

SKYLINE

2006

ANNUAL REPORT

Manufactured Housing

Recreational Vehicles

CORPORATE

PROFILE

Skyline Corporation is one of America's leading producers of manufactured housing and recreational vehicles (RVs). With its headquarters in Elkhart, Indiana, Skyline has 22 operating divisions in 11 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 it was founded in 1951.

Most Skyline-built homes are multi-section models. In quality, appearance and amenities, these homes compare favorably with site-built housing that typically sells for a higher price. Skyline also factory-crafts affordable single-section models and has the capability to produce modular housing.

In RVs, Skyline focuses on three towable product lines: conventional travel trailers, fifth wheel travel trailers and park models.

Since its founding, Skyline has built more than 880,000 homes and 470,000 RVs. Its sales over the years total approximately \$15 billion.

Skyline homes and RVs are marketed nationwide through independent retailers and manufactured housing communities. Our products are supported by a straightforward, customer-oriented service program.

Skyline people hold themselves to high standards of ethical behavior. They take pride in offering products of outstanding value and in fostering mutually beneficial relationships with retailers, communities and suppliers. Skyline people are grateful for the continuing opportunity to help make dreams come true for thousands of American families.

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Financial Highlights

For the Years Ended May 31, 2006 and 2005

(Dollars in thousands, except per share data)

| | 2006 | 2005 |
|--|------------|------------|
| Sales | \$ 508,543 | \$ 454,324 |
| Earnings before income taxes | \$ 23,315 | \$ 8,662 |
| Net earnings | \$ 14,292 | \$ 5,452 |
| Cash dividends | \$ 6,041 | \$ 14,433 |
| Working capital | \$ 164,225 | \$ 154,663 |
| Shareholders' equity | \$ 197,754 | \$ 189,503 |
| Cash and U.S. Treasury Bills and Notes | \$ 152,771 | \$ 149,525 |
| Total assets | \$ 248,403 | \$ 237,437 |
| Current ratio | 5.1:1 | 5.1:1 |
| Number of operating plants | 22 | 22 |
| Number of employees | 2,800 | 2,600 |
| Per share | | |
| Basic earnings | \$ 1.70 | \$.65 |
| Cash dividends | \$.72 | \$ 1.72 |
| Shareholders' equity | \$ 23.57 | \$ 22.58 |

TO OUR SHAREHOLDERS

Despite the challenges created by the volatility and competitiveness of the industries in which Skyline operates, we are pleased to report continued achievement during fiscal 2006.

The twelve-month period ended May 31, 2006 was the fifty-fifth consecutive year of Skyline profitability. Fiscal 2006 also saw Skyline continue to pay quarterly cash dividends as it has every year since 1960 when its shares were publicly traded for the first time. The Company maintained its traditionally strong balance sheet with no long-term debt and robust positions in cash and cash equivalents.

Net earnings for fiscal 2006 were \$14,292,000 compared to \$5,452,000 for the previous fiscal year. On a basic earnings per share basis, fiscal 2006 net earnings were \$1.70 compared to \$0.65 for fiscal 2005.

Sales for the fiscal year were \$508,543,000 compared to \$454,324,000 for fiscal 2005. Our manufactured housing group recorded fiscal 2006 sales of \$376,405,000. The group's sales for fiscal 2005 were \$335,394,000. For our recreational vehicle (RV) group, sales for fiscal 2006 were \$132,138,000 compared to \$118,930,000 for fiscal 2005.

Strengthening Human Resources

In both housing and RVs, Skyline people focused not only on day-to-

day operations, but on building a Company capable of competing successfully in a rapidly changing marketplace. They reaffirmed the traditional Skyline emphasis on teamwork, discipline, and ethical behavior. While they continually worked to upgrade the quality and value of our products and to make sure Skyline's production facilities measured up to high performance and efficiency standards, they also emphasized the strengthening of the human resources that are the key to a future of continued achievement.

Skyline men and women at every level sought to sharpen and expand their skills. They renewed their commitment to the customer-driven culture that has been a hallmark of Skyline for more than a half-century.

In both the housing and RV segments of our business, the desires and preferences of customers are deciding factors in the development of product designs and marketing strategies.

To make sure we are aware of what customers have in mind at the earliest possible moment, we rely heavily on the independent retailers who sell and service our products. These retailers are our eyes and ears. They keep us in close touch with evolving customer tastes and requirements.

As we have said in the past, independent retailers are the backbone of a distribution system that has well

served our industries and customers. These retailers are the hometown representatives of Skyline. They know the local market and, more important, they know their customers.

Enhancing Relationships with Retailers

To enhance our relationships with retailers, we do our best to establish a continuing, mutually productive dialogue. We encourage retailers to take advantage of the opportunities for communication afforded by our Dealer Council program. These Councils meet on a regular basis, providing a reliable two-way conduit for information and ideas. Our experience with the Councils has increased our sensitivity to dealer concerns and customer requirements. It has helped us move toward our long-standing goal of Total Customer Satisfaction.

To achieve this goal, Skyline and its retailers rely on our Commitment of Excellence program. The focus is the customer who is asked to report on the total buying experience, beginning with the first contact with the retailer and continuing through issues of product quality and service. The reports by customers create a Customer Satisfaction Index (CSI) which Skyline and its retailers use as a point of reference in determining the progress made toward the total satisfaction goal.

During fiscal 2006, the CSI continued to show improvement and we are determined to accelerate the pace of this trend during the days ahead. One of our tools will be the ongoing Master Product Awareness program that equips retailers and members of their sales staffs with total information about our products. This in-depth knowledge empowers retailers to deal with a full range of customer questions and concerns.

Creating Attractive Communities

In manufactured housing, many of our retailers are increasingly prepared to compete for non-traditional customers. These customers often have managerial or professional status and are increasingly sophisticated when it comes to satisfying their housing requirements.

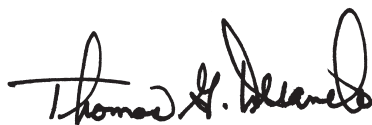
The existence of such customers has given a number of our retailers an extra incentive to develop land-home packages that meet the requirements of many lenders. Some retailers and land developers are utilizing manufactured housing to create attractive, affordable residential communities. These communities often feature multi-section homes that, except for the price, are indistinguishable from site-built housing. Multi-section homes accounted for 81 percent of our housing shipments during fiscal 2006.

In RVs, Skyline competes in the non-motorized (towable) industry segment, producing and marketing conventional travel trailers, fifth wheel travel trailers designed to be towed by light trucks, and park models for recreational camping. Skyline RVs, available in a range of models and sizes, are sold under the Nomad, Layton and Aljo trade names.

Extending a Tradition of Integrity

In fiscal 2006, as in prior years, Skyline people put customers first. We build products that reflect customer desires and lifestyles. We do our best to do the right thing in all of our relationships.

We are proud of the Skyline tradition of absolute integrity. We are pleased to have contributed to the comfort and happiness of thousands of American families. We pledge to continue to build a company that is prepared to meet every challenge and take advantage of a full range of opportunities. With dedicated people at all levels and the continued support of our shareholders, we look to the future with confidence.



Thomas G. Deranek
Vice Chairman and
Chief Executive Officer



James R. Weigand
Chief Financial Officer and
Secretary

Supplemental

Shareholder Information

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

INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM
Crowe Chizek and Company LLC
South Bend, Indiana 46624

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

Directors

▲ ARTHUR J. DECIO

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

THOMAS G. DERANEK

Vice Chairman and
Chief Executive Officer
Skyline Corporation

RONALD F. KLOSKA

Chief Executive Officer (Ret.)
Skyline Corporation

▲◆■● WILLIAM H. LAWSON

Sarasota, Florida 34236
Chairman of the Board and
Chief Executive Officer (Ret.)
Franklin Electric Co., Inc.
Bluffton, Indiana 46714

▲■● ANDREW J. McKENNA

Chairman of the Board
Schwarz
Morton Grove, Illinois 60053
and Chairman of the Board
McDonald's Corporation
Oak Brook, Illinois 60523

▲◆■● JERRY HAMMES

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

▲◆■● DAVID T. LINK

Dean Emeritus
Notre Dame Law School
University of Notre Dame
Notre Dame, Indiana 46556
and President and Chief
Executive Officer
International Centre for
Healing and the Law (Ret.)
Kalamazoo, Michigan 49009

- ▲ Executive Committee
- ◆ Audit Committee
- Nominating and
Governance Committee
- Compensation Committee

Officers

THOMAS G. DERANEK

Vice Chairman and
Chief Executive Officer

TERRENCE M. DECIO

Vice President, Marketing and Sales

JAMES R. WEIGAND

Chief Financial Officer
and Secretary

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

