SKYLINE CORP
Form 10-Q
October 11, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2013

or

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

For the transition period from __________ to __________

Commission file number: 1-4714

SKYLINE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Registrant s telephone number, including area code:

(574) 294-6521

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

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

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

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

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

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

Title of Class	**Shares Outstanding October 11, 2013**
Common Stock	8,391,244

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PART I FINANCIAL INFORMATION

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

Skyline Corporation and Subsidiary Companies

Consolidated Balance Sheets

(Dollars in thousands)

	August 31, 2013 (Unaudited)	May 31, 2013
ASSETS		
Current Assets:		
Cash	$ 9,132	$ 11,838
Restricted cash	600	600
U.S. Treasury Bills, at cost plus accrued interest	7,000	4,000
Accounts receivable	12,993	13,472
Note receivable, current	47	47
Inventories	9,851	8,732
Workers compensation security deposit	2,597	2,597
Other current assets	464	351
Total Current Assets	42,684	41,637
Note Receivable, non-current	1,619	1,631
Property, Plant and Equipment, at Cost:		
Land	3,918	3,918
Buildings and improvements	40,485	40,960
Machinery and equipment	17,930	17,918
	62,333	62,796
Less accumulated depreciation	47,392	47,355
	14,941	15,441
Idle property, net of accumulated depreciation	2,831	2,901
Net Property, Plant and Equipment	17,772	18,342
Other Assets:	6,326	6,317
Total Assets	$ 68,401	$ 67,927

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

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

Skyline Corporation and Subsidiary Companies

Consolidated Balance Sheets (Continued)

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

	August 31, 2013 (Unaudited)	May 31, 2013
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable, trade	$ 3,721	$ 3,675
Accrued salaries and wages	2,343	2,624
Accrued marketing programs	3,413	1,965
Accrued warranty and related expenses	3,799	3,682
Other accrued liabilities	2,981	2,261
Total Current Liabilities	16,257	14,207
Other Deferred Liabilities	7,872	8,069
Commitments and Contingencies See Note 8		
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	104,776	106,155
Treasury stock, at cost, 2,825,900 shares	(65,744)	(65,744)
Total Shareholders Equity	44,272	45,651
Total Liabilities and Shareholders Equity	$ 68,401	$ 67,927

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

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

Skyline Corporation and Subsidiary Companies

Consolidated Statements of Operations and Retained Earnings

For the Three-Month Periods Ended August 31, 2013 and 2012

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

	2013	2012
	(Unaudited)	
OPERATIONS:		
Net sales	$ 48,994	$ 49,920
Cost of sales	44,665	46,861
Gross profit	4,329	3,059
Selling and administrative expenses	5,733	6,530
Operating loss	(1,404)	(3,471)
Interest income	25	3
Loss before income taxes	(1,379)	(3,468)
Benefit from income taxes		
Net loss	$ (1,379)	$ (3,468)
Basic loss per share	$ (.16)	$ (.41)
Weighted average number of common shares outstanding	8,391,244	8,391,244
RETAINED EARNINGS:		
Balance at beginning of period	$ 106,155	$ 116,668
Net loss	(1,379)	(3,468)
Balance at end of period	$ 104,776	$ 113,200

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 Three-Month Periods Ended August 31, 2013 and 2012

(Dollars in thousands)

	2013	2012
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,379)	$ (3,468)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	490	544
Changes in assets and liabilities:		
Accrued interest receivable	1	2
Accounts receivable	479	188
Inventories	(1,119)	(1,391)
Other current assets	(113)	(1,048)
Accounts payable, trade	46	964
Accrued liabilities	2,004	236
Other, net	(234)	(30)
Net cash provided by (used in) operating activities	175	(4,003)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from principal payments of U.S. Treasury Bills	6,999	14,995
Purchase of U.S. Treasury Bills	(10,000)	(13,997)
Proceeds from note receivable	12	
Purchase of property, plant and equipment	(4)	(15)
Other, net	112	21
Net cash (used in) provided by investing activities	(2,881)	1,004
Net decrease in cash	(2,706)	(2,999)
Cash at beginning of period	11,838	12,011
Cash at end of period	$ 9,132	$ 9,012

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 August 31, 2013, in addition to the consolidated results of operations and the consolidated cash flows for the three-month periods ended August 31, 2013 and 2012. 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, 2013 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.

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

Investments The Corporation invests in United States Government securities, which are typically held until maturity and are therefore classified as held-to-maturity and carried at amortized cost.

Accounts Receivable Trade receivables are based on the amounts billed to dealers and communities. The Corporation does not accrue interest on any of its trade receivables, nor does it have an allowance for credit losses due to favorable collections experience. If a loss occurs, the Corporation s policy is to recognize it in the period when collectability cannot be reasonably assured.

Inventories Inventories are stated at the lower of cost or market. Cost is determined under the first-in, first-out method. Physical inventory counts are taken at the end of each reporting quarter.

Workers Compensation Security Deposit Deferred worker s compensation deposit represents funds placed with the Corporation s worker s compensation insurance carrier to offset future medical claims and benefits.

Note Receivable The Corporation s note receivable represents the amount owed for the sale of two idle recreational vehicle facilities in Hemet, California; less cash received on the date of closing and cash received from principal repayments through August 31, 2013. Interest is accrued on a monthly basis. No allowance for credit losses exists due to favorable collections experience. The Corporation s management evaluates the credit quality of the note on a monthly basis. The Corporation s policy is to recognize a loss in the period when collectability cannot be reasonably assured.

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Item 1. *Financial Statements (Continued).*

Skyline Corporation and Subsidiary Companies

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

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

Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method for financial statement reporting and accelerated methods for income tax reporting purposes. Estimated useful lives for significant classes of property, plant and equipment, including idle property, are as follows: Building and improvements 10 to 30 years; machinery and equipment 5 to 8 years. Idle property, net of accumulated depreciation consisted of manufacturing facilities in the following locations: Ocala, Florida; Elkhart, Indiana; Halstead, Kansas and Fair Haven, Vermont.

Long-lived assets are reviewed for impairment whenever events indicate that the carrying amount of an asset may not be recoverable from projected future cash flows. If the carrying value of a long-lived asset is impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. The Company believes no impairment of long-lived assets exists at August 31, 2013.

Warranty The Corporation provides the retail purchaser of its homes with a full fifteen-month warranty against defects in design, materials and workmanship. Recreational vehicles are covered by a one-year warranty. The warranties are backed by service departments located at the Corporation s manufacturing facilities and an extensive field service system. Estimated warranty costs are accrued at the time of sale based upon current sales, historical experience and management s judgment regarding anticipated rates of warranty claims. The adequacy of the recorded warranty liability is periodically assessed and the amount is adjusted as necessary.

Income Taxes The Corporation recognizes deferred tax assets based on differences between the carrying values of assets for financial and tax reporting purposes. The realization of the deferred tax assets is dependent upon the generation of sufficient future taxable income. Generally accepted accounting principles require that an entity consider both negative and positive evidence in determining whether a valuation allowance is warranted. In comparing negative and positive evidence, continual losses in recent years is considered significant, negative, objective evidence that deferred tax assets may not be realized in the future, and generally is assigned more weight than subjective positive evidence of the realizability of deferred tax assets. As a result of its extensive evaluation of both positive and negative evidence, management maintains a full valuation allowance against its deferred tax assets. The Corporation reports a liability, if any, for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Corporation recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

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Item 1. *Financial Statements (Continued).*

Skyline Corporation and Subsidiary Companies

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

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

Management s Plan Due to recurring losses, the Corporation is actively pursuing strategies to increase sales and decrease costs. These strategies include but are not limited to:

- Increasing efforts to increase sales of modular homes and park models in both the United States and Canada by cultivating relationships with modular housing developers and campground owners that are outside the Corporation s historical distribution channels
- Improving the process of developing homes and recreational vehicles to better meet ever changing preferences of consumers
- Maintaining the number of display models at housing facilities in order to provide dealers, communities and consumers with examples of newly designed product
- Utilizing social media to improve product exposure to customers and to better connect dealers to potential customers
- Selling non-strategic assets to generate cash and eliminate carrying costs
- Working with current and potential vendors to decrease costs
- Analyzing staffing needs and making reductions when considered appropriate by management

By implementing these strategies, and having a significant position of its working capital in cash and U.S. Treasury Bills, the Corporation s management believes the Corporation will have sufficient liquidity to meet its obligations through the current operating cycle.

NOTE 2 Restricted Cash

During fiscal 2013, the Corporation entered into an agreement to build and sell 60 manufactured homes to Stewart Homes, Inc., one of its dealers. Stewart Homes Inc. also entered into an agreement to sell these homes to Oakridge

Family Homes, L.P., a California limited partnership. As a function of Oakridge Family Homes, L.P. purchasing the 60 homes, the Corporation pledged a $600,000 certificate of deposit as security for certain performances. The certificate of deposit will remain pledged until terms of the certificate of deposit proceeds and security agreement between the Corporation and Oakridge Family Homes, L.P. are completed, which is expected to occur by November 30, 2013. Based on the terms of the arrangement, the Corporation expects this cash will be available for unrestricted use within the current operating cycle and accordingly has classified this as a current asset.

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

Skyline Corporation and Subsidiary Companies

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

NOTE 3 Investments

The following is a summary of investments:

	Gross Amortized Costs	Gross Unrealized Gains	Fair Value
	(Dollars in thousands)		
August 31, 2013			
U. S. Treasury Bills	$ 7,000	$	$ 7,000
May 31, 2013			
U. S. Treasury Bills	$ 4,000	$	$ 4,000

The fair value is determined by a secondary market for U.S. Government Securities. At August 31 and May 31, 2013, the U.S. Treasury Bills matures within three months.

NOTE 4 Inventories

Total inventories consist of the following:

	August 31, 2013	May 31, 2013
	(Dollars in thousands)	
Raw materials	$ 5,616	$ 5,104
Work in process	2,818	2,863
Finished goods	1,417	765
	$ 9,851	$ 8,732

NOTE 5 Note Receivable

During the second quarter of fiscal 2013, the Corporation sold two idle recreational vehicle facilities in Hemet, California. The sale of the facilities included a down payment of $500,000 and a promissory note of $1,700,000 to the Corporation. Selling expenses related to the sale, which were paid by the Corporation, were approximately $152,000.

This resulted in net cash received from the transaction of approximately $348,000. The note bears an interest rate of 6 percent per annum, requires monthly payments following a 20 year amortization schedule, and provides for a final payment after 6 years. In addition, the two facilities are collateral for the note. The current and non-current balance of $1,666,000 represents the original amount of the note less principal payments received through August 31, 2013.

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

Skyline Corporation and Subsidiary Companies

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

NOTE 6 Warranty

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

	Three-Months Ended August 31,	
	2013	2012
	(Dollars in thousands)	
Balance at the beginning of the period	$ 5,882	$ 5,870
Accruals for warranties	1,298	1,685
Settlements made during the period	(1,181)	(1,357)
Balance at the end of the period	5,999	6,198
Non-current balance included in other deferred liabilities	2,200	2,000
Accrued warranty and related expenses	$ 3,799	$ 4,198

NOTE 7 Income Taxes

At August 31, 2013, the Corporation s gross deferred tax assets of approximately $42 million consist of approximately $28 million in federal net operating loss and tax credit carryforwards, $7 million in state net operating loss carryforwards and $7 million resulting from temporary differences between financial and tax reporting. The federal net operating loss and tax credit carryforwards have a life expectancy of twenty years. The state net operating loss carryforwards have a life expectancy, depending on the state where a loss was incurred, between five and twenty years. The Corporation has recorded a full valuation allowance against this asset. If the Corporation, after considering future negative and positive evidence regarding the realization of deferred tax assets, determines that a lesser valuation allowance is warranted, it would record a reduction to income tax expense and the valuation allowance in the period of determination.

NOTE 8