareholders Equity | $ 55,068 | $ 65,754 |

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

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

**Consolidated Statements of Operations and Retained Earnings**

**For the Three-Month and Six-Month Periods Ended November 30, 2014 and 2013**

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

| | Three-Months Ended | | Six-Months Ended | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (Unaudited) | | (Unaudited) | |
| **OPERATIONS:** | | | | |
| Net sales | $ 49,667 | $ 39,208 | $ 99,271 | $ 76,871 |
| Cost of sales | 44,509 | 35,401 | 90,072 | 69,461 |
| Gross profit | 5,158 | 3,807 | 9,199 | 7,410 |
| Selling and administrative expenses | 5,008 | 4,733 | 10,188 | 9,351 |
| Gain on sale of idle property, plant and equipment | | 162 | | 162 |
| Operating income (loss) | 150 | (764) | (989) | (1,779) |
| Interest expense | (93) | | (187) | |
| Interest income | 24 | 25 | 48 | 50 |
| Income (loss) from continuing operations before income taxes | 81 | (739) | (1,128) | (1,729) |
| Benefit from income taxes | | | | |
| Income (loss) from continuing operations | 81 | (739) | (1,128) | (1,729) |
| Loss from discontinued operations, net of income taxes | (3,525) | (1,474) | (6,089) | (1,863) |
| Net loss | $ (3,444) | $ (2,213) | $ (7,217) | $ (3,592) |
| Basic loss per share | $ (.41) | $ (.27) | $ (.86) | $ (.43) |
| Basic income (loss) per share from continuing operations | $ .01 | $ (.09) | $ (.13) | $ (.21) |
| Basic income (loss) per share from discontinued operations | $ (.42) | $ (.18) | $ (.73) | $ (.22) |
| Weighted average number of common shares outstanding | 8,391,244 | 8,391,244 | 8,391,244 | 8,391,244 |

| | | | | |
|---|---|---|---|---|
| **RETAINED EARNINGS:** | | | | |
| Balance at beginning of period | $ 90,518 | $ 104,776 | $ 94,291 | $ 106,155 |
| Net loss | (3,444) | (2,213) | (7,217) | (3,592) |
| Balance at end of period | $ 87,074 | $ 102,563 | $ 87,074 | $ 102,563 |

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

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

**Consolidated Statements of Cash Flows**

**For the Six-Month Periods Ended November 30, 2014 and 2013**

**(Dollars in thousands)**

| | 2014 | 2013 |
|---|---|---|
| | (Unaudited) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (7,217) | $ (3,592) |
| Adjustments to reconcile net loss to net cash from operating activities: | | |
| Depreciation | 726 | 887 |
| Reduction in inventory value of discontinued operations | 901 | |
| Gain on sale of assets associated with discontinued operations | (670) | |
| Gain on sale of idle property, plant and equipment | | (162) |
| Change in assets and liabilities: | | |
| Accrued interest receivable | | 1 |
| Accounts receivable | 5,872 | 1,358 |
| Inventories | 469 | (1,233) |
| Workers compensation security deposit | 551 | |
| Other current assets | (432) | (281) |
| Accounts payable, trade | (3,068) | (1,581) |
| Accrued liabilities | (264) | 3,556 |
| Other, net | (424) | (434) |
| Net cash from operating activities | (3,556) | (1,481) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Proceeds from principal payments of U.S. Treasury Bills | | 16,998 |
| Purchase of U.S. Treasury Bills | | (17,999) |
| Proceeds from note receivable | 25 | 24 |
| Proceeds from sale of assets associated with discontinued operations | 2,331 | |
| Proceeds from sale of idle property, plant and equipment | | 490 |
| Purchase of property, plant and equipment | (163) | (460) |
| Other, net | 156 | 229 |
| Net cash from investing activities | 2,349 | (718) |
| Net decrease in cash | (1,207) | (2,199) |
| Cash at beginning of period | 6,031 | 11,838 |

| | | |
|---|---|---|
| Cash at end of period | $ 4,824 | $ 9,639 |

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

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

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

The accompanying unaudited interim consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the consolidated financial position as of November 30, 2014, in addition to the consolidated results of operations and consolidated cash flows for the three-month and six-month periods ended November 30, 2014 and 2013. Due to the seasonal nature of the Corporation s business, interim results are not necessarily indicative of results for the entire year.

The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures normally accompanying the annual consolidated financial statements have been omitted. The audited consolidated balance sheet as of May 31, 2014 and the unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Corporation s latest annual report on Form 10-K.

Certain prior year amounts related to discontinued operations have been reclassified to conform to current year presentation.

The following is a summary of the accounting policies that have a significant effect on the Consolidated Financial Statements.

*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.

*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.

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

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

*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 workers 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 November 30, 2014. 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. Subsequent to November 30, 2014, the note was fully repaid.

*Property, Plant and Equipment* Property, plant and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method for financial statement reporting and accelerated methods for income tax reporting purposes. Estimated useful lives for significant classes of property, plant and equipment, including idle property, are as follows: Building and improvements 10 to 30 years; machinery and equipment 5 to 8 years. At November 30, 2014, idle property consisted of an idle manufacturing facility in Ocala, Florida. At May 31, 2014, idle property consisted of the aforementioned facility, and two manufacturing facilities in Elkhart, Indiana. The Corporation has the Ocala facility, and undeveloped land in McMinnville, Oregon presently for sale.

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 November 30, 2014.

*Warranty* The Corporation provides the retail purchaser of its homes, park models and recreational vehicles with a full fifteen-month warranty against defects in design, materials and workmanship. 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.

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

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

*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.

*Recently issued accounting pronouncements* In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-08 *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* ASU No. 2014-08 changes the requirements for reporting discontinued operations in that a discontinued operation may include a component of an entity, a group of components of an entity, or a business or non-profit activity. In addition, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on an entity s operations and financial results when certain conditions are met. For public business entities, ASU No. 2014-08 is effective for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The Corporation did not utilize early adoption of ASU No. 2014-08 regarding the sale of its recreational vehicle segment as referenced in Note 2. It will, however, adopt this pronouncement for any disposals (or classifications as held for sale) that may occur after May 31, 2015.

*Management s Plan* The Corporation s consolidated financial statements were prepared on a going concern basis, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business. Due to recurring losses, the Corporation experienced negative cash flows from operating activities. The level of historical negative cash flows from operations and not having available funding from outside financing sources raise substantial doubt about the Corporation s ability to continue as a going concern. To continue as a going concern, certain strategies need to be pursued to raise capital, increase sales and decrease costs. These strategies include but are not all inclusive:

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

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

*Management s Plan (continued)*

**Divest Non-Core Assets:** Management is focused on driving profitable growth in the Corporation s core housing business.

*Progress:*

In October 2014, the Corporation sold its recreational vehicle segment to focus solely on its core housing business and to raise cash. Additional information regarding the sale is in Note 2.

In addition to the sale of the RV business, the Corporation sold two idle housing facilities and one undeveloped parcel of land in fiscal 2014 and is currently seeking buyers for an idle housing facility and an undeveloped parcel of land to raise cash and eliminate carrying costs.

**Optimize Manufacturing Footprint:** Through an ongoing assessment of the strategic positioning of Skyline s manufacturing facilities, Management has successfully executed initiatives to optimize financial performance by reducing costs and gaining efficiencies at each facility.

*Progress:*

Eight of the Corporation s nine housing facilities had operating profits for both the second quarter and first half of fiscal 2015. The ninth is the Mansfield, Texas plant, our newest housing facility, which recently was converted from an RV plant and has experienced temporary inefficiencies inherent in such a conversion.

The Corporation s performance in fiscal 2015 represents significant improvement over fiscal 2014. In the first half of fiscal 2014, five of its eight housing facilities had operating profits. By comparison, in the first half of fiscal 2015 eight of nine housing facilities had operating profits.

**Increase Sales:**

Working to increase sales at the Mansfield, Texas housing facility by gaining a greater presence on the properties of manufactured housing dealers and manufactured housing communities.

Continuing to work with manufactured housing communities to identify opportunities for increasing sales.

Increasing sales of modular homes and park models by cultivating relationships with modular housing developers and campground owners that are outside the Corporation s historical distribution channels.

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

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

*Management s Plan (continued)*

Establishing additional distribution channels and forging new strategic relationships.

*Progress:*

These efforts contributed to a sales increase at the Mansfield, Texas facility of approximately 28 percent in the second quarter compared with the first quarter of fiscal 2015, while the operating loss decreased by approximately 39 percent over the same time period.

For the first half of fiscal 2015, manufactured housing sales to the Corporation s six largest communities increased approximately 35 percent compared with the first half of fiscal 2014. For the second quarter of fiscal 2015, sales to these communities increased approximately 2 percent compared with the second quarter of fiscal 2014.

In the second quarter of fiscal 2015, net sales for modular housing and park models increased approximately 23 percent and 124 percent, respectively, compared with the second quarter of fiscal 2014. For the first half of fiscal 2015, net sales for modular housing and park models increased approximately 14 percent and 122 percent, respectively, compared with the first half of fiscal 2014.

During the second quarter, the Corporation established a relationship with a manufactured housing retailer that specializes in internet-based marketing and provides factory tours to potential customers. This relationship is expected to help drive additional sales by more fully exploiting this increasingly important distribution channel for the Corporation s products. The Corporation expects five or six locations to be operating by the end of fiscal 2015.

**Decrease Costs:** Skyline continues to streamline costs with a focus on maximizing efficiencies and resources.

*Progress:*

The Corporation s Purchasing Department has obtained significant price concessions from certain suppliers and anticipates further savings from this initiative in the second half of the fiscal year.

In addition, Management has continued to analyze staffing needs and make reductions when considered appropriate. In connection with the sale of the RV business, the Corporation also identified and implemented reductions in corporate personnel that should result in annualized savings of approximately $400,000.

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

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

*Management s Plan (continued)*

**Raise Additional Capital:** Management is pursuing opportunities for additional capital and financing.

*Progress:*

The Corporation has obtained a number of proposals for additional capital that are being evaluated by the Special Committee of the Board of Directors.

As with any business enterprise, the Corporation s ability to operate as a going concern is contingent upon the successful execution of its strategies. Management is prepared to modify these strategies as appropriate to meet prevailing business and market conditions.

**NOTE 2 Discontinued Operations**

During September 2014, the Corporation decided to strategically focus on its core housing business and exit the recreational vehicle industry. As a result, on October 7, 2014 ( Closing Date ), the Corporation completed the sale of certain assets associated with its recreational vehicle segment (the Transaction ) to Evergreen Recreational Vehicles, LLC ( ERV ). The Transaction was completed pursuant to the terms of an Asset Purchase Agreement entered into between the Corporation and ERV on the Closing Date, as well as the terms of a Real Property Purchase Agreement entered into on that same date between the Corporation and an affiliate of ERV, Skyline RE Holding LLC (which, collectively with ERV, is referred to herein as Evergreen ). The assets of the recreational vehicle segment disposed of in the Transaction include:

A recreational vehicle manufacturing facility consisting of approximately 135,000 square feet situated on 18.2 acres located in Bristol, Indiana;

Intellectual properties such as trademarks, licenses, and product designs associated with the recreational vehicle segment;

Furniture, machinery, software, and equipment;

Raw material and work-in-process inventories;

Product designs, plans, and specifications;

Customer purchase orders and contracts, customer lists, and supplier lists; and

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

**NOTE 2 Discontinued Operations (Continued)**

All of the Corporation s rights to the exhibit space at the 2014 RVIA Louisville Show and related show materials (although the Corporation will retain approximately 4,500 square feet of show space for its own use).

The amount and nature of the consideration received by the Corporation for the assets sold include:

A cash payment of $175,000;

A separate cash payment of approximately $806,000, less prorated property taxes of approximately $73,000 and selling expenses of approximately $2,000, for the Bristol, Indiana manufacturing facility;

Evergreen will pay the Corporation a cash payment for the 2014 RVIA Louisville Show space (less the retained 4,500 square feet) at the per square foot lease rate paid by the Corporation for the space; and

For six months following the Closing Date, Evergreen will pay the Corporation 50 percent of the Corporation s cost for raw materials inventory purchased by the Corporation prior to the Closing Date within 10 days of Evergreen s use of the raw material. After six months following the Closing Date, the Corporation will have the right to remove any remaining materials inventory from Evergreen s possession.

In addition, under the Asset Purchase Agreement Evergreen will not assume or agree to pay, perform, or discharge any of the Corporation s liabilities or obligations, which will remain the liabilities and obligations of the Corporation.

The Bristol facility, and assets other than raw material and finished goods inventories, was sold at approximately net book value. Evergreen has the right, but not the obligation, to purchase the raw material inventory at 50 percent of the Corporation s cost of approximately $1,600,000. There can be no assurances as to how much of the raw material inventory Evergreen will purchase. Consequently, the Corporation incurred an approximate $901,000 charge in the second quarter reflecting the reduction in value of the raw material inventory plus raw material inventory that will not be used by Evergreen. Through November 30, 2014, Evergreen paid the Corporation approximately $69,000 for raw material inventory. In future periods, there may be additional charges that could be material related to the discontinued operations of the recreational vehicle segment disposed of in the Transaction.

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

**NOTE 2 Discontinued Operations (Continued)**

The following table summarizes the results of discontinued operations:

| | Three-Months Ended November 30, | | Six-Months Ended November 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (Dollars in thousands) | | (Dollars in thousands) | |
| Net Sales | $ 1,890 | $ 7,055 | $ 9,715 | $ 18,386 |
| Operating loss of discontinued operations | $ (3,294) | $ (1,474) | $ (5,858) | $ (1,863) |
| Loss on disposal of discontinued operations | (231) | | (231) | |
| Loss before income taxes | (3,525) | (1,474) | (6,089) | (1,863) |
| Income tax benefit | | | | |
| Loss from discontinued operations, net of taxes | $ (3,525) | $ (1,474) | $ (6,089) | $ (1,863) |

Loss on disposal of discontinued operations consisted of a $901,000 charge associated with the reduction in value of raw material inventory, less a gain of approximately $670,000 resulting from the sale of two idle recreational vehicle manufacturing facilities in Elkhart, Indiana to Forest River Manufacturing, LLC.

The Corporation s park model business, which was formerly reported in the recreational vehicle segment, was not disposed as part of the transaction with Evergreen and is now reported in the housing segment because net sales do not warrant separate segment reporting.

The following is a summary of assets and liabilities of discontinued operations at November 30, 2014 and May 31, 2014:

| | November 30, 2014 | May 31, 2014 |
|---|---|---|
| | (Dollars in thousands) | |
| **Current Assets:** | | |
| Accounts receivable | $ 1,567 | $ 4,770 |
| Inventories | 805 | 2,703 |

| | | |
|---|---|---|
| | $ 2,372 | $ 7,473 |
| **Property, Plant and Equipment:** | | |
| Property, plant and equipment, at cost | $ | $ 9,812 |
| Less accumulated depreciation | | 7,901 |
| | $ | $ 1,911 |

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**Item 1.** ***Financial Statements*** ***(Continued).***

**Skyline Corporation and Subsidiary Companies**

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

**NOTE 2 Discontinued Operations (Continued)**

| | November 30, 2014 | May 31, 2014 |
|---|---|---|
| | (Dollars in thousands) | |
| **Current Liabilities:** | | |
| Accounts payable, trade | $ 37 | $ 2,089 |
| Accrued salaries and wages | | 419 |
| Accrued marketing programs | 118 | 330 |
| Other accrued liabilities | 184 | 186 |
| | $ 339 | $ 3,024 |

In accordance with the Asset Purchase Agreement, the Corporation is responsible for the payment of product warranty claims associated with recreational vehicles sold by the Corporation. Consequently, this obligation is not included in the liabilities of discontinued operations on the Consolidated Balance Sheets at November 30 and May 31, 2014.

**NOTE 3 Inventories**

Total inventories from continuing operations consist of the following:

| | November 30, 2014 | May 31, 2014 |
|---|---|---|
| | (Dollars in thousands) | |
| Raw materials | $ 5,180 | $ 5,135 |
| Work in process | 2,915 | 3,174 |
| Finished goods | 1,060 | 318 |
| | $ 9,155 | $ 8,627 |

**NOTE 4 Note Receivable**

During fiscal 2013, the Corporation sold two idle recreational vehicle facilities in Hemet, California. The sale of the facilities included a promissory note of $1,700,000 to the Corporation. 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 $1,606,000 represents the original amount of the note less principal payments received through November 30, 2014. Subsequent to November 30, 2014, the note was fully repaid.

**NOTE 5 Other Assets**

Other assets consist primarily of the cash surrender value of life insurance policies which totaled $6,485,000 and $6,452,000 at November 30 and May 31, 2014, respectively.

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

**NOTE 6 Warranty**

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

| | Six-Months Ended November 30, | |
|---|---|---|
| | 2014 | 2013 |
| | (Dollars in thousands) | |
| Balance at the beginning of the period | $ 5,697 | $ 5,882 |
| Accruals for warranties | 3,543 | 2,786 |
| Settlements made during the period | (3,502) | (2,513) |
| Balance at the end of the period | 5,738 | 6,155 |
| Non-current balance included in other deferred liabilities | 2,000 | 2,200 |
| Accrued warranty and related expenses | $ 3,738 | $ 3,955 |

At November 30, 2014, the total obligation for warranty and related expenses associated with the recreational vehicle segment is estimated to be $1,300,000; consisting of an estimated current obligation of $800,000 and a non-current obligation of $500,000. At November 30, 2013, the total obligation for warranty and related expenses associated with the recreational vehicle segment is estimated to be $1,900,000; consisting of an estimated current obligation of $1,200,000 and non-current obligation of $700,000.

**NOTE 7 Long-Term Liabilities**

Long-term liabilities, consisting of other deferred liabilities and life insurance loans include the following:

| | November 30, 2014 | May 31, 2014 |
|---|---|---|
| | (Dollars in thousands) | |
| Other deferred liabilities: | | |
| Deferred compensation expense | $ 5,249 | $ 5,386 |
| Accrued warranty and related expenses | 2,000 | 2,000 |
| Total other deferred liabilities | 7,249 | 7,386 |
| Life insurance loans | 6,334 | 6,334 |

| | | |
|---|---|---|
| | $ 13,583 | $ 13,720 |

Life insurance loans have no fixed repayment schedule, and have interest rates ranging from 4.2 percent to 7.4 percent. The weighted average interest rate is 5.9 percent. At November 30 and May 31, 2014, prepaid interest associated with the life insurance loans totaled approximately $135,000 and $165,000, respectively; which is recognized in Other current assets.

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

**NOTE 8 Income Taxes**

At November 30, 2014, the Corporation s gross deferred tax assets of approximately $49 million consist of approximately $34 million in federal net operating loss carryforwards and tax credit carryforwards, $8 million in state net operating loss carryforwards, and $7 million resulting from temporary differences between financial and tax reporting. $5 million of the $49 million of total gross deferred tax assets pertain to discontinued operations. The federal net operating loss and tax credit carryforwards have a life expectancy of between sixteen and 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. The Corporation has recorded a full valuation allowance against this asset. If the Corporation, after considering future negative and positive evidence regarding the realization of deferred tax assets, determines that a lesser valuation allowance is warranted, it would record a reduction to income tax expense and the valuation allowance in the period of determination.

**NOTE 9 Commitments and Contingencies**

The Corporation was contingently liable at November 30 and May 31, 2014 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 park models 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 for continuing and discontinued operations, without reduction for the resale value of the repurchased units, was approximately $65 million at November 30, 2014 and approximately $63 million at May 31, 2014. At November 30 and May 31, 2014, the maximum potential repurchase liability, without reduction for the resale value of the repurchased units, associated with discontinued operations was approximately $29 million and $33 million, respectively. 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 November 30 and May 31, 2014, a $100,000 loss reserve that is a component of other accrued liabilities. $9,000 of the $100,000 loss reserve pertains to discontinued operations, and Management believes that the Corporation s exit from the recreational vehicle business will not further impact the loss reserve.

The risk of loss under these agreements is spread over many dealers and financial institutions. The loss, if any, under these agreements is the difference between the repurchase cost and the resale value of the units. The Corporation estimates the fair value of this commitment considering both the contingent losses and the value of the guarantee. This amount has historically been insignificant. The Corporation believes that any potential loss under the agreements in effect at November 30, 2014 will not be material to its financial position or results of operations.

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**Item 1.** ***Financial Statements (Continued).***

**Skyline Corporation and Subsidiary Companies**

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

**NOTE 9 Commitments and Contingencies (Continued)**

In the first half of fiscal 2015, 11 recreational vehicles were repurchased for approximately $203,000; resulting in a loss of approximately $43,000. In the first half of fiscal 2014, there were no obligations or net losses from 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.

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

In the second quarter of fiscal 2014, the Corporation sold its idle manufactured housing facility located in Fair Haven, Vermont. The gain on the sale of this facility was $162,000.

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

**Overview**

The Corporation designs, produces and markets manufactured housing, modular housing and 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 nine manufacturing facilities in eight states. Manufactured housing and park models 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 park models 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. Park model sales are generally higher in the spring and summer months than in the fall and winter months. Manufactured and modular housing are marketed under a number of trademarks, and are available in a variety of dimensions. Park models are marketed under the following trademarks: Kensington ; Shore Park ; Stone Harbor ; and Vacation Villa . 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. Park models are built according to specifications established by the American National Standards Institute, and are intended to provide temporary living accommodations for individuals seeking leisure travel and outdoor recreation.

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

**Manufactured Housing, Modular Housing and Park Model Industry Conditions**

Sales of manufactured housing, modular housing and park models 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 had been affected by declining unit shipments to historically low levels. Shipments totaled approximately 373,000 units in 1998; steadily declining to approximately 50,000 units by 2010. This decline was caused primarily by adverse economic conditions, tightening retail and wholesale credit markets and a depressed site-built housing market. Shipments, however, increased to approximately 52,000, 55,000 and 60,000 units in 2011, 2012 and 2013, respectively. From 2010 to 2013, the Corporation s shipments totaled approximately 1,900, 1,900, 1,800 and 2,200 units, respectively. From January 2014 to November 2014, shipments were approximately 60,000 units; an approximately 6 percent increase from the same period in 2013. During this same timeframe, the Corporation s shipments were approximately 2,500 units; a 21 percent increase from the same period in 2013.

The domestic modular housing industry experienced challenges similar to the manufactured housing industry. From calendar 2006 to 2012, total industry shipments decreased from approximately 39,000 to 13,000 units, a decline of 67 percent. In 2013, industry shipments increased to approximately 14,000 units. In 2012 and 2013, the Corporation s shipments were 301 and 263, respectively. From January 2014 to September 2014, shipments were approximately 10,000 units; an approximately 3 percent decrease from the same period a year ago. During this same timeframe, the Corporation s shipments were 375 units; a 43 percent increase from the same period in 2013.

Sales of park models are influenced by changes and consumer confidence, employment levels, and the availability of retail and wholesale financing. From calendar 2006 to 2012, total industry shipments decreased from approximately 9,800 to 2,800 units, a decline of 71 percent. In 2013, industry shipments increased to approximately 3,600 units. In 2012 and 2013, the Corporation s shipments were 138 and 171, respectively. From January 2014 to November 2014, shipments were approximately 3,500 units; an approximately 4 percent increase from the same period a year ago. During this same timeframe, the Corporation s shipments were 296 units; a 78 percent increase from the same period in 2013.

**Discontinued Operations**

During September 2014, the Corporation decided to strategically focus on its core housing business and exit the recreational vehicle industry. As a result, on October 7, 2014 ( Closing Date ), the Corporation completed the sale of certain assets associated with its recreational vehicle segment (the Transaction ) to Evergreen Recreational Vehicles, LLC ( ERV ).

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

**Discontinued Operations (Continued)**

The Transaction was completed pursuant to the terms of an Asset Purchase Agreement entered into between the Corporation and ERV on the Closing Date, as well as the terms of a Real Property Purchase Agreement entered into on that same date between the Corporation and an affiliate of ERV, Skyline RE Holding LLC (which, collectively with ERV, is referred to herein as Evergreen ). The assets of the recreational vehicle segment disposed of in the Transaction include, but not are limited to:

A recreational vehicle manufacturing facility consisting of approximately 135,000 square feet situated on 18.2 acres located in Bristol, Indiana;

Intellectual properties such as trademarks, licenses, and product designs associated with the recreational vehicle segment;

Furniture, machinery, software, and equipment;

Raw material and work-in-process inventories;

Product designs, plans, and specifications;

Customer purchase orders and contracts, customer lists, and supplier lists; and

All of the Corporation s rights to the exhibit space at the 2014 RVIA Louisville Show and related show materials (although the Corporation will retain approximately 4,500 square feet of show space for its own use).

The amount and nature of the consideration received by the Corporation for the assets sold include:

A cash payment of $175,000;

A separate cash payment of approximately $806,000, less prorated property taxes of approximately $73,000 and selling expenses of approximately $2,000, for the Bristol, Indiana manufacturing facility;

Evergreen will pay the Corporation a cash payment for the 2014 RVIA Louisville Show space (less the retained 4,500 square feet) at the per square foot lease rate paid by the Corporation for the space; and

For six months following the Closing Date, Evergreen will pay the Corporation 50 percent of the Corporation s cost for raw materials inventory purchased by the Corporation prior to the Closing Date within 10 days of Evergreen s use of the raw material. After six months following the Closing Date, the Corporation will have the right to remove any remaining materials inventory from Evergreen s possession.

In addition, under the Asset Purchase Agreement Evergreen will not assume or agree to pay, perform, or discharge any of the Corporation s liabilities or obligations, which will remain the liabilities and obligations of the Corporation.

The Bristol facility, and assets other than raw material and finished goods inventories, was sold at approximately net book value. Evergreen has the right, but not the obligation, to purchase the raw material inventory at 50 percent of the Corporation s cost of approximately $1,600,000. There can be no assurances as to how much of the raw material inventory Evergreen will purchase.

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

**Discontinued Operations (Continued)**

Consequently, the Corporation incurred an approximate $901,000 charge in the second quarter reflecting the reduction in value of the raw material inventory plus raw material inventory that will not be used by Evergreen. Through November 30, 2014, Evergreen paid the Corporation approximately $69,000 for raw material inventory. In future periods, there may be additional charges that could be material related to the discontinued operations of the recreational vehicle segment disposed of in the Transaction.

The following table summarizes the results of discontinued operations:

| | Three-Months Ended November 30, | | Six-Months Ended November 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | (Dollars in thousands) | | (Dollars in thousands) | |
| Net Sales | $ 1,890 | $ 7,055 | $ 9,715 | $ 18,386 |
| Operating loss of discontinued operations | $ (3,294) | $ (1,474) | $ (5,858) | $ (1,863) |
| Loss on disposal of discontinued operations | (231) | | (231) | |
| Loss before income taxes | (3,525) | (1,474) | (6,089) | (1,863) |
| Income tax benefit | | | | |
| Loss from discontinued operations, net of taxes | $ (3,525) | $ (1,474) | $ (6,089) | $ (1,863) |

Loss on disposal of discontinued operations consisted of a $901,000 charge associated with the reduction in value of raw material inventory, less a gain of approximately $670,000 resulting from the sale of two idle recreational vehicle manufacturing facilities in Elkhart, Indiana to Forest River Manufacturing, LLC.

The Corporation s park model business, which was formerly reported in the recreational vehicle segment, was not disposed as part of the transaction with Evergreen and is now reported in the housing segment because net sales do not warrant separate segment reporting.

The following is a summary of assets and liabilities of discontinued operations at November 30, 2014 and May 31, 2014:

| | November 30, 2014 | May 31, 2014 |
|---|---|---|

| | (Dollars in thousands) | |
|---|---|---|
| **Current Assets:** | | |
| Accounts receivable | $ 1,567 | $ 4,770 |
| Inventories | 805 | 2,703 |
| | $ 2,372 | $ 7,473 |

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

**Discontinued Operations (Continued)**

| | November 30, 2014 | May 31, 2014 |
|---|---|---|
| | (Dollars in thousands) | |
| **Property, Plant and Equipment:** | | |
| Property, plant and equipment, at cost | $ | $ 9,812 |
| Less accumulated depreciation | | 7,901 |
| | $ | $ 1,911 |
| **Current Liabilities:** | | |
| Accounts payable, trade | $ 37 | $ 2,089 |
| Accrued salaries and wages | | 419 |
| Accrued marketing programs | 118 | 330 |
| Other accrued liabilities | 184 | 186 |
| | $ 339 | $ 3,024 |

In accordance with the Asset Purchase Agreement the Corporation is responsible for the payment of product warranty claims associated with recreational vehicles sold by the Corporation. Consequently, this obligation is not included in the liabilities of discontinued operations on the Consolidated Balance Sheets at November 30 and May 31, 2014.

**Second Quarter Fiscal 2015 Results**

The Corporation experienced the following results during the second quarter of fiscal 2015:

The Corporation sold the recreational vehicle segment as previously noted

Net sales related to continuing operations were $49,667,000, an approximate 27 percent increase from the $39,208,000 reported in the same period a year ago

Net income from continuing operations for the second quarter of fiscal 2015 was $81,000 as compared to a net loss of $739,000 for the second quarter of fiscal 2014

Loss from discontinued operations, net of incomes taxes, was $3,525,000 for the second quarter of fiscal 2015 as compared to $1,474,000 for the second quarter of fiscal 2014

Net loss for the second quarter of fiscal 2015 was $3,444,000 as compared to $2,213,000 for the second quarter of fiscal 2013. On a per share basis, net loss was $.41 as compared to $.27 for the same period a year ago

The Corporation sold two idle recreational vehicle facilities located in Elkhart, Indiana as previously noted in Discontinued Operations

The Corporation experienced increased net sales in the second quarter of fiscal 2015 as compared to the second quarter of fiscal 2014, and management cannot determine with certainty if this trend will continue. This uncertainty is based on potential adverse changes in economic growth, interest rate and employment levels, and consumer confidence.

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

**Management s Plan**

The Corporation s consolidated financial statements were prepared on a going concern basis, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business. Due to recurring losses, the Corporation experienced negative cash flows from operating activities. The level of historical negative cash flows from operations and not having available funding from outside financing sources raise substantial doubt about the Corporation s ability to continue as a going concern. To continue as a going concern, certain strategies need to be pursued to raise capital, increase sales and decrease costs. These strategies include but are not all inclusive:

**Divest Non-Core Assets:** Management is focused on driving profitable growth in the Corporation s core housing business.

*Progress:*

In October 2014, the Corporation sold its recreational vehicle segment to focus solely on its core housing business and to raise cash. Additional information regarding the sale is in Note 2.

In addition to the sale of the RV business, the Corporation sold two idle housing facilities and one undeveloped parcel of land in fiscal 2014 and is currently seeking buyers for an idle housing facility and an undeveloped parcel of land to raise cash and eliminate carrying costs.

**Optimize Manufacturing Footprint:** Through an ongoing assessment of the strategic positioning of Skyline s manufacturing facilities, Management has successfully executed initiatives to optimize financial performance by reducing costs and gaining efficiencies at each facility.

*Progress:*

Eight of the Corporation s nine housing facilities had operating profits for both the second quarter and first half of fiscal 2015. The ninth is the Mansfield, Texas plant, our newest housing facility, which recently was converted from an RV plant and has experienced temporary inefficiencies inherent in such a conversion.

The Corporation s performance in fiscal 2015 represents significant improvement over fiscal 2014. In the first half of fiscal 2014, five of its eight housing facilities had operating profits. By comparison, in the first half of fiscal 2015 eight of nine housing facilities had operating profits.

Increase Sales:

Working to increase sales at the Mansfield, Texas housing facility by gaining a greater presence on the properties of manufactured housing dealers and manufactured housing communities.

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

**Management s Plan (Continued)**

Continuing to work with manufactured housing communities to identify opportunities for increasing sales.

Increasing sales of modular homes and park models by cultivating relationships with modular housing developers and campground owners that are outside the Corporation s historical distribution channels.

Establishing additional distribution channels and forging new strategic relationships.

*Progress:*

These efforts contributed to a sales increase at the Mansfield, Texas facility of approximately 28 percent in the second quarter compared with the first quarter of fiscal 2015, while the operating loss decreased by approximately 39 percent over the same time period.

For the first half of fiscal 2015, manufactured housing sales to the Corporation s six largest communities increased approximately 35 percent compared with the first half of fiscal 2014. For the second quarter of fiscal 2015, sales to these communities increased approximately 2 percent compared with the second quarter of fiscal 2014.

In the second quarter of fiscal 2015, net sales for modular housing and park models increased approximately 23 percent and 124 percent, respectively, compared with the second quarter of fiscal 2014. For the first half of fiscal 2015, net sales for modular housing and park models increased approximately 14 percent and 122 percent, respectively, compared with the first half of fiscal 2014.

During the second quarter, the Corporation established a relationship with a manufactured housing retailer that specializes in internet-based marketing and provides factory tours to potential customers. This relationship is expected to help drive additional sales by more fully exploiting this increasingly important distribution channel for the Corporation s products. The Corporation expects five or six locations to be operating by the end of fiscal 2015.

**Decrease Costs:** Skyline continues to streamline costs with a focus on maximizing efficiencies and resources.

*Progress:*

The Corporation s Purchasing Department has obtained significant price concessions from certain suppliers and anticipates further savings from this initiative in the second half of the fiscal year.

In addition, Management has continued to analyze staffing needs and make reductions when considered appropriate. In connection with the sale of the RV business, the Corporation also identified and implemented reductions in

corporate personnel that should result in annualized savings of approximately $400,000.

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

**Management s Plan (Continued)**

**Raise Additional Capital:** Management is pursuing opportunities for additional capital and financing.

*Progress:*

The Corporation has obtained a number of proposals for additional capital that are being evaluated by the Special Committee of the Board of Directors.

As with any business enterprise, the Corporation s ability to operate as a going concern is contingent upon the successful execution of its strategies. Management is prepared to modify these strategies as appropriate to meet prevailing business and market conditions.

**Results of Operations Three-Month Period Ended November 30, 2014 Compared to Three-Month Period Ended November 30, 2013 (Unaudited)**

***Net Sales and Unit Shipments***

| | November 30, 2014 | Percent | November 30, 2013 | Percent | Increase |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Net Sales** | | | | | |
| Manufactured Housing | $ 38,997 | 79% | $ 31,388 | 80% | $ 7,609 |
| Modular Housing | 8,327 | 17 | 6,772 | 17 | 1,555 |
| Park Models | 2,343 | 4 | 1,048 | 3 | 1,295 |
| Total Net Sales | $ 49,667 | 100% | $ 39,208 | 100% | $ 10,459 |
| **Unit Shipments** | | | | | |
| Manufactured Housing | 726 | 80% | 663 | 83% | 63 |
| Modular Housing | 122 | 13 | 105 | 13 | 17 |
| Park Models | 63 | 7 | 29 | 4 | 34 |
| Total Unit Shipments | 911 | 100% | 797 | 100% | 114 |

Net sales increased approximately 27 percent. The increase was comprised of a 24 percent increase in manufactured housing net sales, a 23 percent increase in modular housing net sales, and a 124 percent increase in park model net sales. Current year manufactured housing net sales includes approximately $2,706,000 attributable to the facility located in Mansfield, Texas. This facility commenced housing operations in the third quarter of fiscal 2014.

Unit shipments increased approximately 14 percent. The increase was the outcome of manufactured housing shipments increasing approximately 10 percent, modular shipments increasing approximately 16 percent, and park model shipments increasing approximately 117 percent.

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

**Results of Operations Three-Month Period Ended November 30, 2014 Compared to Three-Month Period Ended November 30, 2013 (Unaudited) (Continued)**

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

For the three month period ended November 30, 2014, the percentage increase in unit shipments from the comparable period last year are as follows:

| | Skyline | Industry |
|---|---|---|
| Manufactured Housing | 10% | 5% |
| Modular Housing | 16% | Not available |
| Park Models | 117% | 1% |

Compared to prior year, the average net sales price for manufactured housing and modular housing increased approximately 13 percent and 6 percent, respectively. The increase is the result of homes sold with larger square footage and greater amenities. The average net sales prices for park models increased approximately 3 percent as an adjustment to higher material costs.

***Cost of Sales***

| | November 30, 2014 | Percent of Net Sales | November 30, 2013 | Percent of Net Sales | Increase |
|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | |
| Cost of sales | $ 44,509 | 90 | $ 35,401 | 90 | $ 9,108 |

Cost of sales, in dollars, increased as a result of increased net sales. Included in current year cost of sales is approximately $2,728,000 attributable to the Mansfield, Texas facility, which was not fully operational as a housing facility a year ago. As previously referenced, housing operations commenced in the third quarter of fiscal 2014.

***Selling and Administrative Expenses***

| | November 30, 2014 | Percent of Net Sales | November 30, 2013 | Percent of Net Sales | Increase |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| Selling and administrative expenses | $ 5,008 | 10 | $ 4,733 | 12 | $ 275 |

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

**Results of Operations Three-Month Period Ended November 30, 2014 Compared to Three-Month Period Ended November 30, 2013 (Unaudited) (Continued)**

***Selling and Administrative Expenses (Continued)***

Selling and administrative expenses, increased primarily as a result of the Mansfield, Texas facility incurring approximately $246,000 in expenses in the second quarter of fiscal 2015 as compared to $143,000 for the same period a year ago. In addition, in prior year there was a $100,000 decrease that occurred in the expense related to the Corporation s liability for retirement and death benefits offered to certain current and former employees. The decrease occurred as a result of a change in the interest rate used in valuing the liability. As a percentage of net sales, selling and administrative expenses declined due to certain costs remaining fixed amid rising sales.

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

In the second quarter of fiscal 2014, the Corporation sold an idle housing facility located in Fair Haven, Vermont. The gain on the sale of this facility was $162,000.

***Interest Expense***

Interest expense of $93,000 for the second quarter of fiscal 2015 is related to interest paid on life insurance policy loans.

***Interest Income***

Interest income of $24,000 and $25,000 for the second quarters of fiscal 2015 and 2014, respectively, consisted of interest received from the Corporation s Note receivable.

**Results of Operations Six-Month Period Ended November 30, 2014 Compared to Six-Month Period Ended November 30, 2013 (Unaudited)**

***Net Sales and Unit Shipments***

| | November 30, 2014 | Percent | November 30, 2013 | Percent | Increase |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Net Sales** | | | | | |
| Manufactured Housing | $ 79,303 | 80% | $ 61,499 | 80% | $ 17,804 |
| Modular Housing | 14,906 | 15 | 13,095 | 17 | 1,811 |
| Park Models | 5,062 | 5 | 2,277 | 3 | 2,785 |

| | | | | | |
|---|---|---|---|---|---|
| Total Net Sales | $ 99,271 | 100% | $ 76,871 | 100% | $ 22,400 |

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

**Results of Operations Six-Month Period Ended November 30, 2014 Compared to Six-Month Period Ended November 30, 2013 (Unaudited) (Continued)**

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

| | November 30, 2014 | Percent | November 30, 2013 | Percent | Increase |
|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | |
| **Unit Shipments** | | | | | |
| Manufactured Housing | 1,502 | 81% | 1,293 | 83% | 209 |
| Modular Housing | 224 | 12 | 209 | 13 | 15 |
| Park Models | 134 | 7 | 64 | 4 | 70 |
| Total Unit Shipments | 1,860 | 100% | 1,566 | 100% | 294 |

Net sales increased approximately 29 percent. The increase was comprised of a 29 percent increase in manufactured housing net sales, a 14 percent increase in modular housing net sales, and a 122 percent increase in park model net sales. Current year manufactured housing net sales includes approximately $4,817,000 attributable to the facility located in Mansfield, Texas. This facility commenced housing operations in the third quarter of fiscal 2014.

Unit shipments increased approximately 19 percent. The increase was the outcome of manufactured housing shipments increasing 16 percent, modular shipments increasing approximately 7 percent and park model shipments increasing approximately 109 percent.

For the six month period ended November 30, 2014, the percentage increase in unit shipments from the comparable period last year are as follows:

| | Skyline | Industry |
|---|---|---|
| Manufactured Housing | 16% | 7% |
| Modular Housing | 7% | Not available |
| Park Models | 10% | 2% |

Compared to prior year, the average net sales price for manufactured housing and modular housing increased approximately 11 percent and 6 percent, respectively. The increase is the result of homes sold with larger square footage and greater amenities. The average net sales price for park models increased approximately 6 percent as an adjustment of higher material costs, and units sold with greater amenities.

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

**Results of Operations Six-Month Period Ended November 30, 2014 Compared to Six-Month Period Ended November 30, 2013 (Unaudited) (Continued)**

***Cost of Sales***

| | November 30, 2014 | Percent of Net Sales | November 30, 2013 | Percent of Net Sales | Increase |
|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | |
| Cost of Sales | $ 90,072 | 91 | $ 69,461 | 90 | $ 20,611 |

Cost of sales, in dollars, increased as a result of increased net sales. Included in current year cost of sales is approximately $5,047,000 attributable to the Mansfield, Texas facility, which was not fully operational as a housing facility a year ago. As previously referenced, housing operations commenced in the third quarter of fiscal 2014. As a percentage of net sales, cost of sales was adversely impacted by an approximately $672,000 increase in workers compensation costs compared to prior year; from approximately $430,000 to approximately $1,102,000,000.

***Selling and Administrative Expenses***

| | November 30, 2014 | Percent of Net Sales | November 30, 2013 | Percent of Net Sales | Increase |
|---|---|---|---|---|---|
| | (Dollars in thousands) | | | | |
| Selling and administrative expenses | $ 10,188 | 10 | $ 9,351 | 12 | $ 837 |

Selling and administrative expenses, increased primarily as a result of the Mansfield, Texas facility incurring approximately $472,000 in expenses in the first half of fiscal 2015 as compared to $143,000 for the same period a year ago. In addition, in prior year there was a $250,000 decrease that occurred in the expense related to the Corporation s liability for retirement and death benefits offered to certain current and former employees. The decrease occurred as a result of a change in the interest rate used in valuing the liability. As a percentage of net sales, selling and administrative expenses declined due to certain costs remaining fixed amid rising sales.

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

In the second quarter of fiscal 2014, the Corporation sold an idle housing facility located in Fair Haven, Vermont. The gain on the sale of this facility was $162,000.

***Interest Expense***

Interest expense of $187,000 for the second quarter of fiscal 2015 is related to interest paid on life insurance policy loans.

***Interest Income***

Interest income of $48,000 and $50,000 for the second quarters of fiscal 2015 and 2014, respectively, consisted of interest received from the Corporation s Note receivable.

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

***Liquidity and Capital Resources***

| | November 30, 2014 | May 31, 2014 | Decrease |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Cash | $ 4,824 | $ 6,031 | $ 1,207 |
| Current assets, exclusive of cash | $ 28,279 | $ 35,639 | $ 7,360 |
| Current liabilities | $ 14,915 | $ 18,247 | $ 3,332 |
| Working capital | $ 18,188 | $ 23,423 | $ 5,235 |

As noted in the Consolidated Statements of Cash Flows, cash decreased primarily due to net cash usage of $3,556,000 from operating activities offset by net cash provided by financing activities of $2,349,000. Current assets, exclusive of cash, decreased mainly due to a $5,101,000 decrease in assets of discontinued operations and a $2,669,000 decrease in accounts receivable. Assets of discontinued operations declined as a result of the Corporation s sale of its recreational vehicle segment. Accounts receivable decreased due to the timing of payments from dealers and communities at November 30, 2014 as compared to May 31, 2014.

Current liabilities decreased due to the following factors:

Liabilities of discontinued operations decreased $2,685,000 resulting from the Corporation s sale of its recreational vehicle segment

Other accrued liabilities decreased primarily as a result of a $718,000 fulfillment of certain obligations with the Corporation s contract with National Community Renaissance of California

Accounts payable decreased $1,016,000 due to less production occurring at November 30, 2014 as compared to May 31, 2014

Accrued marketing programs increased $1,625,000 due to accruals for an ongoing marketing program for manufactured housing dealers and communities. Accruals are made monthly, and the majority of the payments occur during the Corporation s fourth quarter.

Capital expenditures totaled $163,000 for the first half of fiscal 2015 as compared to $460,000 for the first half of fiscal 2014. Approximately $391,000 of prior year expenditures was attributable to the renovation of the Mansfield, Texas facility to accommodate housing production.

Certain key cash flow metrics related to discontinued operations for the first half of fiscal 2015 are set forth below (in thousands):

| | |
|---|---|
| Loss from discontinued operations, net of income taxes | $ (6,089) |
| Depreciation | $ 85 |
| Reduction in value of raw material inventory | $ 901 |
| Gain on sale of property, plant and equipment | $ (670) |

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

***Liquidity and Capital Resources (Continued)***

With the sale of the recreational vehicle segment, the Corporation anticipates that cash needs associated with this discontinued operation will significantly decrease in future periods since it will not be funding significant operating losses. As previously referenced, the Corporation has current assets of discontinued operations of $2,372,000, current liabilities of discontinued operations of $339,000, and an estimated $1,300,000 of current and non-current warranty obligations associated with the recreational vehicle segment that is reported in continuing obligations.

As noted in the Management s Plan section, the Corporation is aggressively pursuing strategies in order to raise capital, increase sales and decrease costs. As with any business enterprise, the Corporation s ability to operate as a going concern is contingent upon the successful execution of its strategies. Management, however, is prepared to modify these strategies to meet prevailing business conditions.

**Impact of Inflation**

The consolidated financial statements included in this report reflect transactions in the dollar values in which they were incurred and, therefore, do not attempt to measure the impact of inflation. On a long-term basis, the Corporation has demonstrated an ability to adjust selling prices in reaction to changing costs due to inflation.

**Forward Looking Information**

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

Consumer confidence and economic uncertainty

Availability of wholesale and retail financing

The health of the U.S. housing market as a whole

Federal, state and local regulations pertaining to the manufactured housing industry

Cyclical nature of the housing and park model industries

General or seasonal weather conditions affecting sales

Potential impact of natural disasters on sales and raw material costs

Potential periodic inventory adjustments by independent retailers

Interest rate levels

Impact of inflation

Impact of rising fuel costs

Cost of labor and raw materials

Competitive pressures on pricing and promotional costs

Catastrophic events impacting insurance costs

The availability of insurance coverage for various risks to the Corporation

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

**Forward Looking Information (Continued)**

Market demographics

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

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

**Not applicable.**

**Item 4.** ***Controls and Procedures.***

**Management s Conclusions Regarding Effectiveness of Disclosure Controls and Procedures**

As of November 30, 2014, the Corporation conducted an evaluation, under the supervision and participation of management including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Corporation s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation s disclosure controls and procedures are effective for the period ended November 30, 2014.

**Changes in Internal Control over Financial Reporting**

No change in the Corporation s internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the second quarter ended November 30, 2013 that materially affected, or is reasonably likely to materially affect, the Corporation s internal control over financial reporting.

## PART II OTHER INFORMATION

**Item 1.** ***Legal Proceedings.***

Information with respect to this Item for the period covered by this Form 10-Q has been reported in Item 3, entitled Legal Proceedings of the Form 10-K for the fiscal year ended May 31, 2014 filed by the registrant with the Commission.

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

There were no material changes in the risk factors disclosed in Item 1A of the Corporation s Form 10-K for the year ended May 31, 2014.

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**Item 6.** ***Exhibits.***

| | |
|---|---|
| (31.1) | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002-Rule 13a-14(a)/15d-14(a) |
| (31.2) | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002-Rule 13a-14(a)/15d-14(a) |
| (32) | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| (101.INS) | XBRL Instance Document. |
| (101.SCH) | XBRL Taxonomy Extension Schema Document. |
| (101.CAL) | XBRL Taxonomy Extension Calculation Linkbase Document. |
| (101.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 the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SKYLINE CORPORATION

DATE: January 14, 2015

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

DATE: January 14, 2015

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

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## INDEX TO EXHIBITS

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