

SKYLINE

2002

ANNUAL

REPORT

Manufactured Housing

Recreational Vehicles

CORPORATE

PROFILE

Skyline Corporation, founded in 1951, has grown into one of America's leading producers of manufactured homes and recreational vehicles (RVs). Its headquarters is in Elkhart, Indiana, and it has 24 operating divisions in 12 states from coast to coast.

Despite the volatile and competitive nature of the industries in which it operates, Skyline has earned a profit every year since its founding.

Most of the factory-crafted homes built by Skyline are multi-section models. These are nearly indistinguishable from comparable site-built homes that typically sell for a substantially higher price. Single-section Skyline-built homes are an even more affordable form of housing.

Skyline builds three types of towable RVs: conventional travel trailers, fifth wheel travel trailers and park models.

Skyline takes pride in designing and building products of outstanding value. These are marketed across the country through independent retailers. Skyline supports its products with a nationwide service program that puts customers first.

Since its founding, Skyline has built more than 850,000 manufactured homes and 430,000 RVs. Its sales over the years total in excess of \$13 billion.

Skyline people have earned a reputation for integrity in their relationships with each other and with customers, communities, retailers and suppliers. They feel a strong sense of responsibility to the thousands of families and individuals who enjoy the benefits of Skyline products. They are grateful to have the opportunity to make a contribution to the well-being of American society.

As Skyline moves into its second half-century, its people look forward to more years of achievement.

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Financial Highlights

For the Years Ended May 31, 2002 and 2001

Dollars in thousands except per share data

	2002	2001
Sales	\$ 450,722	\$ 463,824
Earnings before income taxes	\$ 20,229	\$ 18,530
Net earnings	\$ 12,254	\$ 11,170
Cash dividends	\$ 6,042	\$ 6,124
Working capital	\$ 156,360	\$ 149,591
Shareholders' equity	\$ 198,233	\$ 192,021
Cash and temporary cash investments	\$ 147,026	\$ 116,415
Total assets	\$ 238,752	\$ 235,678
Current ratio	5.3:1	4.8:1
Number of operating plants	24	24
Number of employees	2,800	3,000
Per share		
Basic earnings	\$ 1.46	\$ 1.32
Cash dividends	\$.72	\$.72
Shareholders' equity	\$ 23.62	\$ 22.88

TO OUR SHAREHOLDERS

Net earnings for Skyline Corporation's 2002 fiscal year were \$12,254,000 compared to \$11,170,000 for fiscal 2001. On a basic earnings per share basis, fiscal 2002 net earnings were \$1.46 compared to \$1.32 for fiscal 2001.

Sales for the fiscal year which ended May 31, 2002, were \$450,722,000 compared to \$463,824,000 for the previous fiscal year.

During fiscal 2002, our manufactured housing group recorded sales of \$339,260,000. The group's sales for the previous fiscal year were \$353,610,000.

Sales by our recreational vehicle (RV) group were \$111,462,000 compared to \$110,214,000 for fiscal 2001.

As it has every year since 1960, when its shares first were publicly traded, Skyline in fiscal 2002 continued to pay quarterly cash dividends. It also maintained its traditionally strong balance sheet with no long-term debt and a healthy position in cash and cash equivalents.

Performing with Distinction

Fiscal 2002 clearly was a challenging year for Skyline and the industries in which it competes. Through much of the year, market conditions were difficult for both manufactured housing and RVs. Adding to the challenge was a general economic slowdown. In September 2001, just as the economy began to show signs of improvement, terrorists attacked the American homeland, sending the economy into another slump.

As the results for fiscal 2002 indicate, Skyline people met the challenges by continuing to perform

with distinction. With a management team seasoned by prior experiences with industry downturns, Skyline strengthened its competitive capabilities, stepped up cooperation with independent retailers and enhanced the quality and value of its products.

Because of the teamwork, discipline and dedication of Skyline people, fiscal 2002 was the fifty-first consecutive year of corporate profitability.

Overview by Industry

In manufactured housing, Skyline, like the industry as a whole, continued to be negatively affected by a softening in demand that dates back to fiscal 1999. Sales also were depressed by excessive retail inventories and the decision by some major lenders to abandon the manufactured housing credit market. Tightened credit standards also negatively affected sales.

While fiscal 2002 presented many challenges to our manufactured housing group, it's also worth noting the continuation of a trend toward multi-section homes. During the fiscal year, these homes accounted for 75 percent of our housing shipments. While factory-built multi-section homes look and perform like their site-built cousins, they also cost less and they can expand our market by attracting non-traditional buyers.

In RVs, Skyline continues to focus on the non-motorized segment of the industry, producing conventional travel trailers, fifth wheel travel trailers designed to be towed by light trucks and park models which meet recreational camping needs. Skyline RVs are sold under the Nomad, Layton and Aljo trade names.

Independent Retailers

In both housing and RVs, Skyline depends on a nationwide network of independent retailers. We believe these dealers are the heart and soul of a distribution system that has served our industries well for decades. Independent retailers know the thinking of their hometown neighbors. Many are deeply involved in their communities and a number of our housing dealers are playing leadership roles in creating innovative residential developments.

Because Skyline retailers are independent, they have the ability to broaden the range of choices available to customers. They know their goal is the same as Skyline's: Total Customer Satisfaction.

To help achieve this goal, we continued in fiscal 2002 to implement our Commitment to Excellence program. The program measures the total buying experience from the customer's viewpoint. The result is a Customer Satisfaction Index that

tells us how far we have progressed toward Total Customer Satisfaction. We are pleased to report consistent, substantial improvement.

Two programs have contributed to our progress. One is our Dealer Councils. These provide a forum in which retailers express their ideas, opinions and concerns and Skyline people provide up-to-date information on the Company's strategies and objectives. The second program that has helped improve customer satisfaction is Master Product Awareness. It equips retailers and their sales people with in-depth knowledge of Skyline products and prepares them to give authoritative answers to customers' questions.

Commitment to Integrity

Our programs for retailers, like every aspect of Skyline's activities, reflect our continued commitment to the corporate statement adopted ten years ago:

"Our mission is to continually

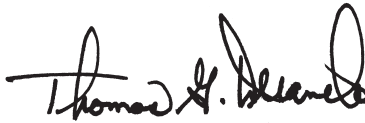
improve the quality of our products and the way we do business in order to meet customer expectations. By pursuing this mission, we will be able to grow and prosper as a business, provide stable employment and a high quality work life for our people, be a responsible community citizen and return a reasonable profit to our shareholders."

The statement reflects deeply held values and principles that begin with unconditional dedication to integrity. Skyline men and women strive to live up to the highest standards of ethical behavior. They foster a sense of partnership with dealers, suppliers and communities. They believe in personal and corporate accountability. They are committed to the fiscal responsibility that benefits shareholders, customers and American society.

Doing what is right is Skyline's credo. It empowers Skyline people to convert challenges into the achievements that are the foundation of future success.



William H. Murschel
President and
Chief Operations Officer



Thomas G. Deranek
Vice Chairman and
Chief Executive Officer



James R. Weigand
Vice President, Finance and
Treasurer and
Chief Financial Officer

Consolidated Balance Sheets

May 31, 2002 and 2001

Dollars in thousands

ASSETS	2002	2001
Current Assets		
Cash	\$ 8,699	\$ 5,450
Treasury Bills, at cost plus accrued interest	138,327	110,965
Accounts receivable, trade, less allowance for doubtful accounts of \$40	28,028	30,757
Investment in U.S. Treasury Notes	—	25,006
Inventories	9,632	9,026
Deferred income tax benefits	7,986	7,975
Other current assets	151	327
Total Current Assets	192,823	189,506
Property, Plant and Equipment, At Cost		
Land	6,637	6,637
Buildings and improvements	64,595	62,268
Machinery and equipment	27,305	26,633
	98,537	95,538
Less accumulated depreciation	57,060	53,494
Net Property, Plant and Equipment	41,477	42,044
Other Assets	4,452	4,128
	\$ 238,752	\$ 235,678

The accompanying notes are a part of the consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	2002	2001
Current Liabilities		
Accounts payable, trade	\$ 5,859	\$ 7,187
Accrued salaries and wages	7,405	8,245
Accrued profit sharing	2,412	2,380
Accrued marketing programs	6,375	7,386
Accrued warranty and related expenses	10,100	10,084
Other accrued liabilities	3,156	2,593
Income taxes	1,156	2,040
Total Current Liabilities	36,463	39,915
Other Deferred Liabilities	4,056	3,742
Commitments and Contingencies	—	—
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	258,737	252,525
Treasury stock, at cost, 2,825,900 shares in 2002 and 2001	(65,744)	(65,744)
Total Shareholders' Equity	198,233	192,021
	\$ 238,752	\$ 235,678

The accompanying notes are a part of the consolidated financial statements.

Consolidated Statements of Earnings and Retained Earnings

For the Years Ended May 31, 2002, 2001 and 2000

Dollars in thousands except per share data

EARNINGS	2002	2001	2000
Sales	\$ 450,722	\$ 463,824	\$ 579,551
Cost of sales	387,050	403,622	506,651
Gross profit	63,672	60,202	72,900
Selling and administrative expenses	47,545	50,055	54,401
Operating earnings	16,127	10,147	18,499
Interest income	4,102	7,717	6,572
Gain on sale of property, plant and equipment	—	666	14
Earnings before income taxes	20,229	18,530	25,085
Provision for income taxes			
Federal	6,825	6,248	8,363
State	1,150	1,112	1,694
	7,975	7,360	10,057
Net earnings	\$ 12,254	\$ 11,170	\$ 15,028
Basic earnings per share	\$ 1.46	\$ 1.32	\$ 1.70
Weighted average common shares outstanding	8,391,244	8,468,321	8,858,628

RETAINED EARNINGS

Balance at beginning of year	\$ 252,525	\$ 247,479	\$ 238,861
Add net earnings	12,254	11,170	15,028
Less cash dividends paid (\$.72 per share in 2002, 2001 and 2000)	6,042	6,124	6,410
Balance at end of year	\$ 258,737	\$ 252,525	\$ 247,479

The accompanying notes are a part of the consolidated financial statements.

Consolidated Statements of Cash Flows

For the Years Ended May 31, 2002, 2001 and 2000

Increase (Decrease) in Cash

Dollars in thousands

CASH FLOWS FROM OPERATING ACTIVITIES	2002	2001	2000
Net earnings	\$ 12,254	\$ 11,170	\$ 15,028
Adjustment to reconcile net earnings to net cash provided by operating activities:			
Interest income earned on U.S. Treasury Bills and Notes	(4,102)	(7,717)	(6,572)
Depreciation	3,884	3,919	4,022
Amortization of discount or premium on U.S. Treasury Notes	6	66	61
Gain on sale of property, plant and equipment	—	(666)	(14)
Working capital items:			
Accounts receivable	2,729	4,673	6,357
Inventories	(606)	781	664
Other current assets	165	(41)	(503)
Accounts payable, trade	(1,328)	837	(2,146)
Accrued liabilities	(1,240)	(438)	(3,467)
Income taxes payable	(884)	481	(1,012)
Other assets	(324)	(158)	(148)
Other deferred liabilities	314	60	52
Total Adjustments	(1,386)	1,797	(2,706)
Net cash provided by operating activities	10,868	12,967	12,322
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale or maturity of U.S. Treasury Bills	410,274	397,702	446,701
Purchase of U.S. Treasury Bills	(434,253)	(400,456)	(414,480)
Maturity of U.S. Treasury Notes	25,000	—	—
Purchase of U.S. Treasury Notes	—	—	(25,133)
Interest received from U.S. Treasury Notes	719	1,438	1,194
Proceeds from sale of property, plant and equipment	13	1,390	22
Purchase of property, plant and equipment	(3,330)	(2,499)	(4,115)
Net cash (used in) provided by investing activities	(1,577)	(2,425)	4,189
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	(6,042)	(6,124)	(6,410)
Purchase of treasury stock	—	(5,974)	(7,361)
Net cash used in financing activities	(6,042)	(12,098)	(13,771)
Net increase (decrease) in cash	3,249	(1,556)	2,740
Cash at beginning of year	5,450	7,006	4,266
Cash at end of year	\$ 8,699	\$ 5,450	\$ 7,006

The accompanying notes are a part of the consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 Nature of Operations and Accounting Policies

Nature of operations – Skyline Corporation designs, manufactures and sells at wholesale both a broad line of single and multi-section manufactured homes and a large selection of non-motorized recreational vehicle models. Both product lines are sold through numerous independent dealers throughout the United States who 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 all of its subsidiaries (Corporation), each of which is wholly-owned. All inter-company transactions have been eliminated. 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.

Revenue recognition – Substantially all of the Corporation's products are made to order. Revenue is recognized upon shipment.

Freight billed to customers is considered sales revenue, and the related freight costs as a cost of sales. Volume based rebates paid to dealers are classified as reduction in sales revenue.

Consolidated statements of cash flows – For purposes of the statements of cash flows, investments in treasury bills are included as investing activities. The Corporation's cash flows from operating activities were reduced by income taxes paid of \$8,870,000, \$6,943,000 and \$11,911,000 in 2002, 2001 and 2000, respectively.

Inventory – Inventories are stated at cost, which include the cost of raw materials, labor and overhead,

determined under the first-in, first-out method, which is not in excess of market. At May 31, 2002, total inventories consisted of raw materials, \$4,280,000, work in process, \$5,183,000, and finished goods, \$169,000. At May 31, 2001, raw materials inventory totaled \$3,891,000, work in process inventory totaled \$5,098,000, and finished goods totaled \$37,000.

Property, plant and equipment – Property, plant and equipment is 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 purposes.

Investments – The Corporation invests in United States Government securities. These securities are typically held until maturity or reasonable proximity to maturity and are therefore classified as held-to-maturity and carried at amortized cost.

The cost of U.S. Treasury Bills, which approximates their fair market value, totaled \$138,327,000 and \$110,965,000 at May 31, 2002 and 2001, respectively. These securities mature within one year.

The Corporation does not have any other financial instruments which have market values differing from recorded values.

Warranty – The Corporation provides a warranty on its products. Estimated warranty costs are accrued at the time of sale.

Income taxes – The difference between the Corporation’s statutory federal income tax rate and the effective income tax rate is due primarily to state income taxes.

The Corporation’s deferred tax assets consist primarily of temporary differences in the basis of certain liabilities for financial statement and tax return purposes and its deferred tax liabilities are due to the use of accelerated depreciation methods for tax purposes. The amounts of such deferred tax items are not significant individually or in the aggregate.

Recently issued accounting pronouncements – During fiscal 2002 the Financial Accounting Standards Board, (FASB), enacted two Financial Accounting Standards (FAS). FAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived

Assets”, addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Corporation will adopt FAS No. 144 in fiscal 2003, and expects no material impact on the consolidated financial statements. The FASB also enacted FAS No. 143, “Accounting for Obligations Associated with the Retirement of Long-Lived Assets”. This statement provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. The Corporation will adopt FAS No. 143 in fiscal year 2004, and anticipates no material impact on the consolidated financial statements.

On April 19, 2001, the FASB’S EITF reached a consensus on Issue Number 00-25, “Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor’s Products”. This issue addresses the income statement classification of consideration from a vendor to a reseller of the vendor’s products. The Corporation adopted Issue 00-25 in the fourth quarter of fiscal 2002 with no material impact on the consolidated financial statements.

The Corporation has determined

that the effects on the financial statements from any other recently issued accounting standards are not applicable.

Reclassification – Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 Contingencies

The Corporation was contingently liable at May 31, 2002 under repurchase agreements with certain financial institutions. The maximum repurchase liability is the total amount that would be paid upon the default of all the Corporation’s independent dealers. The maximum potential repurchase liability, without reduction for the resale value of the repurchased units, was approximately \$120 million at May 31, 2002. The loss, if any, under these agreements is the difference between the repurchase cost and the resale value of the units. For the years ended May 31, 2002, 2001 and 2000, the Corporation repurchased units in the amounts of \$922,000, \$2,019,000 and \$2,345,000, respectively. Incurred net losses for the same periods total \$179,000, \$152,000 and \$196,000, respectively.

The Corporation is a party to various pending legal proceedings in the normal course of business. Management believes that any losses resulting from such proceedings would not have a material adverse effect on the Corporation's results of operations or financial position.

NOTE 3 Purchase of 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 2002 the Corporation did not acquire any shares of its common stock. In fiscal 2001 it acquired 291,700 shares of its common stock for \$5,974,000, and in fiscal 2000 it acquired 317,000 shares for \$7,361,000.

The effect of the aggregate repurchases on basic earnings per share

was \$.37 per share in 2002, \$.32 per share in 2001 and \$.36 per share in 2000. At May 31, 2002, the Corporation had authorization to repurchase an additional 391,300 shares of its common stock.

NOTE 4 Employee Benefits

A) PROFIT SHARING AND 401(K) PLANS

The Corporation has two deferred profit sharing Plans which together cover substantially all of its employees. The Plans are defined contribution plans to which the Corporation has the right to modify, suspend or discontinue contributions. For the years ended May 31, 2002, 2001 and 2000, contributions to the Plans were \$2,413,000, \$2,484,000 and \$2,554,000, respectively.

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 cov-

ers all employees who meet certain minimum participation requirements. The Corporation does not currently provide a matching contribution to the 401(k) Plan.

B) RETIREMENT AND DEATH BENEFIT PLANS

The Corporation has entered into arrangements with certain employees which provide for benefits to be paid to the employees' estates in the event of death during active employment or retirement benefits to be paid over 10 years beginning at the date of retirement. To fund all such arrangements, the Corporation purchased life insurance or annuity contracts on the covered employees. The present value of the principal cost of such arrangements is being accrued over the period from the date of such arrangements to full eligibility using a discount rate of 7.0% in 2002, and 8.0% in 2001 and 2000. The amount charged to operations under these arrangements was \$352,000 in fiscal 2002, and \$252,000 in fiscal years 2001 and 2000.

NOTE 5

Industry Segment Information

Dollars in thousands

SALES	2002	2001	2000
Manufactured housing	\$ 339,260	\$ 353,610	\$ 447,338
Recreational vehicles	111,462	110,214	132,213
Total sales	\$ 450,722	\$ 463,824	\$ 579,551
EARNINGS BEFORE INCOME TAXES			
OPERATING EARNINGS			
Manufactured housing	\$ 19,107	\$ 13,412	\$ 17,499
Recreational vehicles	925	824	5,343
General corporate expenses	(3,905)	(4,089)	(4,343)
Total operating earnings	16,127	10,147	18,499
Interest income	4,102	7,717	6,572
Gain on sale of property, plant and equipment	—	666	14
Earnings before income taxes	\$ 20,229	\$ 18,530	\$ 25,085
IDENTIFIABLE ASSETS			
OPERATING ASSETS			
Manufactured housing	\$ 77,846	\$ 80,182	\$ 89,460
Recreational vehicles	22,579	19,525	19,202
Total operating assets	100,425	99,707	108,662
U.S. TREASURY BILLS	138,327	110,965	101,932
U.S. TREASURY NOTES	—	25,006	25,072
Total assets	\$ 238,752	\$ 235,678	\$ 235,666
DEPRECIATION			
Manufactured housing	\$ 3,268	\$ 3,344	\$ 3,454
Recreational vehicles	616	575	568
Total depreciation	\$ 3,884	\$ 3,919	\$ 4,022
CAPITAL EXPENDITURES			
Manufactured housing	\$ 2,085	\$ 2,213	\$ 3,508
Recreational vehicles	1,245	286	607
Total capital expenditures	\$ 3,330	\$ 2,499	\$ 4,115

Operating earnings represent earnings before interest income, gain on sale of property, plant and equipment and provision for income taxes with non-traceable operating expenses being allocated to industry segments based on percentages of sales.

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 sales.

Report of

Independent Accountants

To the Shareholders and Board of Directors of Skyline Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings and retained earnings, and of cash flows present fairly, in all material respects, the financial position of Skyline Corporation and its subsidiaries at May 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial state-

ments are the responsibility of Skyline Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a

test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Chicago, Illinois
June 17, 2002

Management's Discussion and Analysis of Financial Condition and Results of Operations (Unaudited)

Results of Operations—Fiscal 2002 Compared to Fiscal 2001

Sales in 2002 were \$450,722,000, a decrease of \$13,102,000 from \$463,824,000 in 2001. Manufactured housing sales totaled \$339,260,000 for 2002 compared to \$353,610,000 in 2001. Manufactured housing unit sales decreased to 9,849 from 10,664. Recreational vehicle sales increased from \$110,214,000 in 2001 to \$111,462,000 in 2002. Recreational vehicle unit sales also dropped from 8,156 in 2001 to 8,028 in 2002. The decrease in manufactured housing sales reflects difficult market conditions that persisted throughout the year. Difficult market conditions also existed for recreational vehicle sales for most of the year. Demand, however, did increase for products in this business segment in the fourth fiscal quarter.

Cost of sales in 2002 was 85.9% compared to 87.0% in 2001. Manufactured housing cost of sales in 2002 decreased to 84.9% from 86.5% in 2001. The decrease is primarily attributable to the Corporation's effort to control manufacturing costs. Recreational vehicle cost of sales increased to 89.0% of sales from 88.7% in 2001.

Selling and administrative expenses as a percentage of sales decreased slight-

ly to 10.5% in 2002 from 10.8% in 2001.

Manufactured housing operating earnings as a percentage of sales were 5.6% in 2002 and 3.8% in 2001. The increase is due to improved gross margins and cost control. Recreational vehicle operating earnings as a percentage of sales increased to 0.8% of sales in 2002 from 0.7% of sales in 2001. Earnings of the recreational vehicle segment were impacted by the startup of a new manufacturing process at one recreational vehicle facility.

Interest income amounted to \$4,102,000 in 2002 compared to \$7,717,000 in 2001. Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government securities.

Results of Operations—Fiscal 2001 Compared to Fiscal 2000

Sales in 2001 were \$463,824,000, a decrease of \$115,727,000 from \$579,551,000 in 2000. Manufactured housing sales totaled \$353,610,000 for 2001 compared to \$447,338,000 in 2000. Manufacturing housing unit sales decreased to 10,664 from 13,731. Recreational vehicle sales declined from \$132,213,000 in 2000 to \$110,214,000 in 2001. Recreational vehicle unit sales also dropped from

9,780 in 2000 to 8,156 in 2001. The decrease in sales reflects persistently difficult market conditions in both the manufactured housing and recreational vehicle industries.

Cost of sales in 2001 was 87.0% of sales compared to 87.4% in 2000. Manufactured housing cost of sales in 2001 decreased to 86.5% of sales from 87.5% in 2000. Recreational vehicle cost of sales in 2001 increased to 88.7% of sales from 87.1% in 2000.

Selling and administrative expenses as a percentage of sales were 10.8% in 2001 compared to 9.4% in 2000. The increase is due to a larger proportion of fixed and semi-fixed costs resulting from lower sales volume.

Manufactured housing operating earnings as a percentage of sales were 3.8% in 2001 and 3.9% in 2000. Recreational vehicle operating earnings as a percentage of sales decreased to 0.7% of sales in 2001 from 4.0% of sales in 2000. Both decreases were largely due to either decreased sales volume or gross margins.

Interest income amounted to \$7,717,000 in 2001 compared to \$6,572,000 in 2000. Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government securities.

Liquidity and Capital Resources

At May 31, 2002, cash and short-term investment in U.S. Treasury Bills totaled \$147,026,000, an increase of \$30,611,000 from \$116,415,000 at May 31, 2001. Current assets exclusive of cash and investments in U.S. Treasury Bills totaled \$45,797,000 at the end of fiscal 2002, a decrease of \$27,294,000 from fiscal 2001's total of \$73,091,000. The decrease was primarily due to the maturity of investment in U.S. Treasury Notes (\$25,006,000). Current liabilities decreased \$3,452,000 from \$39,915,000 at May 31, 2001 to \$36,463,000 at May 31, 2002. The decrease was due to a decline in accounts payable (\$1,328,000), accrued marketing programs (\$1,011,000), and income taxes (\$884,000). Income taxes declined due to the timing of tax payments, while the decreases in accounts payable and accrued marketing programs are a reflection of the decline in sales that occurred in the year.

Capital expenditures totaled \$3,330,000 in 2002 compared to \$2,499,000 in the prior year. Capital expenditures during the current fiscal year included \$820,000 to implement a new manufacturing process at one recreational vehicle facility. Other capital expenditures were made primarily to replace or refurbish machinery and equipment, improve manufacturing efficiencies, and increase manufacturing capacity. No cash was used to purchase the Corporation's stock in fiscal 2002, compared to \$5,974,000 in fiscal 2001. The cash provided by operating activities in fiscal 2003, along with

current cash and short-term investments, is expected to be adequate to fund any capital expenditures and treasury stock purchases during the year. Historically, the Corporation's financing needs have been met through funds generated internally.

As further discussed in Note 2 to the financial statements, the Corporation is contingently liable under repurchase agreements with certain financial institutions. One of these financial institutions, Conseco Finance Servicing Corporation (Conseco), was a national provider of floor plan funding for manufactured housing dealer inventories. On March 1, 2002, Conseco announced that effective April 1, 2002, it would stop approving requests to fund purchases of additional inventory for industry dealers. On May 16, 2002, Conseco began notifying manufacturers and industry dealers that amounts due under floor plan financing agreements were to be paid in full on or prior to July 17, 2002. Conseco also indicated in this notification that certain options would be made available to assist the dealers in meeting their commitments. As of July 18, 2002, the Corporation believes that the potential repurchase obligation with Conseco is approximately \$6.5 million. During fiscal 2002 less than 10 percent of the Corporation's total sales were from manufactured housing dealers who exclusively relied on Conseco for floor plan financing.

Other Matters

The provisions for federal income taxes in each year approximates the statutory rate and for state income

taxes reflects current state rates effective for the period based upon activities within the taxable entities.

The 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. However, the Corporation believes that inflation has not had a material effect on its operations during the past three years. On a long-term basis the Corporation has demonstrated an ability to adjust the selling prices of its products 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:

- Cyclical nature of the manufactured housing and recreational vehicle industries
- Availability of wholesale and retail financing
- Interest rate levels
- Impact of inflation
- Competitive pressures on pricing and promotional costs
- Consumer confidence
- Market demographics
- Market disruption resulting from the terrorist attacks on September 11, 2001, and any subsequent armed conflict by the United States.

Financial Summary By Quarter

Dollars in thousands except per share data

2002	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales	\$ 122,225	\$ 118,054	\$ 96,080	\$ 114,363	\$ 450,722
Gross profit	17,179	17,603	11,973	16,917	63,672
Net earnings	3,563	3,748	869	4,074	12,254
Basic earnings per share	.42	.45	.10	.49	1.46

2001	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Sales	\$ 132,152	\$ 120,907	\$ 90,838	\$ 119,927	\$ 463,824
Gross profit	16,858	16,476	9,656	17,212	60,202
Net earnings	3,130	3,134	262	4,644	11,170
Basic earnings per share	.36	.37	.03	.55	1.32

The third quarter of fiscal year 2001 includes an after-tax gain of \$400, equal to \$.05 per share, on the sale of an unused facility.

Certain prior year amounts have been reclassified to conform with current year end presentation.

Selected Financial Data

Dollars in thousands except per share data

	2002	2001	2000	1999	1998
FOR THE YEAR					
Sales	\$ 450,722	\$ 463,824	\$ 579,551	\$ 653,169	\$ 613,686
Net earnings	\$ 12,254	\$ 11,170	\$ 15,028	\$ 25,561	\$ 19,946
Cash dividends paid	\$ 6,042	\$ 6,124	\$ 6,410	\$ 6,043	\$ 5,729
Capital expenditures	\$ 3,330	\$ 2,499	\$ 4,115	\$ 7,113	\$ 3,069
Depreciation	\$ 3,884	\$ 3,919	\$ 4,022	\$ 3,838	\$ 3,775
Weighted average common shares outstanding	8,391,244	8,468,321	8,858,628	9,136,116	9,511,023
AT YEAR END					
Working capital	\$ 156,360	\$ 149,591	\$ 123,401	\$ 147,398	\$ 142,185
Current ratio	5.3:1	4.8:1	4.2:1	4.2:1	4.1:1
U.S. Treasury Notes	\$ —	\$ 25,006	\$ 25,072	\$ —	\$ —
Property, plant and equipment, net	\$ 41,477	\$ 42,044	\$ 44,188	\$ 44,102	\$ 40,951
Total assets	\$ 238,752	\$ 235,678	\$ 235,666	\$ 240,982	\$ 233,004
Shareholders' equity	\$ 198,233	\$ 192,021	\$ 192,949	\$ 191,692	\$ 183,523
Treasury Stock	\$ 65,744	\$ 65,744	\$ 59,770	\$ 52,409	\$ 41,060
PER SHARE					
Basic earnings	\$ 1.46	\$ 1.32	\$ 1.70	\$ 2.80	\$ 2.10
Cash dividends paid	\$.72	\$.72	\$.72	\$.66	\$.60
Shareholders' equity	\$ 23.62	\$ 22.88	\$ 22.22	\$ 21.30	\$ 19.46

Sales Comparison

Dollars in thousands

Product Line	Fiscal Years Ended May 31			
	2002		2001	
	Dollars	Units	Dollars	Units
Single-section Homes	\$ 53,940	2,446	\$ 59,343	2,704
Multi-section Homes	\$ 285,320	7,403	\$ 294,267	7,960
Travel Trailers	\$ 86,469	6,408	\$ 88,894	6,755
Fifth Wheels	\$ 24,993	1,620	\$ 21,320	1,401

MANUFACTURING

FACILITIES



Directors

▲ ARTHUR J. DECIO
Chairman of the Board,
serving in a non-executive
officer capacity, and
Consultant
Skyline Corporation

TERRENCE M. DECIO
Senior Executive Vice President
Skyline Corporation

THOMAS G. DERANEK
Vice Chairman and
Chief Executive Officer
Skyline Corporation

▲◆■ JERRY HAMMES
Chairman of Peoples Bank
of Kankakee County
Bourbonnais, Illinois 60914
and President
Romy Hammes, Inc.
South Bend, Indiana 46629

RONALD F. KLOSKA
Consultant
Skyline Corporation

▲◆■ WILLIAM H. LAWSON
Chairman of the Board and
Chief Executive Officer
Franklin Electric Co., Inc.
Bluffton, Indiana 46714

▲◆■ DAVID T. LINK
Dean Emeritus
Notre Dame Law School
University of Notre Dame
Notre Dame, Indiana 46556
and President
International Centre for
Healing and the Law
Kalamazoo, Michigan 49009

▲◆■ ANDREW J. McKENNA
Chairman of the Board and
Chief Executive Officer
Schwarz
Morton Grove, Illinois 60053

WILLIAM H. MURSCHEL
President and
Chief Operations Officer
Skyline Corporation

◆ V. DALE SWIKERT
Private Investor
Nampa, Idaho 83687

▲ Executive Committee
◆ Audit Committee
■ Governance and Compensation Committee

Officers

*** THOMAS G. DERANEK**

Vice Chairman and
Chief Executive Officer

*** WILLIAM H. MURSCHEL**

President and
Chief Operations Officer

*** TERRENCE M. DECIO**

Senior Executive Vice President

*** JAMES R. WEIGAND**

Vice President, Finance
and Treasurer and Chief
Financial Officer

CHRISTOPHER R. LEADER

Vice President, Operations

CHARLES W. CHAMBLISS

Vice President, Product
Development and Engineering

JON S. PILARSKI

Corporate Controller

LINDA R. PHILIPSEN

Assistant Vice President

SAMUEL S. THOMPSON

Secretary

*Office of the Chairman

Supplemental

Shareholder Information

A copy of the Company's current annual report filed with the Securities and Exchange Commission (SEC) on Form 10-K will be furnished to shareholders without charge upon written request to Thomas G. Deranek, Vice Chairman and Chief Executive Officer, Skyline Corporation, Post Office Box 743, Elkhart, Indiana 46515. The financial statements presented in this annual report are those included in the Form 10-K Report, but the Form 10-K Report does provide certain supplemental information as required by the SEC.

REGISTRAR AND
TRANSFER AGENT
Computershare Investor
Services, L.L.C.
Chicago, Illinois 60602

INDEPENDENT
ACCOUNTANTS
PricewaterhouseCoopers LLP
Chicago, Illinois 60606

ATTORNEYS
Barnes & Thornburg
Elkhart, Indiana 46516

STOCK EXCHANGE LISTING
New York Stock Exchange
Symbol: SKY

CORPORATE OFFICES
2520 By-Pass Road
Post Office Box 743
Elkhart, Indiana 46515

Market Information

Skyline Corporation (SKY) is traded on the New York Stock Exchange. A quarterly cash dividend of 18 cents (\$0.18) per share was paid in fiscal 2002 and 2001. At May 31, 2002, there were approximately 1,300 holders of record of Skyline Corporation common stock. A quarterly summary of the market price is listed for the fiscal years ended May 31, 2002 and 2001.

Quarter	2002		2001	
	High	Low	High	Low
First	\$28.50	\$23.84	\$23.06	\$19.44
Second	\$30.40	\$22.80	\$22.44	\$19.81
Third	\$32.25	\$27.45	\$24.75	\$18.56
Fourth	\$37.76	\$29.30	\$26.70	\$21.15

