

# **SKYLINE**

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**2003**

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**ANNUAL**

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**REPORT**

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**Manufactured Housing**

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**Recreational Vehicles**

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# CORPORATE

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## PROFILE

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Skyline Corporation, founded in 1951, is one of America's leading producers of manufactured housing and recreational vehicles (RVs). Headquartered in Elkhart, Indiana, it has 23 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 Skyline's factory-crafted homes are multi-section models. In quality, appearance and amenities, these compare favorably with site-built homes that typically sell for a 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 offering products of outstanding value. These are marketed across the country through independent retailers and supported by a nationwide service program that puts customers first.

Since its founding, Skyline has built more than 855,000 manufactured homes and 440,000 RVs. Its sales over the years total in excess of \$13 billion.

Skyline people are committed to high ethical standards. They 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.

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# Financial Highlights

For the Years Ended May 31, 2003 and 2002

Dollars in thousands except per share data

	2003	2002
Sales	\$ 419,817	\$ 450,722
Earnings before income taxes	\$ 10,336	\$ 20,229
Net earnings	\$ 6,193	\$ 12,254
Cash dividends	\$ 6,041	\$ 6,042
Working capital	\$ 158,795	\$ 156,360
Shareholders' equity	\$ 198,385	\$ 198,233
Cash and temporary cash investments	\$ 154,457	\$ 147,026
Total assets	\$ 239,141	\$ 238,752
Current ratio	5.4:1	5.3:1
Number of operating plants	23	24
Number of employees	2,500	2,800
Per share		
Basic earnings	\$ .74	\$ 1.46
Cash dividends	\$ .72	\$ .72
Shareholders' equity	\$ 23.64	\$ 23.62

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# TO OUR SHAREHOLDERS

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Fiscal 2003 tested Skyline Corporation with some of the most serious challenges in its more than a half-century of history. We are pleased to report that the challenges were met. Today's Skyline is prepared to seize the opportunities and cope with the uncertainties that lie ahead.

While Skyline and the industries in which it competes were affected by difficult market conditions, economic uncertainty and increased global tensions, our people produced some notable results:

- For the fifty-second consecutive year, Skyline achieved profitability.
- Our traditionally strong balance sheet with no long-term debt and a healthy position in cash and cash equivalents was maintained.
- Quarterly cash dividends continued to be paid as they have been every year since 1960 when Skyline shares first were publicly traded.
- Skyline again fulfilled its commitment to the high ethical standards that always have been the keystone of our corporate culture.

Net earnings for fiscal 2003 were \$6,193,000 compared to \$12,254,000 for fiscal 2002. On a basic earnings per share basis, fiscal 2003 net earnings were \$0.74 compared to \$1.46 for fiscal 2002.

Sales for the fiscal year which ended May 31, 2003 were \$419,817,000 compared to \$450,722,000 for the previous fiscal year. Our manufactured housing group recorded sales of \$293,448,000 for fiscal 2003. The group's sales for fiscal 2002 were

\$339,260,000. For our recreational vehicle (RV) group, sales for fiscal 2003 were \$126,369,000 compared to \$111,462,000 for fiscal 2002.

## **Emphasis on Retailers**

Skyline has responded to the challenging environment by reemphasizing its core values. We strive to achieve greater efficiency in our operations, enhance the value of our products and strengthen Skyline's reputation for leadership. Through hands-on management, we continue to stress a disciplined, customer-driven approach to the improvement of our products and the way we do business. Our goal is not merely to survive the present turmoil but to increase our capabilities so that we will prosper no matter what the future may bring.

In both the housing and RV segments of our business, one of our principal strategies has been the development of strong, mutually-beneficial bonds with the independent retailers who sell our products. These retailers are front-line soldiers. They understand the competition and, most important, they are in touch with the thinking of the families and individuals who buy and utilize our products.

Independent retailers always have been the backbone of a distribution system that has well served our industries and customers. The experience and insights of these retailers provide invaluable intelligence about conditions at the grassroots level. They help us sharpen our marketing tactics and enhance our ability to make the timely product changes that satisfy evolving customer requirements.

## Customer Satisfaction

To strengthen our relationships with retailers, we have developed Dealer Councils that foster continuing two-way communication. Council sessions give retailers an opportunity to speak their minds and give us a chance to describe our plans and objectives. The exchange of ideas and opinions helps move Skyline and its retailers closer to a shared goal: Total Customer Satisfaction.

In striving to achieve this goal, we continue to implement our Commitment to Excellence program. The program asks customers to evaluate their total buying experience. The result is a Customer Satisfaction Index (CSI) that serves as a benchmark from which we can measure progress. While the Index continues to improve, neither Skyline nor its dealers intend to relax until the Total Customer Satisfaction goal is achieved.

Many factors have contributed to the improving CSI. One is our Master Product Awareness program that equips retailers and their sales people with in-depth knowledge of Skyline products. This empowers them to provide accurate, authoritative answers to customer questions.

## Housing and RV Overview

In manufactured housing, many

of our retailers are continuing to build a strong long-term foundation for an industry that has experienced a decline in shipments of more than fifty percent since 1999. These retailers are demonstrating their resourcefulness by developing land-home packages that meet the requirements of many lenders. Some retailers are creating manufactured housing communities with a residential look and an array of amenities. Such communities point the way toward greater utilization of factory-crafted homes in a variety of urban and suburban settings. The home is likely to be a multi-section model with a price tag below that of its site-built cousin but with comparable appearance and performance. The multi-section home accounted for 77 percent of our housing shipments in fiscal 2003.

In RVs, Skyline continued to compete successfully in the industry's non-motorized segment by producing and marketing conventional travel trailers, fifth wheel travel trailers designed to be towed by light trucks, and park models for recreational camping. The increase in Skyline RV sales for fiscal 2003 over fiscal 2002 reflects an industry-wide improvement in market conditions first noted early in the 2002 calendar

year. Skyline RVs are sold under the Nomad, Layton and Aljo trade names. These RVs, offered in a range of sizes and configurations, satisfy the desires of many American families for convenient, affordable travel and recreation.

## Dedication to Integrity

The continued quality and value of Skyline products attest to the vitality of our commitment to customers, retailers and American society. Skyline people want to do their best to be the best. During fiscal 2003, they went beyond the call of duty to establish new standards of creativity, efficiency and teamwork.

With a management team seasoned by prior experience with industry downturns, Skyline is prepared for tomorrow. Our people believe in personal and corporate accountability. They understand that doing what is right is vital to our business every day of the year. Their dedication to uncompromising integrity has been the underlying reason for Skyline Corporation's record of success. It is the basis of our confidence about the future.

We take pride in what Skyline people have accomplished and we thank you for your continued support.



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, 2003 and 2002

Dollars in thousands

<b>ASSETS</b>	<b>2003</b>	<b>2002</b>
<b>Current Assets</b>		
Cash	\$ 8,736	\$ 8,699
U.S. Treasury Bills, at cost plus accrued interest	145,721	138,327
Accounts receivable, trade, less allowance for doubtful accounts of \$150 in 2003 and \$40 in 2002	22,292	28,028
Inventories	9,414	9,632
Deferred income tax benefits	8,552	7,986
Other current assets	256	151
Total Current Assets	<b>194,971</b>	192,823
<b>Property, Plant and Equipment, At Cost</b>		
Land	6,637	6,637
Buildings and improvements	64,806	64,595
Machinery and equipment	26,937	27,305
	<b>98,380</b>	98,537
Less accumulated depreciation	59,249	57,060
Net Property, Plant and Equipment	<b>39,131</b>	41,477
<b>Other Assets</b>	<b>5,039</b>	4,452
	<b>\$ 239,141</b>	\$ 238,752

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

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2003</b>	<b>2002</b>
<b>Current Liabilities</b>		
Accounts payable, trade	\$ 5,990	\$ 5,859
Accrued salaries and wages	6,290	7,405
Accrued profit sharing	2,327	2,412
Accrued marketing programs	5,397	6,375
Accrued warranty and related expenses	10,609	10,100
Other accrued liabilities	3,777	3,156
Income taxes	1,786	1,156
Total Current Liabilities	<b>36,176</b>	36,463
<b>Other Deferred Liabilities</b>	<b>4,580</b>	4,056
<b>Commitments and Contingencies</b>	—	—
<b>Shareholders' Equity</b>		
Common stock, \$.0277 par value, 15,000,000 shares authorized; Issued 11,217,144 shares	<b>312</b>	312
Additional paid-in capital	<b>4,928</b>	4,928
Retained earnings	<b>258,889</b>	258,737
Treasury stock, at cost, 2,825,900 shares in 2003 and 2002	<b>(65,744)</b>	(65,744)
Total Shareholders' Equity	<b>198,385</b>	198,233
	<b>\$ 239,141</b>	\$ 238,752

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

# Consolidated Statements of Earnings and Retained Earnings

For the Years Ended May 31, 2003, 2002 and 2001

Dollars in thousands except per share data

<b>EARNINGS</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Sales	\$ 419,817	\$ 450,722	\$ 463,824
Cost of sales	366,633	387,050	403,622
Gross profit	53,184	63,672	60,202
Selling and administrative expenses	44,843	47,545	50,055
Operating earnings	8,341	16,127	10,147
Interest income	1,995	4,102	7,717
Gain on sale of property, plant and equipment	—	—	666
Earnings before income taxes	10,336	20,229	18,530
Provision for income taxes			
Federal	3,545	6,825	6,248
State	598	1,150	1,112
	4,143	7,975	7,360
Net earnings	\$ 6,193	\$ 12,254	\$ 11,170
Basic earnings per share	\$ .74	\$ 1.46	\$ 1.32
Weighted average common shares outstanding	8,391,244	8,391,244	8,468,321
<b>RETAINED EARNINGS</b>			
Balance at beginning of year	\$ 258,737	\$ 252,525	\$ 247,479
Add net earnings	6,193	12,254	11,170
Less cash dividends paid (\$ .72 per share in 2003, 2002 and 2001)	6,041	6,042	6,124
Balance at end of year	\$ 258,889	\$ 258,737	\$ 252,525

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

## Consolidated Statements of Cash Flows

For the Years Ended May 31, 2003, 2002 and 2001

Increase (Decrease) in Cash

Dollars in thousands

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2003</b>	2002	2001
Net earnings	\$ <b>6,193</b>	\$ 12,254	\$ 11,170
Adjustment to reconcile net earnings to net cash provided by operating activities:			
Interest income earned on U.S. Treasury Bills and Notes	<b>(1,995)</b>	(4,102)	(7,717)
Depreciation	<b>3,785</b>	3,884	3,919
Amortization of discount or premium on U.S. Treasury Notes	—	6	66
Gain on sale of property, plant and equipment	—	—	(666)
Working capital items:			
Accounts receivable	<b>5,736</b>	2,729	4,673
Inventories	<b>218</b>	(606)	781
Other current assets	<b>(671)</b>	165	(41)
Accounts payable, trade	<b>131</b>	(1,328)	837
Accrued liabilities	<b>(1,048)</b>	(1,240)	(438)
Income taxes payable	<b>630</b>	(884)	481
Other assets	<b>(587)</b>	(324)	(158)
Other deferred liabilities	<b>524</b>	314	60
Total Adjustments	<b>6,723</b>	(1,386)	1,797
Net cash provided by operating activities	<b>12,916</b>	10,868	12,967
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale or maturity of U.S. Treasury Bills	<b>366,398</b>	410,274	397,702
Purchase of U.S. Treasury Bills	<b>(371,797)</b>	(434,253)	(400,456)
Maturity of U.S. Treasury Notes	—	25,000	—
Interest received from U.S. Treasury Notes	—	719	1,438
Proceeds from sale of property, plant and equipment	<b>84</b>	13	1,390
Purchase of property, plant and equipment	<b>(1,523)</b>	(3,330)	(2,499)
Net cash used in investing activities	<b>(6,838)</b>	(1,577)	(2,425)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends paid	<b>(6,041)</b>	(6,042)	(6,124)
Purchase of treasury stock	—	—	(5,974)
Net cash used in financing activities	<b>(6,041)</b>	(6,042)	(12,098)
Net increase (decrease) in cash	<b>37</b>	3,249	(1,556)
Cash at beginning of year	<b>8,699</b>	5,450	7,006
Cash at end of year	<b>\$ 8,736</b>	\$ 8,699	\$ 5,450

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 intercompany 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 are cost of sales. Volume based rebates paid to dealers are classified as a 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 \$4,079,000, \$8,870,000 and \$6,943,000 in 2003, 2002 and 2001, respectively.

Inventory – Inventories are stated at cost, determined under the first-in, first-out method, which is not in excess of market. Physical inventory counts are taken at the end of each reporting quarter. Total inventories for the periods presented consisted of (dollars in thousands):

	May 31, 2003	May 31, 2002
Raw Materials	\$4,132	\$4,280
Work In Process	5,282	5,183
Finished Goods	—	169
	\$9,414	\$9,632

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 carrying value of U.S. Treasury Bills, which approximates their fair market value, totaled \$145,721,000 and \$138,327,000 at May 31, 2003 and 2002, 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 the retail purchaser of its manufactured homes with a one-year warranty against defects in design, materials and

workmanship. Recreational vehicles are covered by a two-year warranty. The warranties are backed by a corporate service department and an extensive field service system. Estimated warranty costs are accrued at the time of sale based upon current sales, historical experience and management's judgment regarding anticipated rates of warranty claims. The adequacy of the recorded warranty liability is periodically assessed and the amount is adjusted as necessary. A reconciliation of accrued warranty and related expenses is as follows (dollars in thousands):

	Year Ended May 31, 2003	Year Ended May 31, 2002
Balance at the beginning of the period	\$10,100	\$10,084
Accruals for warranties	11,425	12,853
Settlements made during the period	(10,916)	(12,837)
Balance at the end of the period	\$10,609	\$10,100

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 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.

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

## NOTE 2 Contingencies

The Corporation was contingently liable at May 31, 2003 under repurchase agreements with certain financial institutions providing inventory financing for retailers of its products. Under these arrangements, which are customary in the manufactured housing and recreational vehicle industries, the Corporation agrees to repurchase homes and recreational vehicles in the event of default by the retailer at declining prices over the term of the agreement, generally 12 months. The maximum repurchase liability is the total amount that would be paid upon the default of the Corporation's independent dealers. The maximum potential repurchase liability, without reduction for the resale value of the repurchased units, was approximately \$100 million at May 31, 2003 and \$120 million at May 31, 2002. The risk of loss under these agreements is spread over many retailers 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 allowance for doubtful accounts includes a reserve for potential net losses on repurchased units. The amounts of obligations from repurchased units and incurred net losses for the periods presented are as follows (dollars in thousands):

	Year Ended May 31,		
	2003	2002	2001
Obligations from units repurchased	\$1,001	\$ 922	\$2,019
Net losses on repurchased units	50	179	152

The Corporation leases office and manufacturing equipment under operating lease agreements. Leases generally provide that the Corporation pays the cost of insurance, taxes and maintenance. Rent expense for each of the fiscal years ended May 31, 2003, 2002 and 2001 was approximately \$1,200,000. Future minimum lease commitments under operating leases are as follows (dollars in thousands):

Year Ending May 31,	Amount
2004	\$ 1,028
2005	620
2006	256
2007	145
2008	62
Thereafter	—
	\$ 2,111

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 2003 and 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.

The effect of the aggregate repurchases on basic earnings per share was \$.19 per share in 2003, \$.37 per

share in 2002 and \$.32 per share in 2001. At May 31, 2003, 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, 2003, 2002 and 2001, contributions to the Plans were \$2,356,000, \$2,413,000 and \$2,484,000, 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 covers 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 6.0% in 2003, 7.0% in 2002 and 8.0% in 2001. The amount charged to operations under these arrangements was \$252,000 in fiscal year 2003, \$352,000 in fiscal year 2002 and \$252,000 in fiscal year 2001.

## NOTE 5

### Industry Segment Information

Dollars in thousands

<b>SALES</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Manufactured housing	\$ 293,448	\$ 339,260	\$ 353,610
Recreational vehicles	126,369	111,462	110,214
Total sales	\$ 419,817	\$ 450,722	\$ 463,824
<b>EARNINGS BEFORE INCOME TAXES</b>			
<b>OPERATING EARNINGS</b>			
Manufactured housing	\$ 11,116	\$ 19,107	\$ 13,412
Recreational vehicles	439	925	824
General corporate expenses	(3,214)	(3,905)	(4,089)
Total operating earnings	8,341	16,127	10,147
Interest income	1,995	4,102	7,717
Gain on sale of property, plant and equipment	—	—	666
Earnings before income taxes	\$ 10,336	\$ 20,229	\$ 18,530
<b>IDENTIFIABLE ASSETS</b>			
<b>OPERATING ASSETS</b>			
Manufactured housing	\$ 71,225	\$ 77,846	\$ 80,182
Recreational vehicles	22,195	22,579	19,525
Total operating assets	93,420	100,425	99,707
U.S. TREASURY BILLS	145,721	138,327	110,965
U.S. TREASURY NOTES	—	—	25,006
Total assets	\$ 239,141	\$ 238,752	\$ 235,678
<b>DEPRECIATION</b>			
Manufactured housing	\$ 3,103	\$ 3,268	\$ 3,344
Recreational vehicles	682	616	575
Total depreciation	\$ 3,785	\$ 3,884	\$ 3,919
<b>CAPITAL EXPENDITURES</b>			
Manufactured housing	\$ 1,230	\$ 2,085	\$ 2,213
Recreational vehicles	293	1,245	286
Total capital expenditures	\$ 1,523	\$ 3,330	\$ 2,499

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.

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# Report of

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## Independent Auditors

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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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

These financial statements 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, 2003

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# Management's Discussion and Analysis of Financial Condition and Results of Operations

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## Results of Operations—Fiscal 2003 Compared to Fiscal 2002

Sales in 2003 were \$419,817,000, a decrease of \$30,905,000 from \$450,722,000 in 2002. Manufactured housing sales totaled \$293,448,000 for 2003 compared to \$339,260,000 in 2002. Manufactured housing unit sales decreased to 7,922 from 9,849. Recreational vehicle sales increased from \$111,462,000 in 2002 to \$126,369,000 in 2003. Recreational vehicle unit sales increased from 8,028 in 2002 to 8,720 in 2003. Manufactured housing sales continue to be affected by difficult market conditions, restrictive retail financing, economic uncertainty and increased global tensions. The increase in recreational vehicle sales is a reflection of an industry-wide improvement in market conditions for towable recreational vehicles. This trend began in early calendar year 2002. There was, however, a softening of demand in the Corporation's fourth fiscal quarter. Fourth quarter sales for the recreational vehicle segment totaled \$31,762,000 versus \$36,527,000 from the prior year.

Cost of sales in 2003 was 87.3% compared to 85.9% in 2002. Manufactured housing cost of sales in 2003 decreased to 81.0% from 84.9% in 2002. The decrease is primarily attributable to the Corporation's effort to control manufacturing costs. Recreational vehicle cost

of sales increased to 89.8% of sales from 89.0% in 2002 due to increased raw material cost and a shift in model mix within this segment.

Selling and administrative expenses as a percentage of sales increased slightly to 10.7% in 2003 from 10.5% in 2002, while expenditures decreased \$2,702,000.

As a percentage of sales, operating earnings for manufactured housing were 3.8% in 2003 versus prior year's 5.6%. Earnings for manufactured housing declined due to the continuation of difficult market conditions noted above. Recreational vehicle operating earnings as a percentage of sales were 0.3% for 2003 and 0.8% for 2002. The decrease is due to increased cost of sales as noted above.

Interest income amounted to \$1,995,000 in 2003 compared to \$4,102,000 in 2002. Interest income is directly related to the prevailing yields of U.S. Government securities and the amount available for investment.

## 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 slightly 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.

### **Liquidity and Capital Resources**

At May 31, 2003, cash and short-term investment in U.S. Treasury Bills totaled \$154,457,000, an increase of \$7,431,000 from \$147,026,000 at May 31, 2002. Current assets exclusive of cash and investments in U.S. Treasury Bills totaled \$40,514,000 at the end of 2003, a decrease of \$5,283,000 from 2002's total of \$45,797,000. The decrease was primarily due to a decline in accounts receivable (\$5,736,000) which is attributable to decreased fourth quarter sales. Current liabilities decreased \$287,000 from \$36,463,000 at May 31, 2002 to \$36,176,000 at May 31, 2003.

Capital expenditures totaled \$1,523,000 in 2003 compared to \$3,330,000 in the prior year. Capital expenditures during 2002 included \$820,000 to implement a new manufacturing process at one recre-

ational vehicle facility. Other capital expenditures in both years were made primarily to replace or refurbish machinery and equipment and improve manufacturing efficiencies.

The cash provided by operating activities in fiscal 2004, along with current cash and short-term investments, is expected to be adequate to fund any capital expenditures, working capital requirements and treasury stock purchases during the year. Historically, the Corporation's financing needs have been met through funds generated internally.

### **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
- General or seasonal weather conditions affecting sales
- Potential periodic inventory adjustments by independent retailers
- Availability of wholesale and retail financing
- Interest rate levels
- Impact of inflation
- Cost of labor and raw materials
- Competitive pressures on pricing and promotional costs
- Catastrophic events impacting insurance costs
- Consumer confidence and economic uncertainty
- Market demographics
- Management's ability to attract and retain executive officers and key personnel
- Increased global tensions, market disruption resulting from a terrorist attack and any armed conflict involving the United States.

## Financial Summary By Quarter

Unaudited

Dollars in thousands except per share data

<b>2003</b>	<b>1st Qtr</b>	<b>2nd Qtr</b>	<b>3rd Qtr</b>	<b>4th Qtr</b>	<b>Year</b>
<b>Sales</b>	<b>\$ 116,492</b>	<b>\$ 112,467</b>	<b>\$ 87,709</b>	<b>\$ 103,149</b>	<b>\$ 419,817</b>
<b>Gross profit</b>	<b>14,941</b>	<b>14,911</b>	<b>8,878</b>	<b>14,454</b>	<b>53,184</b>
<b>Net earnings (loss)</b>	<b>1,822</b>	<b>1,951</b>	<b>(827)</b>	<b>3,247</b>	<b>6,193</b>
<b>Basic earnings (loss) per share</b>	<b>.22</b>	<b>.23</b>	<b>(.10)</b>	<b>.39</b>	<b>.74</b>

  

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

## Selected Financial Data

Dollars in thousands except per share data

	2003	2002	2001	2000	1999
<b>FOR THE YEAR</b>					
Sales	\$ 419,817	\$ 450,722	\$ 463,824	\$ 579,551	\$ 653,169
Net earnings	\$ 6,193	\$ 12,254	\$ 11,170	\$ 15,028	\$ 25,561
Cash dividends paid	\$ 6,041	\$ 6,042	\$ 6,124	\$ 6,410	\$ 6,043
Capital expenditures	\$ 1,523	\$ 3,330	\$ 2,499	\$ 4,115	\$ 7,113
Depreciation	\$ 3,785	\$ 3,884	\$ 3,919	\$ 4,022	\$ 3,838
Weighted average common shares outstanding	8,391,244	8,391,244	8,468,321	8,858,628	9,136,116
<b>AT YEAR END</b>					
Working capital	\$ 158,795	\$ 156,360	\$ 149,591	\$ 123,401	\$ 147,398
Current ratio	5.4:1	5.3:1	4.8:1	4.2:1	4.2:1
U.S. Treasury Notes	\$ —	\$ —	\$ 25,006	\$ 25,072	\$ —
Property, plant and equipment, net	\$ 39,131	\$ 41,477	\$ 42,044	\$ 44,188	\$ 44,102
Total assets	\$ 239,141	\$ 238,752	\$ 235,678	\$ 235,666	\$ 240,982
Shareholders' equity	\$ 198,385	\$ 198,233	\$ 192,021	\$ 192,949	\$ 191,692
Treasury Stock	\$ 65,744	\$ 65,744	\$ 65,744	\$ 59,770	\$ 52,409
<b>PER SHARE</b>					
Basic earnings	\$ .74	\$ 1.46	\$ 1.32	\$ 1.70	\$ 2.80
Cash dividends paid	\$ .72	\$ .72	\$ .72	\$ .72	\$ .66
Shareholders' equity	\$ 23.64	\$ 23.62	\$ 22.88	\$ 22.22	\$ 21.30

## Sales Comparison

Dollars in thousands

Product Line	Fiscal Years Ended May 31			
	2003		2002	
	Dollars	Units	Dollars	Units
Single-section Homes	\$ 42,749	1,857	\$ 53,940	2,446
Multi-section Homes	\$ 250,700	6,065	\$ 285,320	7,403
Travel Trailers	\$ 96,227	6,976	\$ 86,469	6,408
Fifth Wheels	\$ 30,141	1,744	\$ 24,993	1,620

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# MANUFACTURING

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## FACILITIES

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## Directors

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**▲ ARTHUR J. DECIO**

Chairman of the Board,  
serving in a non-executive  
officer capacity  
Skyline Corporation

**TERRENCE M. DECIO**

Senior Executive Vice President  
Skyline Corporation

**THOMAS G. DERANEK**

Vice Chairman and  
Chief Executive Officer  
Skyline Corporation

**▲◆■● JERRY HAMMES**

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

**RONALD F. KLOSKA**

Chief Executive Officer (Ret.)  
Skyline Corporation

**▲◆■● WILLIAM H. LAWSON**

Chairman of the Board and  
Chief Executive Officer (Ret.)  
Franklin Electric Co., Inc.  
Sarasota, Florida 34236

**▲◆■● 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
- Nominating and Governance Committee
- Compensation Committee

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# Officers

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**\*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. PHILIPPSEN**

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  
AUDITORS  
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  
www.SkylineCorp.com

### 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 2003 and 2002. At May 31, 2003, there were approximately 1,200 holders of record of Skyline Corporation common stock. A quarterly summary of the market price is listed for the fiscal years ended May 31, 2003 and 2002.

Quarter	2003		2002	
	High	Low	High	Low
First	<b>\$34.40</b>	<b>\$27.20</b>	\$28.50	\$23.84
Second	<b>\$31.10</b>	<b>\$26.30</b>	\$30.40	\$22.80
Third	<b>\$30.10</b>	<b>\$24.60</b>	\$32.25	\$27.45
Fourth	<b>\$30.33</b>	<b>\$24.60</b>	\$37.76	\$29.30

