SKYLINE CORP
Form 10-Q
April 06, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended February 28, 2007

or

o **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. ý Yes o No

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

Large Accelerated filer o Accelerated filer ý Non-accelerated filer o

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

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

Title of Class	Shares Outstanding April 6, 2007

Common Stock	8,391,244

SKYLINE CORPORATION

Form 10-Q Quarterly Report
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PART I.

Item 1. Financial Statements.

Skyline Corporation and Subsidiary Companies

Consolidated Balance Sheets

(Dollars in thousands)

	February 28, 2007 (Unaudited)	May 31, 2006
ASSETS		
Current Assets		
Cash	**$ 6,869**	$ 10,059
U.S. Treasury Bills, at cost plus accrued interest	**118,680**	52,607
U.S. Treasury Notes, at cost plus accrued interest		90,105
Accounts receivable, trade, less allowance for doubtful accounts of $100	**21,418**	31,759
Inventories	**12,076**	11,308
Other current assets	**11,412**	8,537
Total Current Assets	**170,455**	204,375
Property, Plant and Equipment, at Cost		
Land	**5,557**	5,557
Buildings and improvements	**65,915**	64,721
Machinery and equipment	**30,698**	28,478
	102,170	98,756
Less accumulated depreciation	**66,527**	64,687
Net Property, Plant and Equipment	**35,643**	34,069
Other Assets	**10,353**	9,959
	$ 216,451	$ 248,403

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
(Dollars in thousands, except per share data)

	February 28, 2007 (Unaudited)	May 31, 2006
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable, trade	$ **3,917**	$ 8,784
Accrued salaries and wages	**5,099**	9,279
Accrued profit sharing	**1,804**	2,620
Accrued marketing programs	**6,527**	6,418
Accrued warranty and related expenses	**8,333**	8,111
Other accrued liabilities	**3,436**	3,522
Income taxes payable		1,416
Total Current Liabilities	**29,116**	40,150
Other Deferred Liabilities	**10,549**	10,499
Commitments and Contingencies- See Note 1		
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	**237,290**	258,258
Treasury stock, at cost, 2,825,900 shares at February 28, 2007 and May 31, 2006	**(65,744)**	(65,744)
Total Shareholders Equity	**176,786**	197,754
	$ **216,451**	$ 248,403

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 Earnings and Retained Earnings
For the three-month and nine-month periods ended February 28, 2007 and 2006
(Unaudited)
(Dollars in thousands, except per share data)

	Three-Months Ended		Nine-Months Ended	
	2007	2006	**2007**	2006
EARNINGS				
Sales	**$ 66,345**	$ 117,491	**$ 276,937**	$ 372,324
Cost of sales	**62,004**	103,530	**249,231**	326,831
Gross profit	**4,341**	13,961	**27,706**	45,493
Selling and administrative expense	**9,315**	11,489	**31,564**	34,587
Operating (loss) earnings	**(4,974)**	2,472	**(3,858)**	10,906
Interest income	**1,455**	1,320	**4,391**	3,544
Gain on sale of idle property, plant and equipment				464
(Loss) earnings before income taxes	**(3,519)**	3,792	**533**	14,914
(Benefit) provision for income taxes:				
Federal	**(1,075)**	1,232	**303**	4,875
State	**(269)**	270	**(116)**	900
	(1,344)	1,502	**187**	5,775
Net (loss) earnings	**$ (2,175)**	$ 2,290	**$ 346**	$ 9,139
Basic (loss) earnings per share	**$ (.26)**	$ .27	**$ .04**	$ 1.09
Cash dividends per share	**$ .18**	$ .18	**$ 2.54**	$ .54
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	**$ 240,975**	$ 253,836	**$ 258,258**	$ 250,007
Net (loss) earnings	**(2,175)**	2,290	**346**	9,139
Cash dividends paid	**(1,510)**	(1,511)	**(21,314)**	(4,531)
Balance at end of period	**$ 237,290**	$ 254,615	**$ 237,290**	$ 254,615

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 nine-month periods ended February 28, 2007 and 2006
Increase (Decrease) in Cash
(Unaudited)
(Dollars in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 346	$ 9,139
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation	2,317	2,325
Gain on sale of idle property, plant and equipment		(464)
Working capital items:		
Accrued interest receivable	304	(814)
Accounts receivable	10,341	(2,004)
Inventories	(768)	(1,987)
Other current assets	(2,875)	(4,485)
Accounts payable, trade	(4,867)	(2,314)
Accrued liabilities	(4,751)	5,998
Income taxes payable	(1,416)	(273)
Other, net	(177)	90
Net cash (used in) provided by operating activities	(1,546)	5,211
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from principal payments of U.S. Treasury Bills	196,295	142,282
Purchase of U.S. Treasury Bills	(262,567)	(101,513)
Proceeds from maturity of U.S. Treasury Notes	90,000	
Purchase of U.S. Treasury Notes		(44,324)
Net proceeds from sale of idle property, plant and equipment		1,493
Purchase of property, plant and equipment	(3,965)	(1,896)
Other, net	(93)	(97)
Net cash provided by (used in) investing activities	19,670	(4,055)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(21,314)	(4,531)
Net cash used in financing activities	(21,314)	(4,531)
Net decrease in cash	(3,190)	(3,375)
Cash at beginning of year	10,059	12,406

Cash at end of quarter	**$**	**6,869**	$	9,031

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 the 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 February 28, 2007, in addition to the consolidated results of operations and consolidated cash flows for the three-month and nine-month periods ended February 28, 2007 and 2006. 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, 2006 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.
Inventories are stated at cost, determined under the first-in, first-out method, which is not in excess of market. Finished goods consist primarily of homes on display at various manufacturing facilities. Physical inventory counts are taken at the end of each reporting quarter. Total inventories for the periods presented consisted of (dollars in thousands):

	February 28, 2007	May 31, 2006
Raw materials	**$ 5,362**	$ 5,604
Work in process	**6,071**	5,674
Finished goods	**643**	30
	$ 12,076	$ 11,308

The Corporation provides the retail purchaser of its manufactured homes with a fifteen-month warranty against defects in design, materials and workmanship. Recreational vehicles are covered by a one-year warranty.

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Item 1. Financial Statements (continued).

Skyline Corporation and Subsidiary Companies

Notes to the Consolidated Financial Statements

(Unaudited)

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

The warranties are backed by service departments located at our 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. A reconciliation of accrued warranty and related expenses is as follows (dollars in thousands):

	Nine Months Ended February 28,	
	2007	2006
Balance at the beginning of the period	**$ 12,111**	$ 11,700
Accruals for warranties	**8,746**	8,806
Settlements made during the period	**(8,524)**	(8,706)
Balance at the end of the period	**12,333**	11,800
Non-current balance included in other deferred liabilities	**4,000**	4,000
Accrued warranty and related expenses	**$ 8,333**	$ 7,800

The Corporation was contingently liable at February 28, 2007 under purchase 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 units 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 all the Corporation s independent dealers. The maximum potential repurchase liability, without reduction for the resale value of the repurchased units, was approximately $99 million at February 28, 2007 and $110 million at May 31, 2006. 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.

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Item 1. Financial Statements (continued).
Skyline Corporation and Subsidiary Companies
Notes to the Consolidated Financial Statements
(Unaudited)
NOTE 1 Nature of Operations, Accounting Policies of Consolidated Financial Statements (continued)
The amounts of obligations from repurchased units and incurred net losses for the periods presented are as follows (dollars in thousands):

	Three-Months Ended February 28,		Nine-Months Ended February 28,	
	2007	2006	2007	2006
Number of units repurchased	20		78	2
Obligations from units repurchased	$ 303	$	$ 1,244	$ 80
Net losses on repurchased units				

The Corporation is a party to various pending legal proceedings in the normal course of business. Management believes that any losses resulting from such proceedings would not have a material adverse effect on the Corporation s results of operations or financial position.
Certain prior period amounts have been reclassified to conform with the current period presentation.
In June 2006, the Financial Accounting Standards Board (FASB), issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes , (FIN No. 48). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes . FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Corporation is currently analyzing the impact of this Interpretation on its consolidated financial statements.
In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 provides guidance on evaluating the materiality of prior periods misstatements, quantifying the effects of correcting misstatements in the current period and criteria for restatement of prior periods. SAB 108 is effective for fiscal years ending after November 15, 2006. The Corporation does not expect its adoption to have a material impact on its consolidated financial statements.
In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . This statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and adoption is not expected to have a material impact on the Corporation s consolidated financial statements.

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Item 1. Financial Statements (continued).

Skyline Corporation and Subsidiary Companies

Notes to the Consolidated Financial Statements

(Unaudited)

NOTE 2 Industry Segment Information

The Corporation designs, produces and distributes manufactured housing (single-section, multi-section and modular homes) and towable recreational vehicles (including travel trailers, fifth wheels and park models). In the first nine months of fiscal years 2007 and 2006, manufactured housing represented 75 percent of total sales while recreational vehicles accounted for the remaining 25 percent.

	Three Months Ended February 28,		Nine Months Ended February 28,	
(Dollars in thousands)	**2007**	2006	**2007**	2006
SALES				
Manufactured housing	**$ 51,247**	$ 83,199	**$ 208,348**	$ 279,006
Recreational vehicles	**15,098**	34,292	**68,589**	93,318
Total sales	**$ 66,345**	$ 117,491	**$ 276,937**	$ 372,324
(LOSS) EARNINGS BEFORE INCOME TAXES				
OPERATING (LOSS) EARNINGS				
Manufactured housing	**$ (2,163)**	$ 2,724	**$ 1,623**	$ 13,823
Recreational vehicles	**(2,368)**	643	**(3,418)**	(582)
General corporate expense	**(443)**	(895)	**(2,063)**	(2,335)
Total (loss) operating earnings	**(4,974)**	2,472	**(3,858)**	10,906
Interest income	**1,455**	1,320	**4,391**	3,544
Gain on sale of idle property, plant and equipment				464
(Loss) earnings before income taxes	**$ (3,519)**	$ 3,792	**$ 533**	$ 14,914

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

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

Overview

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

Sales in both business segments are affected by the strength of the U.S. economy, interest rate levels, consumer confidence and the availability of wholesale and retail financing. The manufactured housing segment is currently affected by a protracted downturn. This downturn, caused primarily by restrictive retail financing and economic uncertainty, has resulted in industry sales which over the last four years have been the lowest in decades. The manufactured housing industry has been further negatively impacted by the recent decline in new housing starts in the U.S. In the recreational vehicle segment, the Corporation sells travel trailers, fifth wheels and park models. Industry sales of travel trailers and fifth wheels have seen steady growth in recent years. Demand for travel trailers, however, has softened in recent months when compared to last year. Travel trailer sales in the prior year included units sold as part of hurricane relief efforts in the Gulf Coast region of the United States.

Demand remains strong for multi-section versus single-section homes. Multi-section homes are often sold as part of a land-home package and are financed with a conventional mortgage. Multi-section homes have an appearance similar to site-built homes and are notably less expensive. Ten of the Corporation s manufactured housing facilities have obtained approval from applicable state and local governmental entities to produce modular homes, which will help meet the demand for multi-section homes.

The recreational vehicle segment in which the Corporation operates is a very competitive ever-changing market. Similar to the trend in the non-motorized recreational vehicle industry, this segment is currently experiencing decreased demand for travel trailers.

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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 February 28, 2007 Compared to the Three-Month Period Ended February 28, 2006 (Unaudited)

Sales and Unit Shipments

(Dollars in thousands)

	2007	Percent	2006	Percent	Change (Decrease)
Sales					
Manufactured Housing	**$ 51,247**	**77.2**	$ 83,199	70.8	$ (31,952)
Recreational Vehicles	**15,098**	**22.8**	34,292	29.2	(19,194)
Total Sales	**$ 66,345**	**100.0**	$ 117,491	100.0	$ (51,146)
Unit Shipments					
Manufactured Housing	**1,047**	**50.2**	1,773	42.3	(726)
Recreational Vehicles	**1,037**	**49.8**	2,423	57.7	(1,386)
Total Unit Shipments	**2,084**	**100.0**	4,196	100.0	(2,112)

Manufactured housing sales decreased due to an overall decline in demand, which is consistent with the experience of the manufactured housing industry as a whole.

Recreational vehicle sales decreased due to a softening in demand, particularly for travel trailers. The decline in travel trailer sales is consistent with the experience of that particular segment of the recreational vehicle industry. In addition, prior year sales included approximately 900 units related to hurricane relief sold to independent dealers for approximately $9 million.

Cost of Sales

(Dollars in thousands)

	2007	Percent of Sales*	2006	Percent of Sales*	Change (Decrease)
Manufactured Housing	**$ 46,879**	**91.5**	$ 73,014	87.8	$ (26,135)
Recreational Vehicles	**15,125**	**100.2**	30,516	89.0	(15,391)
Consolidated	**$ 62,004**	**93.5**	$ 103,530	88.1	$ (41,526)

*The percentages for manufactured housing and recreational vehicles are based on segment sales. The percentage for consolidated cost of sales is based on total sales.

Manufactured housing cost of sales decreased due to declining sales volumes and the variable nature of many of the direct manufacturing costs. As a percentage of sales, however, cost of sales increased due to warranty costs and workers compensation expenses declining at a slower rate than the reduction in sales. In addition, certain manufacturing overhead costs remained fixed despite lower sales.

Recreational vehicle cost of sales decreased due to declining sales volumes and the variable nature of many of the direct manufacturing costs, although workers compensation expenses did increase slightly during the quarter. As a percentage of sales, cost of sales increased due to the positive impact of hurricane relief related sales on gross margins in the prior year, as well as warranty costs declining at a slower rate than the reduction in the current year s sales. In addition, certain manufacturing overhead costs remained fixed despite lower sales.

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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 February 28, 2007 Compared to the Three-Month Period Ended February 28, 2006 (Unaudited)

Cost of Sales (continued)

This business segment also experienced the commencement of operations in the current quarter of a previously idled facility. This facility, which produces fiberglass-sided product, incurred approximately $300,000 in manufacturing costs associated with the start up of operations.

Selling and Administrative Expenses

(Dollars in thousands)

	2007	**Percent of Sales**	2006	Percent of Sales	Change (Decrease)
Selling and Administrative Expenses	**$ 9,315**	**14.0**	$ 11,489	9.8	$ (2,174)

Selling and administrative expenses decreased primarily due to a decrease in performance based compensation. As a percentage of sales, selling and administrative expenses increased due to certain costs being fixed despite lower sales.

Operating (Loss) Earnings

(Dollars in thousands)

	2007	**Percent of Sales***	2006	Percent of Sales*	Change Increase (Decrease)
Manufactured Housing	**$ (2,163)**	**(4.2)**	$ 2,724	3.3	$ (4,887)
Recreational Vehicles	**(2,368)**	**(15.7)**	643	1.9	(3,011)
General Corporate Expenses	**(443)**	**(0.7)**	(895)	(0.8)	452
Total Operating (Loss) Earnings	**$ (4,974)**	**(7.5)**	$ 2,472	2.1	$ (7,446)

*The percentages for manufactured housing and recreational vehicles are based on segment sales. The percentage for general corporate expenses and total operating earnings (loss) are based on total sales.

Operating earnings for manufactured housing dropped primarily due to the impact of decreased sales on the components of earnings as noted above. In addition, unit sales of single-section homes increased from 18 percent in 2006 to 23 percent in 2007. Single-section homes have lower margins as compared to multi-section homes.

The recreational vehicle segment changed from an operating profit a year ago to an operating loss driven primarily by the impact of decreased sales on the components of earnings as noted above.

Decreases in general corporate expenses occurred in costs associated with performance based compensation and product liability.

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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 February 28, 2007 Compared to the Three-Month Period Ended February 28, 2006 (Unaudited)

Interest Income

(Dollars in thousands)

	2007	2006	Change Increase
Interest Income	**$ 1,455**	$ 1,320	$ 135

Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government Securities.

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

Results of Operations Nine-Month Period Ended February 28, 2007 Compared to the Nine-Month Period Ended February 28, 2006 (Unaudited) (continued)

Sales and Unit Shipments

(Dollars in thousands)

	2007	**Percent**	2006	Percent	Change (Decrease)
Sales					
Manufactured Housing	**$ 208,348**	**75.2**	$ 279,006	74.9	$ (70,658)
Recreational Vehicles	**68,589**	**24.8**	93,318	25.1	(24,729)
Total Sales	**$ 276,937**	**100.0**	$ 372,324	100.0	$ (95,387)
Unit Shipments					
Manufactured Housing	**4,319**	**48.9**	6,110	48.5	(1,791)
Recreational Vehicles	**4,518**	**51.1**	6,486	51.5	(1,968)
Total Unit Shipments	**8,837**	**100.0**	12,596	100.0	(3,759)

Manufactured housing sales decreased due to an overall softening of demand. This decline is consistent with the experience of the manufactured housing industry as a whole.

Recreational vehicle sales decreased due to a softening in demand, particularly for travel trailers. The decline in travel trailer sales is consistent with the experience of that particular segment of the recreational vehicle industry. In addition, prior year sales included approximately 1,500 units related to hurricane relief sold to independent dealers for approximately $15 million.

Cost of Sales

(Dollars in thousands)

	2007	**Percent of Sales***	2006	Percent of Sales*	Change (Decrease)
Manufactured Housing	**$ 185,301**	**88.9**	$ 241,787	86.7	$ (56,486)
Recreational Vehicles	**63,930**	**93.2**	85,044	91.1	(21,114)
Consolidated	**$ 249,231**	**90.0**	$ 326,831	87.8	$ (77,600)

*The percentages for manufactured housing and recreational vehicles are based on segment sales. The percentage for consolidated cost of sales is based on total sales.

Manufactured housing cost of sales decreased due to declining sales volumes and the variable nature of many of the direct manufacturing costs. As a percentage of sales, however, cost of sales increased due to warranty costs and workers compensation expenses declining at a slower rate than the reduction in sales. In addition, certain manufacturing overhead costs remained fixed despite lower sales.

Recreational vehicle cost of sales decreased due to declining sales volumes and the variable nature of many of the direct manufacturing costs. As a percentage of sales, however, cost of sales increased due to the positive impact of hurricane relief related sales on gross margins in the prior year, as well as warranty costs declining at a slower rate than the reduction in the current year s sales. In addition, certain manufacturing overhead costs remained fixed despite lower sales.

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

Results of Operations Nine-Month Period Ended February 28, 2007 Compared to the Nine-Month Period Ended February 28, 2006 (Unaudited) (continued)

Cost of Sales (continued)

This business segment also experienced the commencement of operations of a previously idled facility. This facility, which produces fiberglass-sided product, incurred approximately $300,000 in manufacturing costs associated with the start up of operations.

Selling and Administrative Expenses

(Dollars in thousands)

	2007	**Percent of Sales**	2006	Percent of Sales	Change (Decrease)
Selling and Administrative Expenses	**$ 31,564**	**11.4**	$ 34,587	9.3	$ (3,023)

Selling and administrative expenses decreased primarily due to a decrease in performance based compensation. As a percentage of sales, selling and administrative expenses increased due to certain costs being fixed despite lower sales.

Operating (Loss) Earnings

(Dollars in thousands)

	2007	**Percent of Sales***	2006	Percent of Sales*	Change in Increase (Decrease)
Manufactured Housing	**$ 1,623**	**0.8**	$ 13,823	5.0	$ (12,200)
Recreational Vehicles	**(3,418)**	**(5.0)**	(582)	(0.6)	(2,836)
General Corporate Expenses	**(2,063)**	**(0.7)**	(2,335)	(0.6)	272
Total Operating (Loss) Earnings	**$ (3,858)**	**(1.4)**	$ 10,906	2.9	$ (14,764)

*The percentages for manufactured housing and recreational vehicles are based on segment sales. The percentage for general corporate expenses and total operating earnings are based on total sales.

Operating earnings for manufactured housing dropped primarily due to the impact of decreased sales on the components of earnings as noted above. In addition, unit sales of single-section homes increased from 18 percent in 2006 to 21 percent in 2007. Single-section homes have lower margins as compared to multi-section homes.

The operating loss for recreational vehicles increased as a result of the impact of decreased sales on the components of earnings as noted above.

General corporate expenses decreased due to a decline in costs associated with performance based compensation.

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

Results of Operations Nine-Month Period Ended February 28, 2007 Compared to the Nine-Month Period Ended February 28, 2006 (Unaudited) (continued)

Interest Income

(Dollars in thousands)

	2007	2006	Change Increase
Interest Income	**$ 4,391**	$ 3,544	$ 847

Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government Securities.

Liquidity and Capital Resources

(Dollars in thousands)

	February 28, 2007	May 31, 2006	Change (Decrease)
Cash and U.S. Treasury Bills and Notes	**$ 125,549**	$ 152,771	$ (27,222)
Current assets, exclusive of cash and U.S. Treasury Bills and Notes	**$ 44,906**	$ 51,604	$ (6,698)
Current liabilities	**$ 29,116**	$ 40,150	$ (11,034)
Working capital	**$ 141,339**	$ 164,225	$ (22,886)

The Corporation s policy is to invest its excess cash, which exceeds its operating needs, in U.S. Government Securities. Cash and U.S. Treasury Bills and Notes decreased primarily due to dividends paid of $21,314,000, including a $16,782,000 special dividend paid on August 1, 2006. Current assets, exclusive of cash and U.S. Treasury Bills and Notes, decreased primarily due to a decline in accounts receivable of $10,341,000. This decline is attributable to lower sales in February 2007 as compared to May 2006.

Current liabilities decreased due to declines in accounts payable, $4,867,000, accrued salaries and wages, $4,180,000, and income taxes payable, $1,416,000. Accounts payable dropped because of lower sales in February 2007 as compared to May 2006. Accrued salaries and wages decreased due to annual payments of performance based compensation to employees and due to fewer employees in February 2007. Income taxes payable decreased due to the timing of tax payments at February 28, 2007 as compared to May 31, 2006, and a decline in pre-tax profits.

Capital expenditures totaled $3,965,000 for the nine months ended February 28, 2007 as compared to $1,896,000 in the comparable period of the previous year. Building and land improvements increased approximately $950,000. Additional capital expenditures during this period were made primarily to replace or refurbish machinery and equipment in addition to improving manufacturing efficiencies.

The cash provided by operating activities, along with current cash and other 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.

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

Other Matters

The provision 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. On a long-term basis, the Corporation has demonstrated an ability to adjust selling prices in reaction to changing costs due to inflation. The Corporation believes that inflation has not had a material effect on its operations during the first nine months of fiscal 2007.

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 impact of hurricanes and other natural disasters on sales and raw material costs
- Potential periodic inventory adjustments by independent retailers
- Availability of wholesale and retail financing
- 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
- Consumer confidence and economic uncertainty
- The health of the U.S. housing market as a whole
- Market demographics
- Management s ability to attract and retain executive officers and key personnel
- Increased global tensions, market disruption resulting from a terrorist or other attack and any armed conflict involving the United States.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Corporation invests in United States Government Securities. These securities are typically held until maturity and are therefore classified as held-to-maturity and carried at amortized cost. Changes in interest rates do not have a significant effect on the fair value of these investments.

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Item 4. Controls and Procedures.

Management s Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

As of February 28, 2007, 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 as of February 28, 2007.

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 third quarter ended February 28, 2007 that materially affected, or is reasonably likely to materially affect, the Corporation s internal control over financial reporting.

PART II.

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, 2006 filed by the registrant with the Commission.

Item 1A. Risk Factors.

In Item 1A of the Corporation s Form 10-K for the year ended May 31, 2006, cyclical and seasonal fluctuations were cited as possible reasons for declines in sales, operating results and cash flows. Continued weakness in demand for the products in one or both of the Corporation s market segments could materially impact the Corporation s sales, operating results and cash flows.

There were no other material changes in the risk factors previously disclosed in the Corporation s most recent Form 10-K.

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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)

(32.1) Certification of Periodic Financial Reports Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(32.2) Certification of Periodic Financial Reports Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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: April 6, 2007

/s/ James R. Weigand
James R. Weigand
Chief Financial Officer

DATE: April 6, 2007

/s/ Jon S. Pilarski
Jon S. Pilarski
Corporate Controller

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