

SKYLINE CORP  
Form 10-K  
August 03, 2007

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended May 31, 2007**
- 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**

*(State or other jurisdiction of  
incorporation or organization)*

**35-1038277**

*(I.R.S. Employer  
Identification No.)*

**P. O. Box 743, 2520 By-Pass Road  
Elkhart, Indiana**

*(Address of principal executive offices)*

**46515**

*(Zip Code)*

**Registrant's telephone number, including area code:**

**(574) 294-6521**

**Securities registered pursuant to Section 12 (b) of the Act:**

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$.0277 Par Value	New York Stock Exchange

**Securities registered pursuant to section 12 (g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Edgar Filing: SKYLINE CORP - Form 10-K

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or an amendment to this Form 10-K.

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  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the common stock held by non-affiliates of the registrant (6,822,262 shares) based on the closing price on the New York Stock Exchange on November 30, 2006 was \$285,784,555.

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

<b>Title of Class</b>	<b>Shares Outstanding July 25, 2007</b>
Common Stock	8,391,244

**DOCUMENTS INCORPORATED BY REFERENCE**

<b>Title</b>	<b>Form 10-K</b>
Proxy Statement dated August 16, 2007 for Annual Meeting of Shareholders to be held September 20, 2007	Part III, Items 10 14

---

**FORM 10-K****DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required to be included in Part III of this Form 10-K is also included in the registrant's Proxy Statement used in connection with its 2007 Annual Meeting of Shareholders to be held on September 20, 2007 (2007 Proxy Statement).

**TABLE OF CONTENTS****PART I**

<u>Item 1.</u>	<u>Business</u>	2
<u>Item 1A.</u>	<u>Risk Factors</u>	5
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	7
<u>Item 2.</u>	<u>Properties</u>	8
<u>Item 3.</u>	<u>Legal Proceedings</u>	8
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	8

**PART II**

<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	9
<u>Item 6.</u>	<u>Selected Financial Data</u>	11
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	
	<u>Index to Consolidated Financial Statements</u>	18
	<u>Reports of Independent Registered Public Accounting Firms</u>	20
	<u>Consolidated Balance Sheets</u>	22
	<u>Consolidated Statements of Earnings and Retained Earnings</u>	23
	<u>Consolidated Statements of Cash Flows</u>	24
	<u>Notes to Consolidated Financial Statements</u>	25
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	32
<u>Item 9A.</u>	<u>Controls and Procedures</u>	32
<u>Item 9B.</u>	<u>Other Information</u>	33

**PART III**

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	33
<u>Item 11.</u>	<u>Executive Compensation</u>	34
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	34
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	34
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	34

**PART IV**

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	
	<u>(a) 1. Financial Statements</u>	34

<u>2. Financial Statement Schedules</u>	34
<u>3. Index to Exhibits</u>	34

SIGNATURES

<u>Articles of Incorporation</u>	35
<u>By-Laws</u>	
<u>Code of Ethics</u>	
<u>Subsidiaries of the Registrant</u>	
<u>Certification</u>	
<u>Certification</u>	
<u>Certification</u>	
<u>Certification</u>	

**Table of Contents**

**PART I**

**Item 1. *Business.***

**General Development of Business**

Skyline Corporation was originally incorporated in Indiana in 1959, as successor to a business founded in 1951. Skyline Corporation and its consolidated subsidiaries (the Corporation) design, produce and distribute manufactured housing (single section homes, multi-section homes and modular homes) and towable recreational vehicles (travel trailers, fifth wheels and park models).

The Corporation, which is one of the largest producers of manufactured homes in the United States, produced 5,669 manufactured homes in fiscal year 2007.

The Corporation's manufactured homes are marketed under a number of trademarks. They are available in lengths ranging from 30 to 76 and in singlewide widths from 12 to 18, doublewide widths from 20 to 32, triplewide widths from 36 to 46, and quadwide widths from 56 to 60.

The Corporation also produced 6,152 recreational vehicles in fiscal year 2007, which are sold under a number of trademarks for travel trailers, fifth wheels and park models.

**Financial Information about Segments**

Sales, operating results and total assets for the manufactured housing and recreational vehicle segments are included in Note 5, Industry Segment Information, in the Notes to Consolidated Financial Statements included in this document under Item 8.

**Narrative Description of Business**

***Principal Products and Markets***

The Corporation designs, produces and distributes manufactured housing and towable recreational vehicles. Popular floor plans, virtual products tours and virtual factory tours are available at the Corporation's internet website, <http://www.skylinecorp.com>.

The principal markets for manufactured homes are the suburban and rural areas of the continental United States. The principal buyers continue to be individuals over the age of fifty, but the market tends to broaden when conventional housing becomes more difficult to purchase and finance.

The recreational vehicle market is made up of primarily vacationing families, retired couples traveling around the country and sports enthusiasts pursuing four-season hobbies.

The Corporation provides the retail purchaser of its manufactured 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.

The amount and percentage of sales contributed by the manufactured housing and recreational vehicle segments is noted in Item 7.

***Method of Distribution***

The Corporation's manufactured homes are distributed by approximately 400 independent dealers at 700 locations throughout the United States, and recreational vehicles are distributed by approximately 240 independent dealers at 280 locations throughout the United States. These are generally not exclusive dealerships and it is believed that most dealers also sell products of other manufacturers.

The Corporation's products are sold to dealers either through floor plan financing with various financial institutions or on a cash basis. Payments to the Corporation are made either directly by the dealer or by financial institutions, which have agreed to finance dealer purchases of the Corporation's products. In accordance with

## **Table of Contents**

industry practice, certain financial institutions which finance dealer purchases require the Corporation to execute repurchase agreements in which the Corporation agrees, that in the event a dealer defaults on its repayment of the financing, the Corporation will repurchase its products from the financing institution in accordance with a declining repurchase price schedule established by the Corporation. Any loss under these agreements is the difference between the repurchase cost and the resale value of the units repurchased. Further, the risk of loss is spread over numerous dealers. There has been no material losses related to repurchases in past years. Additional information regarding these repurchase agreements is included in Note 2, Commitments and Contingencies, in the Notes to Consolidated Financial Statements included in this document under Item 8.

### ***Raw Materials and Supplies***

The Corporation is basically an assembler of components purchased from outside sources. The major components used by the Corporation are lumber, plywood, shingles, vinyl and wood siding, steel, aluminum, insulation, home appliances, furnaces, plumbing fixtures, hardware, floor coverings and furniture. The suppliers are many and range in size from large national companies to very small local companies. At the present time the Corporation is obtaining sufficient materials to fulfill its needs.

### ***Patents, Trademarks, Licenses, Franchises and Concessions***

The Corporation does not rely upon any terminable or nonrenewable rights such as patents, licenses or franchises under the trademarks or patents of others, in the conduct of any segment of its business.

### ***Seasonal Fluctuations***

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.

### ***Inventory***

The Corporation does not build significant inventories of either finished goods or raw materials. In addition, there are no significant inventories sold on consignment.

### ***Dependence Upon Individual Customers***

The Corporation does not rely upon any single dealer for a significant percentage of its business in any industry segment.

### ***Backlog***

The Corporation does not consider the existence and extent of backlog to be significant in its business. The Corporation's production is based on a relatively short manufacturing cycle and dealers' orders, which continuously fluctuate. As such, the existence of backlog is not significant at any given date and does not typically provide a reliable indication of the status of the Corporation's business.

### ***Government Contracts***

The Corporation has had no significant government contracts during the past three years.



***Competitive Conditions***

The manufactured housing and recreational vehicle industries are highly competitive, with particular emphasis on price and features offered. The Corporation's competitors within its respective industries are numerous, ranging from multi-billion dollar corporations to relatively small and specialized manufacturers. In addition, the manufactured housing segment also competes with companies that provide other forms of housing, such as new and existing site-built homes, apartments, condominiums and townhouses.

**Table of Contents**

The manufactured housing industry shipped approximately 118,000 homes in calendar year 2006. In the same period, the Corporation shipped 6,938 homes for a 5.9 percent market share. In calendar year 2005, approximately 147,000 homes were shipped by the industry. In that period, the Corporation shipped 7,955 homes for a 5.4 percent market share.

Regarding the recreational vehicle industry, the following table shows the Corporation's competitive position in the recreational vehicle product lines it sells.

	Units Shipped Calendar Year 2006			Units Shipped Calendar Year 2005		
	Industry	Skyline	Market Share	Industry	Skyline	Market Share
Travel Trailers	192,000	7,303	3.8%	191,000	6,848	3.6%
Fifth Wheels	89,000	595	0.7%	85,000	757	0.9%
Park Models	10,000	190	1.9%	10,000	347	3.5%

Both the manufactured housing and recreational vehicle segments of the Corporation's business are dependent upon the availability of financing to dealers and retail financing. Consequently, increases in interest rates and/or tightening of credit through governmental action or otherwise have adversely affected the Corporation's business in the past and may do so in the future.

The Corporation considers it impossible to predict the future occurrence, duration or severity of cost or availability problems in financing either manufactured homes or recreational vehicles. To the extent that they occur, such public concerns will affect sales of the Corporation's products.

***Regulation***

The manufacture, distribution and sale of manufactured homes and recreational vehicles are subject to government regulations in both the United States and Canada, at federal, state or provincial and local levels.

***Environmental Quality***

The Corporation believes that compliance with federal, state and local requirements respecting environmental quality will not require any material capital expenditures for plant or equipment modifications which would adversely affect earnings.

***Other Regulations***

The U.S. Department of Housing and Urban Development (HUD) has set national manufactured home construction and safety standards and implemented recall and other regulations since 1976. The National Manufactured Housing Construction and Safety Standards Act of 1974, as amended, under which such standards and regulations are promulgated, prohibits states from establishing or continuing in effect any manufactured home standard that is not identical to the federal standards as to any covered aspect of performance. Implementation of these standards and regulations involves inspection agency approval of manufactured home designs, plant and home inspection by states or other HUD-approved third parties, manufacturer certification that the standards are met, and possible recalls if they are not or if homes contain safety hazards.

HUD has promulgated rules requiring producers of manufactured homes to utilize wood products certified by their suppliers to meet HUD's established limits on formaldehyde emissions, and to place in each home written notice to prospective purchasers of possible adverse reaction from airborne formaldehyde in the homes. These rules are designated as preemptive of state regulation.

Some components of manufactured homes may also be subject to Consumer Product Safety Commission standards and recall requirements. In addition, the Corporation has voluntarily subjected itself to third party inspection of all of its recreational vehicle products nationwide in order to further assure the Corporation, its dealers, and customers of compliance with established standards.

## **Table of Contents**

Manufactured homes and recreational vehicles may be subject to the Magnuson-Moss Warranty Federal Trade Commission Improvement Act, which regulates warranties on consumer products.

The Corporation's travel trailers continue to be subject to safety standards and recall and other regulations promulgated by the U.S. Department of Transportation under the National Traffic and Motor Vehicle Safety Act of 1966 and the Transportation Recall Enhancement, Accountability and Documentation (TREAD) Act, as well as state laws and regulations.

The Corporation's operations are subject to the Federal Occupational Safety and Health Act, and are routinely inspected thereunder.

The transportation and placement (in the case of manufactured homes) of the Corporation's products are subject to state highway use regulations and local ordinances which control the size of units that may be transported, the roads to be used, speed limits, hours of travel, and allowable locations for manufactured homes and parks.

The Corporation is also subject to many state manufacturer licensing and bonding requirements, and to dealer day in court requirements in some states.

The Corporation believes that it is currently in compliance with the above regulations.

### ***Number of Employees***

The Corporation employs approximately 2,300 people at the present time.

### ***Executive Officers of the Corporation***

Information regarding the Corporation's executive officers is located in this document under Part III, Item 10.

### **Available Information**

The Corporation makes available, free of charge, through the Investors section of its internet website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Proxy Statements and all amendments to those reports as soon as practicable after such material is electronically filed or furnished to the United States Securities and Exchange Commission (SEC). The Corporation's internet site is <http://www.skylinecorp.com>. A copy of the Corporation's annual report on Form 10-K will be provided without charge upon written request to Skyline Corporation, Investor Relations Department, Post Office Box 743, Elkhart, Indiana 46515.

The public may read and copy any materials the Corporation has filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet website (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

### **Item 1A. Risk Factors.**

Investors or potential investors should carefully consider the risks described below. Additional risks of which the Corporation is presently unaware or that the Corporation considers immaterial may also impair business operations and hinder financial performance.

**Retail Financing Availability**

Customers who purchase the Corporation's manufactured homes generally obtain retail financing from third party lenders. The availability, terms and cost of retail financing depend on the lending practices of financial institutions, governmental policies and economic and other conditions, all of which are beyond the Corporation's control. A customer seeking to purchase a manufactured home without land will generally pay a higher interest rate and have a shorter loan maturity versus a customer financing the purchase of land and a home. This difference is due to most states classifying home-only manufactured housing loans as personal property rather than real property for purposes of taxation and lien perfection.

## **Table of Contents**

In recent years many lenders of home-only financing have tightened credit underwriting standards, with some deciding to exit the industry. These actions resulted in decreased availability of retail financing, causing a negative effect on sales and operating results. If retail financing were to be further curtailed, sales, operating results and cash flows could be adversely affected.

### **Wholesale Financing Availability**

Independent dealers of the Corporation's products generally finance their inventory purchases with wholesale floor plan financing provided by lending institutions. A dealer's ability to obtain financing is significantly affected by the number of lending institutions offering floor planning, and by an institution's lending limits. In recent years the manufactured housing industry experienced a reduction in both the number of lenders offering floor planning, and the amount of money available for financing. These events could have a negative impact on a dealer's ability to purchase manufactured housing products, resulting in lower sales, operating results and cash flows.

### **Dependence on Independent Dealers**

The Corporation sells its manufactured homes and recreational vehicles to independent dealers. These dealers are not obligated to exclusively sell the Corporation's products, and may choose to sell competitor's products. In addition, a dealer may become financially insolvent and be forced to close its business. Both scenarios could have an adverse effect on sales, operating results and cash flows.

### **Dealer Inventories**

As wholesale shipments of manufactured homes and recreational vehicles within each respective industry exceed retail sales, dealer inventories increase to a level where dealers decrease orders from manufacturers. As manufacturers respond to reduced demand, many either offer discounts to maintain production volumes or curtail production levels. Both outcomes could have a negative impact on sales, operating results and cash flows.

### **Contingent Repurchase Agreements**

As referenced in Note 2 to the Notes to the Consolidated Financial Statements in Item 8, the Corporation is contingently liable under repurchase agreements with certain financial institutions providing inventory financing for retailers of its products. The Corporation could be required to fulfill some or all of the repurchase agreements, resulting in increased expense and reduced cash flows.

### **Cost and Availability of Raw Materials**

Prices and availability of raw materials used to manufacture the Corporation's products can change significantly due to fluctuations in supply and demand. The Corporation has historically been able to have an adequate supply of raw materials by maintaining good relations with its vendors. In addition, increased prices have historically been passed on to dealers by raising the price of manufactured homes and recreational vehicles. There is no certainty that the Corporation will be able to pass on future price increases and maintain adequate supply of raw materials. The inability to raise the price of its products and to maintain a proper supply of materials could have a negative impact on sales, operating results and cash flows.

### **Competition**

As noted in Item 1, the manufactured housing and recreational vehicle industries are highly competitive with particular emphasis on price and features offered. Some of the Corporation's competitors are vertically integrated by

owning retail, consumer finance and insurance operations. This integration may provide competitors with an advantage. In addition, the Corporation's manufactured homes compete with other forms of housing, such as new and existing site-built homes, apartments, condominiums and townhouses. The inability to effectively compete in this environment could result in lower sales, operating results and cash flows.

## **Table of Contents**

### **Cyclical and Seasonal Nature of Business**

The industries in which the Corporation operates are highly cyclical, and are impacted by the following conditions:

Consumer confidence

Interest rates

Demographic and employment trends

Availability of used or repossessed homes or recreational vehicles

Impact of inflation

Increased global tensions.

Sales in both industries are also seasonal in nature with sales being weakest in the winter months. Seasonal changes, in addition to continued weakness in demand in one or both of the Corporation's market segments, could materially impact the Corporation's sales, operating results and cash flows.

### **Changing Consumer Preferences**

Changes in consumer preferences for manufactured housing and recreational vehicles occur over time, and consequently the Corporation responds to changing demand by evaluating the market acceptability of its products. Delays in responding to changing consumer preferences could have an adverse effect on sales, operating results and cash flows.

### **Increased Fuel Prices**

The Corporation's recreational vehicle products depend on the use of vehicles that operate on gasoline or diesel fuel. In the Corporation's history there have been periods where the price of gasoline and diesel fuel dramatically increased. These increases resulted in greater cost associated with recreational vehicle travel. These events could occur in the future, possibly causing decreased sales, operating results and cash flows.

### **Governmental Regulations**

As noted in Item 1, the Corporation is subject to various governmental regulations. Implementation of new regulations or amendments to existing regulations could significantly increase the cost of the Corporation's products. In addition, failure to comply with present or future regulations could result in fines or potential civil or criminal liability. Both scenarios could negatively impact sales, operating results and cash flows.

### **Dependence on Executive Officers and Other Key Personnel**

The Corporation depends on the efforts of its executive officers and certain key employees. The loss of the service of one or more of these individuals could have an adverse effect on the sales, operating results and cash flows of the Corporation.

### **Item 1B. *Unresolved Staff Comments.***



None.

**Table of Contents****Item 2. *Properties.***

The Corporation owns its corporate offices and design facility, which are located in Elkhart, Indiana.

The Corporation's 21 manufacturing facilities, all of which are owned, are as follows:

<b>Location</b>	<b>Products</b>
California, San Jacinto	Manufactured Housing
California, Hemet	Recreational Vehicles
California, Hemet	Recreational Vehicles
California, Woodland	Manufactured Housing
Florida, Ocala	Manufactured Housing
Florida, Ocala	Manufactured Housing
Florida, Ocala	Manufactured Housing
Indiana, Bristol	Manufactured Housing
Indiana, Elkhart	Recreational Vehicles
Indiana, Elkhart	Recreational Vehicles
Kansas, Arkansas City	Manufactured Housing
Kansas, Halstead	Manufactured Housing
Louisiana, Bossier City	Manufactured Housing
Ohio, Sugarcreek	Manufactured Housing
Oregon, McMinnville	Manufactured Housing
Oregon, McMinnville	Recreational Vehicles
Pennsylvania, Ephrata	Manufactured Housing
Pennsylvania, Leola	Manufactured Housing
Texas, Mansfield	Recreational Vehicles
Vermont, Fair Haven	Manufactured Housing
Wisconsin, Lancaster	Manufactured Housing

The above facilities range in size from approximately 50,000 square feet to approximately 160,000 square feet. In May 2007 the Corporation idled its manufactured housing facility in Goshen, Indiana. This property's net book value is not significant to the assets of the Corporation.

It is extremely difficult to determine the unit productive capacity of the Corporation because of the ever-changing product mix.

The Corporation believes that its plant facilities, machinery and equipment are well maintained and are in good operating condition.

**Item 3. *Legal Proceedings.***

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.

**Item 4. *Submission of Matters to a Vote of Security Holders.***

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year ended May 31, 2007.

**Table of Contents****PART II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

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 2007 and 2006. On June 15, 2006, the Corporation declared a special cash dividend of two dollars (\$2.00) per share on the outstanding shares of the Corporation's common stock payable August 1, 2006, to shareholders of record at the close of business July 14, 2006. This special one time dividend was declared at the discretion of the Board of Directors, and is separate from and has no relationship to the regular quarterly dividends. At May 31, 2007, there were approximately 960 holders of record of Skyline Corporation common stock. A quarterly summary of the market price is listed for the fiscal years ended May 31, 2007 and 2006.

	<b>Common Stock Price Range</b>				<b>Dividends Declared Per Share</b>	
	<b>2007</b>		<b>2006</b>		<b>2007</b>	<b>2006</b>
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>		
First Quarter	\$ 43.53	\$ 36.20	\$ 44.15	\$ 37.10	\$ 2.18	\$ .18
Second Quarter	\$ 42.40	\$ 36.50	\$ 43.14	\$ 36.05	\$ .18	\$ .18
Third Quarter	\$ 42.12	\$ 34.20	\$ 42.33	\$ 34.78	\$ .18	\$ .18
Fourth Quarter	\$ 35.15	\$ 30.38	\$ 42.35	\$ 36.15	\$ .18	\$ .18

The name, address and phone number of our stock transfer agent and registrar is:

Computershare Investor Services  
 Shareholder Services Division  
 Two North LaSalle Street  
 Chicago, Illinois 60602  
 312-588-4237

**Table of Contents****Performance**

The graph below compares the cumulative, five-year shareholder returns on Skyline Common Stock to the cumulative, five-year shareholder returns on (a) the S&P 500 Stock Index, and (b) an index of peer companies selected by Skyline. The Peer Group is composed of four publicly-held companies which were selected based on similarities in their products and their competitive position in the industry. The companies comprising the Peer Group are weighted by their respective market capitalization and include the following: Cavalier Homes, Inc., Champion Enterprises, Inc., Coachmen Industries, Inc. and Fleetwood Enterprises, Inc. The comparison assumes \$100 was invested on May 31, 2002 in Skyline common stock and in each of the foregoing indices, including reinvestment of dividends (although Skyline has no dividend reinvestment plan).

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN  
Among Skyline Corporation, The S&P 500 Index  
And A Peer Group**

	<b>5/02</b>	<b>5/03</b>	<b>5/04</b>	<b>5/05</b>	<b>5/06</b>	<b>5/07</b>
Skyline Corporation	100	85	121	124	119	114
S&P 500	100	92	109	118	128	157
Peer Group	100	60	121	104	116	111

Copyright © 2007, Standard & Poor's, a division of The McGraw-Hill Companies, Inc. All rights reserved.  
[www.researchdatagroup.com/S&P.htm](http://www.researchdatagroup.com/S&P.htm)

**Table of Contents****Item 6. Selected Financial Data.**

Dollars in thousands except per share data

	2007	2006	2005	2004	2003
<b>FOR THE YEAR</b>					
Sales	\$ 365,473	\$ 508,543	\$ 454,324	\$ 433,900	\$ 421,315
Net earnings	\$ 2,593	\$ 14,292	\$ 5,452	\$ 6,141	\$ 6,193
Cash dividends declared	\$ 22,824	\$ 6,041	\$ 14,433	\$ 6,042	\$ 6,041
Capital expenditures	\$ 4,968	\$ 2,485	\$ 2,356	\$ 1,928	\$ 1,523
Depreciation	\$ 3,148	\$ 3,154	\$ 3,389	\$ 3,450	\$ 3,785
Weighted average common shares outstanding	8,391,244	8,391,244	8,391,244	8,391,244	8,391,244
<b>AT YEAR END</b>					
Working capital	\$ 141,828	\$ 164,225	\$ 154,663	\$ 163,438	\$ 160,750
Current ratio	6.2:1	5.1:1	5.1:1	6.1:1	6.1:1
Property, plant and equipment, net	\$ 35,806	\$ 34,069	\$ 35,838	\$ 36,930	\$ 39,131
Total assets	\$ 214,940	\$ 248,403	\$ 237,437	\$ 241,168	\$ 239,141
Total liabilities	\$ 37,125	\$ 50,649	\$ 47,934	\$ 42,684	\$ 40,756
Shareholders' equity	\$ 177,815	\$ 197,754	\$ 189,503	\$ 198,484	\$ 198,385
<b>PER SHARE</b>					
Basic earnings	\$ .31	\$ 1.70	\$ .65	\$ .73	\$ .74
Cash dividends declared	\$ 2.72	\$ .72	\$ 1.72	\$ .72	\$ .72
Shareholders' equity	\$ 21.19	\$ 23.57	\$ 22.58	\$ 23.65	\$ 23.64

**Item 7. 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-one 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 decline in the U.S. housing market. 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 and fifth wheels, however, has softened over the last twelve months. Travel trailer sales in the prior year included units sold as part of hurricane relief efforts in the Gulf Coast region of the U.S.

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

**Table of Contents**

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. Single-section homes, however, did experience a slight increase in demand within the past year.

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 as a whole, this segment is currently experiencing decreased demand for travel trailers and fifth wheels.

**Results of Operations Fiscal 2007 Compared to Fiscal 2006*****Sales and Unit Shipments***

	<b>2007</b>	<b>Percent</b>	<b>2006</b>	<b>Percent</b>	<b>Decrease</b>
	<b>(Dollars in thousands)</b>				
Sales					
Manufactured Housing	\$ 272,383	74.5	\$ 376,405	74.0	\$ 104,022
Recreational Vehicles	93,090	25.5	132,138	26.0	39,048
Total Sales	\$ 365,473	100.0	\$ 508,543	100.0	\$ 143,070
Unit Shipments					
Manufactured Housing	5,669	48.0	8,207	47.7	2,538
Recreational Vehicles	6,152	52.0	9,008	52.3	2,856
Total Unit Shipments	11,821	100.0	17,215	100.0	5,394

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 an overall softening of demand. Furthermore, sales were negatively impacted by an increase in consumer demand for fiberglass bonded wall construction. The Corporation addressed this shift in demand by opening a previously idled facility which is dedicated to producing travel trailers with fiberglass bonded wall construction. This facility commenced operations in the third fiscal quarter. 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***

	<b>2007</b>	<b>Percent of Sales*</b>	<b>2006</b>	<b>Percent of Sales*</b>	<b>Decrease</b>
	<b>(Dollars in thousands)</b>				
Manufactured Housing	\$ 240,689	88.4	\$ 324,728	86.3	\$ 84,039
Recreational Vehicles	86,825	93.3	119,958	90.8	33,133



Consolidated	\$ 327,514	89.6	\$ 444,686	87.4	\$ 117,172
--------------	------------	------	------------	------	------------

\* 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 relatively constant 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, 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

**Table of Contents**

than the reduction in the current year's sales. In addition, certain manufacturing overhead costs remained relatively constant despite lower sales.

As noted above, this business segment also experienced the commencement of operations in the third fiscal quarter of a previously idled facility. This facility, which produces travel trailers with fiberglass bonded wall construction, incurred approximately \$300,000 in manufacturing costs associated with the start up of operations.

***Selling and Administrative Expenses***

	<b>2007</b>	<b>Percent of Sales</b>	<b>2006</b>	<b>Percent of Sales</b>	<b>Decrease</b>
	<b>(Dollars in thousands)</b>				
Selling and Administrative Expenses	\$ 40,372	11.0	\$ 45,943	9.0	\$ 5,571

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 relatively constant despite lower sales.

***Operating Earnings (Loss)***

	<b>2007</b>	<b>Percent of Sales *</b>	<b>2006</b>	<b>Percent of Sales *</b>	<b>Decrease</b>
	<b>(Dollars in thousands)</b>				
Manufactured Housing	\$ 4,276	1.6	\$ 20,589	5.5	\$ 16,313
Recreational Vehicles	(4,154)	(4.5)	372	0.3	4,526
General Corporate Expense	(2,535)	(0.7)	(3,047)	(0.6)	512
Total Operating (Loss) Earnings	\$ (2,413)	(0.7)	\$ 17,914	3.5	\$ 20,327

\* 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 19 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.

***Interest Income***

	<b>2007</b>	<b>2006</b>	<b>Increase</b>
	<b>(Dollars in thousands)</b>		
Interest Income	\$ 5,812	\$ 4,937	\$ 875

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

**Table of Contents****Results of Operations Fiscal 2006 Compared to Fiscal 2005*****Sales and Unit Shipments***

	<b>2006</b>	<b>Percent</b>	<b>2005</b>	<b>Percent</b>	<b>Increase</b>
	<b>(Dollars in thousands)</b>				
Sales					
Manufactured Housing	\$ 376,405	74.0	\$ 335,394	73.8	\$ 41,011
Recreational Vehicles	132,138	26.0	118,930	26.2	13,208
Total Sales	\$ 508,543	100.0	\$ 454,324	100.0	\$ 54,219
Unit Shipments					
Manufactured Housing	8,207	47.7	7,685	49.4	522
Recreational Vehicles	9,008	52.3	7,865	50.6	1,143
Total Unit Shipments	17,215	100.0	15,550	100.0	1,665

Increased demand occurred for both single section and multi-section homes. In addition, sales rose due to an increase in the average selling price of multi-section homes.

Recreational vehicle sales increased as a result of hurricane driven demand for towable travel trailers. The Corporation estimates that approximately 1,500 units related to hurricane relief were sold to independent dealers for approximately \$15 million.

***Cost of Sales***

	<b>2006</b>	<b>Percent of Sales*</b>	<b>2005</b>	<b>Percent of Sales*</b>	<b>Increase</b>
	<b>(Dollars in thousands)</b>				
Manufactured Housing	\$ 324,728	86.3	\$ 294,613	87.8	\$ 30,115
Recreational Vehicles	119,958	90.8	110,115	92.6	9,843
Consolidated	\$ 444,686	87.4	\$ 404,728	89.1	\$ 39,958

\* 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 and recreational vehicle cost of sales increased due to increased sales. As a percentage of sales, cost of sales for both segments decreased as a result of the timing of the impact of increased selling prices during the year.

*Selling and Administrative Expenses*

	<b>2006</b>	<b>Percent</b>	<b>2005</b>	<b>Percent</b>	<b>Increase</b>
		<b>(Dollars in thousands)</b>			
Selling and Administrative Expenses	\$ 45,943	9.0	\$ 43,408	9.6	\$ 2,535

Selling and administrative expenses rose primarily due to an increase in performance based compensation.

*Operating Earnings*

	<b>2006</b>	<b>Percent</b>	<b>2005</b>	<b>Percent</b>	<b>Increase</b>
		<b>of</b>		<b>of</b>	<b>(Decrease)</b>
		<b>Sales*</b>	<b>(Dollars in thousands)</b>	<b>Sales*</b>	
Manufactured Housing	\$ 20,589	5.5	\$ 12,296	3.7	\$ 8,293
Recreational Vehicles	372	0.3	(2,547)	(2.1)	2,919
General Corporate Expenses	(3,047)	(0.6)	(3,561)	(0.8)	(514)
Total Operating Earnings	\$ 17,914	3.5	\$ 6,188	1.4	\$ 11,726

\* 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.

**Table of Contents**

Operating earnings for the manufactured housing segment increased due to improved sales, and improved margins on those sales. Operating earnings for the recreational vehicle segment increased due to improved margins and an increase in demand for towable travel trailers in the second, third and fourth quarters of 2006. General corporate expenses decreased primarily due to a change in the valuation of the Corporation's liability for retirement and death benefits offered to certain employees. Additional information regarding the change in valuation is included in Note 4(B), Retirement and Death Benefit Plans, in Notes to Consolidated Financial Statements included in the document under Item 8.

***Interest Income***

	<b>2006</b>	<b>2005</b>	<b>Increase</b>
	<b>(Dollars in thousands)</b>		
Interest Income	\$ 4,937	\$ 2,474	\$ 2,463

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

***Gain on Sale of Idle Property, Plant and Equipment***

In the first quarter of fiscal year 2006, the Corporation sold vacant land for a pre-tax gain of \$464,000.

***Liquidity and Capital Resources***

	<b>May 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>Decrease</b>
	<b>(Dollars in thousands)</b>		
Cash and U.S. Treasury Bills and Notes	\$ 124,240	\$ 152,771	\$ 28,531
Current Assets, Exclusive of Cash and U.S. Treasury Bills and Notes	44,702	51,604	6,902
Current Liabilities	27,114	40,150	13,036
Working Capital	141,828	164,225	22,397

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 \$22,824,000, including a \$16,782,000 special dividend payment 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 \$8,999,000. This decline is attributable to lower sales in May 2007 as compared to May 2006.

Current liabilities decreased due principally to declines in accounts payable, \$3,622,000, accrued salaries and wages, \$3,215,000, accrued marketing programs, \$2,595,000 and other accrued liabilities, \$1,857,000. Accounts payable dropped because of lower sales in May 2007 as compared to May 2006. Accrued salaries and wages decreased due to lower amounts accrued for performance based compensation at May 2007 as compared to May 2006. In addition, the Corporation experienced a decline in the number of employees over the last 12 months. Accrued marketing programs declined as a result of an ongoing, sales-based marketing program for the Corporation's dealers. This program pays dealers based on sales, which decreased from fiscal 2006 to fiscal 2007. The change in other accrued liabilities was

primarily caused by a decline in income taxes payable. Income taxes payable decreased due to the timing of tax payments at May 31, 2007 as compared to May 31, 2006, and a decline in pre-tax profits.

Capital expenditures totaled \$4,968,000 for the twelve months ended May 31, 2007 as compared to \$2,485,000 in the comparable period of the previous year. Buildings and improvements increased \$1,908,000. 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.

**Table of Contents****Contractual Obligations and Commitments**

The following table summarizes the Corporation's contractual obligation for operating lease agreements as of May 31, 2007:

	Total	Payments Due by Period			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
(Dollars in thousands)					
Operating Leases	\$ 1,530	\$ 785	\$ 545	\$ 160	\$ 40

The following table summarizes the Corporation's commitments for repurchase agreements as of May 31, 2007:

	Total	Payments Due by Period			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
(Dollars in thousands)					
Repurchase Agreements	\$ 89,000	\$ 89,000	\$	\$	\$

Additional information regarding the nature of the repurchase agreements and the operating leases is in Note 2 to the Notes to the Consolidated Financial Statements. During fiscal years 2007 and 2006, the Corporation did not experience any losses on the sale of repurchased units.

**Critical Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Corporation to make certain estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Estimates are periodically evaluated using historical experience and various other factors believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

The following accounting policies are considered to require a significant estimate:

***Product Warranties***

As referenced in Note 1 of the Notes to Consolidated Financial Statements, manufactured homes are sold with a fifteen-month warranty and recreational vehicles are sold with a one-year warranty. Estimated warranty costs are accrued at the time of sale based upon sales, historical claims experience and management's judgment regarding anticipated rates of warranty claims. Significant changes in these factors could have a material impact on future results of operations.

***Workers' Compensation Insurance***



The Corporation is insured for expenses associated with workers' compensation. Costs are accrued based on management's estimates of future medical claims developed by consulting actuaries at the carrier that insures the Corporation. Accruals are made up to a specified limit per individual injured and for an aggregate limit.

***Health Insurance***

The Corporation utilizes a combination of insurance companies in offering health insurance coverage to its employees. Costs of claims incurred but not paid are accrued based on past claims experience and relevant trend factors provided by the insurance companies.

**Newly Issued Accounting Standards**

The effect of newly issued accounting standards on the Corporation is addressed in Notes 1 and 6 of the Notes to Consolidated Financial Statements.

**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. State income tax

**Table of Contents**

benefits are primarily the result of the exclusion, either in whole or in part, of interest income on U.S. Government Securities from taxable income in certain states. In addition, in 2007 the Corporation received favorable rulings on certain state tax positions which resulted in state refunds net of federal taxes of \$144,000.

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. The Corporation, however, experienced in fiscal 2005 significant increases in the cost of lumber, lumber-related materials and steel. Although the Corporation was unable to recover all of the increases in the first half of fiscal 2005, on a long-term basis it has demonstrated an ability to adjust selling prices in reaction to changing costs due to inflation. The Corporation believes inflation has not had a material effect on its operations during fiscal years 2006 and 2007.

As addressed in Items 1 and 3, the Corporation has not had nor anticipates to have material expenditures related to environmental quality or product liability.

**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

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 7A. *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.

**Table of Contents**

**Item 8. *Financial Statements and Supplementary Data.***

Index to Consolidated Financial Statements

<u>Reports of Independent Registered Public Accounting Firm</u>	20
<u>Consolidated Balance Sheets</u>	22
<u>Consolidated Statements of Earnings and Retained Earnings</u>	23
<u>Consolidated Statements of Cash Flows</u>	24
<u>Notes to Consolidated Financial Statements</u>	25

All other supplementary data is omitted because it is not applicable or the required information is shown in the financial statements or notes thereto.

**Table of Contents**

**(This page left intentionally blank)**

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of Skyline Corporation:

We have audited the accompanying consolidated balance sheets of Skyline Corporation and subsidiary companies (the Corporation ) as of May 31, 2007 and 2006, and the related consolidated statements of earnings and retained earnings, and cash flows for the years then ended. We also have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that the Corporation maintained effective internal control over financial reporting as of May 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Corporation's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of May 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management's assessment that the Corporation maintained effective internal control over financial reporting as of May 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control Integrated

Edgar Filing: SKYLINE CORP - Form 10-K

Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).  
Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Crowe Chizek and Company LLC

South Bend, Indiana  
July 18, 2007

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Board of Directors of Skyline Corporation:

In our opinion, the consolidated statements of earnings and retained earnings and of cash flows for the year ended May 31, 2005 (appearing on pages 23 and 24 of the Skyline Corporation's 2007 Annual Report to Shareholders which has been incorporated by reference in this Form 10-K) present fairly, in all material respects, the results of operations and cash flows of Skyline Corporation and its subsidiaries for the year ended May 31, 2005, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company'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 the standards of the Public Company Accounting Oversight Board (United States). Those standards 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

July 28, 2005



**Table of Contents****Skyline Corporation and Subsidiary Companies****Consolidated Balance Sheets****May 31, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 8,376	\$ 10,059
U.S. Treasury Bills, at cost plus accrued interest	115,864	52,607
U.S. Treasury Notes, at cost plus accrued interest		90,105
Accounts receivable, trade, less allowance for doubtful accounts of \$100	22,760	31,759
Inventories	10,561	11,308
Other current assets	11,381	8,537
<b>Total Current Assets</b>	<b>168,942</b>	<b>204,375</b>
<b>Property, Plant and Equipment, at Cost</b>		
Land	5,557	5,557
Buildings and improvements	66,629	64,721
Machinery and equipment	30,712	28,478
	102,898	98,756
Less accumulated depreciation	67,092	64,687
<b>Net Property, Plant and Equipment</b>	<b>35,806</b>	<b>34,069</b>
<b>Other Assets</b>	<b>10,192</b>	<b>9,959</b>
<b>Total Assets</b>	<b>\$ 214,940</b>	<b>\$ 248,403</b>

**LIABILITIES AND SHAREHOLDERS EQUITY**

<b>Current Liabilities</b>		
Accounts payable, trade	\$ 5,162	\$ 8,784
Accrued salaries and wages	6,064	9,279
Accrued profit sharing	1,684	2,620
Accrued marketing programs	3,823	6,418
Accrued warranty and related expenses	7,300	8,111
Other accrued liabilities	3,081	4,938
<b>Total Current Liabilities</b>	<b>27,114</b>	<b>40,150</b>
<b>Other Deferred Liabilities</b>	<b>10,011</b>	<b>10,499</b>

**Commitments and Contingencies See Note 2**

**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	238,319	258,258
Treasury stock, at cost, 2,825,900 shares	(65,744)	(65,744)
<b>Total Shareholders Equity</b>	<b>177,815</b>	<b>197,754</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 214,940</b>	<b>\$ 248,403</b>

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

**Table of Contents****Skyline Corporation and Subsidiary Companies****Consolidated Statements of Earnings and Retained Earnings  
For the Years Ended May 31, 2007, 2006 and 2005**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands, except per share data)</b>		
<b>EARNINGS</b>			
Sales	\$ 365,473	\$ 508,543	\$ 454,324
Cost of sales	327,514	444,686	404,728
Gross profit	37,959	63,857	49,596
Selling and administrative expenses	40,372	45,943	43,408
Operating (loss) earnings	(2,413)	17,914	6,188
Interest income	5,812	4,937	2,474
Gain on sale of idle property, plant and equipment		464	
Earnings before income taxes	3,399	23,315	8,662
Provision (benefit) for income taxes			
Federal	1,135	7,590	2,790
State	(329)	1,433	420
	806	9,023	3,210
Net earnings	\$ 2,593	\$ 14,292	\$ 5,452
Basic earnings per share	\$ .31	\$ 1.70	\$ .65
Weighted average number of common shares outstanding	8,391,244	8,391,244	8,391,244
<b>RETAINED EARNINGS</b>			
Balance at beginning of year	\$ 258,258	\$ 250,007	\$ 258,988
Cumulative effect of adjustments resulting from the adoption of SAB No. 108, net of tax (See Note 6)	292		
Adjusted balance at beginning of year	258,550	250,007	258,988
Net earnings	2,593	14,292	5,452
Cash dividends paid (\$2.72 per share in 2007, \$.72 per share in 2006 and \$1.72 per share in 2005)	(22,824)	(6,041)	(14,433)
Balance at end of year	\$ 238,319	\$ 258,258	\$ 250,007

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



**Table of Contents****Skyline Corporation and Subsidiary Companies**

**Consolidated Statements of Cash Flows**  
**For the Years Ended May 31, 2007, 2006 and 2005**  
**Increase (Decrease) in Cash**

	2007	2006	2005
	(Dollars in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net earnings	\$ 2,593	\$ 14,292	\$ 5,452
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation	3,148	3,154	3,389
Gain on sale of idle property, plant and equipment		(464)	
Working capital items:			
Accrued interest receivable	(211)	(1,399)	(517)
Accounts receivable	8,999	(5,293)	(376)
Inventories	747	(1,470)	57
Other current assets	(2,844)	(2,304)	2,813
Accounts payable, trade	(3,622)	(737)	1,745
Accrued liabilities	(9,414)	3,488	3,612
Other, net	(188)	(280)	(714)
Net cash (used in) provided by operating activities	(792)	8,987	15,461
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from principal payments of U.S. Treasury Bills	\$ 275,874	\$ 172,786	\$ 312,530
Purchase of U.S. Treasury Bills	(338,815)	(133,007)	(263,062)
Maturity of U.S. Treasury Notes	90,000	45,000	45,000
Purchase of U.S. Treasury Notes		(88,973)	(89,459)
Net proceeds from sale of idle property, plant and equipment		1,493	
Purchase of property, plant and equipment	(4,968)	(2,485)	(2,356)
Other, net	(158)	(107)	(113)
Net cash provided by (used in) investing activities	21,933	(5,293)	2,540
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends paid	(22,824)	(6,041)	(14,433)
Net cash used in financing activities	(22,824)	(6,041)	(14,433)
Net (decrease) increase in cash	(1,683)	(2,347)	3,568
Cash at beginning of year	10,059	12,406	8,838
Cash at end of year	\$ 8,376	\$ 10,059	\$ 12,406

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

**Table of Contents**

**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements**

**NOTE 1 Nature of Operations, Accounting Policies of Consolidated Financial Statements**

*Nature of operations* Skyline Corporation designs, manufactures and sells at wholesale both a broad line of manufactured housing (single section homes, multi-section homes and modular homes) and a large selection of towable recreational vehicle models (travel trailers, fifth wheels and park 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 (the 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 completion of the following: an order for a unit is received from a dealer; written or verbal approval for payment is received from a dealer's financing institution or payment is received from the dealer; a common carrier signs documentation accepting responsibility for the unit as agent for the dealer; and the unit is removed from the Corporation's premises for delivery to a dealer.

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 of sales revenue. Sales of parts are classified as revenue.

*Consolidated statements of cash flows* For purposes of the consolidated statements of cash flows, investments in U.S. Treasury Bills and Notes are included as investing activities. The Corporation's cash flows from operating activities were reduced by income taxes paid of \$3,466,000, \$8,973,000 and \$3,121,000 in 2007, 2006 and 2005, respectively.

*Investments* 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.

The cost and accrued interest of U.S. Treasury Bills, which approximates fair market value, totaled \$115,864,000 and \$52,607,000 at May 31, 2007 and 2006, respectively. The gross amortized cost of U.S. Treasury Notes, which approximates fair market value, totaled \$89,567,000 at May 31, 2006. The fair market value of both investments is determined by a secondary market for U.S. Treasury Securities. The Corporation does not have any other financial instruments which have market values differing from recorded values.

*Accounts receivable* Trade receivables are based on the amounts billed to customers. The Corporation does not accrue interest on any of its trade receivables.

*Inventories* 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 consist of the following:

	<b>May 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>	
Raw Materials	\$ 5,098	\$ 5,604
Work In Process	5,463	5,674
Finished Goods		30
	\$ 10,561	\$ 11,308



**Table of Contents****Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Continued)**

*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. Estimated useful lives for significant classes of property, plant and equipment are as follows: Building and improvements 10 to 30 years; machinery and equipment 5 to 8 years.

*Warranty* The Corporation provides the retail purchaser of its manufactured 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.

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

	<b>Year Ended May 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>		
Balance at the beginning of the period	\$ 12,111	\$ 11,700	\$ 11,121
Accruals for warranties	9,689	12,140	12,519
Settlements made during the period	(11,200)	(11,729)	(11,940)
Balance at the end of the period	10,600	12,111	11,700
Non-current balance included in other deferred liabilities	3,300	4,000	4,000
Accrued warranty and related expenses	\$ 7,300	\$ 8,111	\$ 7,700

*Other deferred liabilities* Other deferred liabilities consist of the following:

	<b>May 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>	
Deferred compensation expense	\$ 6,522	\$ 6,299
Accrued warranty and related expenses	3,300	4,000
Other deferred expense	189	200
	\$ 10,011	\$ 10,499

*Income taxes* The federal and state income tax provision (benefit) is summarized as follows:

	<b>Year Ended May 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>		
Current			
Federal	\$ 49	\$ 8,113	\$ 3,124
State	(371)	1,547	560
	(322)	9,660	3,684
Deferred			
Federal	1,086	(523)	(334)
State	42	(114)	(140)
	1,128	(637)	(474)
	\$ 806	\$ 9,023	\$ 3,210

**Table of Contents****Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Continued)**

The difference between the Corporation's statutory federal income tax rate and the effective income tax rate is due primarily to state income taxes as follows:

	<b>Year Ended May 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>		
Income taxes at statutory federal rate	\$ 1,156	\$ 8,160	\$ 2,945
State income taxes, net of federal tax effect	(217)	931	277
New Energy Efficient Home Credit	(176)		
Other, net	43	(68)	(12)
Income tax expense	\$ 806	\$ 9,023	\$ 3,210
Effective tax rate	23.7%	38.7%	37.1%

State income tax benefits are primarily the result of the exclusion, either in whole or in part, of interest income on U.S. Government Securities from taxable income in certain states. In addition, in 2007 the Corporation received favorable rulings on certain state tax positions which resulted in state refunds net of federal taxes of \$144,000.

The components of the net deferred tax assets are as follows:

	<b>May 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Dollars in thousands)</b>	
Current deferred tax assets		
Accrued marketing programs	\$ 594	\$ 740
Accrued warranty expense	2,900	3,194
Accrued workers' compensation	1,417	1,589
Accrued vacation	542	539
Other	(25)	340
Gross current deferred tax assets	5,428	6,402
Noncurrent deferred tax assets		
Liability for certain post-retirement benefits	2,341	2,227
Accrued warranty expense	1,316	1,578
Other	519	422
Gross noncurrent deferred tax assets	4,176	4,227

Total gross deferred tax asset	9,604	10,629
Valuation allowance	(478)	(667)
Net deferred tax asset	\$ 9,126	\$ 9,962

A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The valuation allowance relates to certain state tax assets that the Corporation considers more likely than not to not be realized due to a lack of projected taxable income in certain states. There have been no changes in the judgments regarding the realizability of deferred tax assets during the periods presented.

*Recently issued accounting pronouncements* 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 Incomes Taxes*. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Corporation does not expect any material impact on its consolidated financial statements from the adoption of this Interpretation. The

**Table of Contents****Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Continued)**

Corporation has also determined that the adoption of any other recently issued accounting standard is not expected to have a material impact on its future financial condition or results of operation.

Certain prior period amounts have been reclassified to conform with the current period presentation.

**NOTE 2 Commitments and Contingencies**

The Corporation was contingently liable at May 31, 2007, 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 \$89 million at May 31, 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 Corporation believes that any potential loss under the agreements in effect at May 31, 2007 will not be material.

The amounts of obligations from repurchased units and incurred net losses for the periods presented are as follows:

	<b>Year Ended May 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>		
Number of units repurchased	78	3	
Obligations from units repurchased	\$ 1,244	\$ 109	\$
Net loss on repurchased units	\$	\$	\$

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. Lease expense for fiscal year ended May 31, 2007 was approximately \$1,100,000, fiscal year ended May 31, 2006 was approximately \$1,200,000 while lease expense for the fiscal year ended May 31, 2005 was approximately \$1,100,000. Future minimum lease commitments under operating leases are as follows:

<b>Year Ending May 31,</b>	<b>Amount</b>
	<b>(Dollars in thousands)</b>

2008	\$	785
2009		353
2010		192
2011		114
2012		46
Thereafter		40
	\$	1,530

The Corporation utilizes a combination of insurance coverage and self-insurance for certain items, including workers compensation and group health benefits. Liabilities are recognized for claims incurred, including estimated claims incurred but not yet reported. Insurance reserves are estimated based upon a combination of historical data and actuarial information. Actual results could differ from these estimates.

**Table of Contents**

**Skyline Corporation and Subsidiary Companies**

**Notes to Consolidated Financial Statements (Continued)**

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 2007, 2006 and 2005, the Corporation did not acquire any shares of its common stock. At May 31, 2007, the Corporation had authorization to repurchase an additional 391,300 shares of its common stock.

**NOTE 4 Employee Benefits**

**A) PROFIT SHARING PLANS AND 401 (K) PLANS**

The Corporation has two deferred profit sharing plans (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. Assets of the Plans are invested in United States Government Securities. For the years ended May 31, 2007, 2006 and 2005, contributions to the Plans were \$1,717,000, \$2,653,000 and \$2,454,000, 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 percent in fiscal 2007, 6.5 percent in fiscal 2006 and 5.5 percent in fiscal 2005. The amount accrued for such arrangements totaled \$6,522,000, \$6,299,000 and \$6,235,000 at May 31, 2007, 2006 and 2005, respectively. The amount charged to operations under these arrangements was \$406,000, \$64,000 and \$498,000 for years ended May 31, 2007, 2006 and 2005 respectively.

**NOTE 5 Industry Segment Information**

The Corporation designs, produces and distributes manufactured housing (single section homes, multi-section homes and modular homes) and towable recreational vehicles (travel trailers, fifth wheels and park models). In fiscal year 2007, manufactured housing represented 75 percent of total sales, while recreational vehicles accounted for the remaining 25 percent. In fiscal years 2006 and 2005, 74 percent of total sales were represented by manufactured housing, while the remaining 26 percent was recreational vehicles.

Total operating earnings (loss) represent earnings (losses) 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. General corporate expenses are not allocated to the industry segments.



**Table of Contents****Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Continued)**

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.

	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>		
<b>SALES</b>			
Manufactured housing	\$ 272,383	\$ 376,405	\$ 335,394
Recreational vehicles	93,090	132,138	118,930
Total sales	\$ 365,473	\$ 508,543	\$ 454,324
<b>EARNINGS BEFORE INCOME TAXES</b>			
Operating earnings (loss)			
Manufactured housing	\$ 4,276	\$ 20,589	\$ 12,296
Recreational vehicles	(4,154)	372	(2,547)
General corporate expenses	(2,535)	(3,047)	(3,561)
Total operating (loss) earnings	(2,413)	17,914	6,188
Interest income	5,812	4,937	2,474
Gain on sale of idle property, plant and equipment		464	
Earnings before income taxes	\$ 3,399	\$ 23,315	\$ 8,662
<b>IDENTIFIABLE ASSETS</b>			
Operating assets			
Manufactured housing	\$ 77,330	\$ 80,465	\$ 77,096
Recreational vehicles	21,746	25,226	23,222
Total operating assets	99,076	105,691	100,318
U.S. Treasury bills and notes	115,864	142,712	137,119
Total assets	\$ 214,940	\$ 248,403	\$ 237,437
<b>DEPRECIATION</b>			
Manufactured housing	\$ 2,525	\$ 2,509	\$ 2,724
Recreational vehicles	623	645	665
Total depreciation	\$ 3,148	\$ 3,154	\$ 3,389
<b>CAPITAL EXPENDITURES</b>			
Manufactured housing	\$ 4,409	\$ 2,209	\$ 1,354
Recreational vehicles	559	276	1,002

Total capital expenditures	\$	4,968	\$	2,485	\$	2,356
----------------------------	----	-------	----	-------	----	-------

**NOTE 6 Staff Accounting Bulletin No. 108**

In September 2006, the Securities Exchange Commission, SEC, issued Staff Accounting Bulletin No. 108 ( SAB No. 108 ) Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. This bulletin provides guidance on quantifying the impact of the carryover or reversal of prior year misstatements on the current year financial statements. Two widely recognized approaches are used for quantifying the effects of financial statement misstatements: the rollover approach and the iron curtain approach. The rollover approach quantifies a misstatement based on the amount of the error originating in the

**Table of Contents****Skyline Corporation and Subsidiary Companies****Notes to Consolidated Financial Statements (Continued)**

current year income statement. The iron curtain approach quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement's year of origination.

The SEC staff believes that registrants should quantify errors using both the rollover approach and the iron curtain approach, and evaluate whether either method results in a misstatement that, when considering all relevant quantitative and qualitative factors, is material. In initially applying SAB No. 108, registrants are permitted to report the cumulative effect of misstatements in the opening balance of retained earnings for the current year.

The Corporation has historically used the rollover approach when quantifying and evaluating uncorrected misstatements. In accordance with SAB No. 108, the Corporation recorded an increase in deferred tax assets and an increase in retained earnings in the amount of \$292,000, net of tax, as of June 1, 2006. This adjustment resulted from the Corporation not recording certain deferred tax assets, which was deemed immaterial to the financial statements in each respective period. This misstatement decreased net income in the years reported, and originated prior to the fiscal year ended in 2005.

**Financial Summary by Quarter**

	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>	<b>Year</b>
	<b>(Dollars in thousands, except per share data)</b>				
<b>2007</b>					
Sales	\$ 115,806	\$ 94,786	\$ 66,345	\$ 88,536	\$ 365,473
Gross profit	13,056	10,309	4,341	10,253	37,959
Net earnings (loss)	1,896	625	(2,175)	2,247	2,593
Basic earnings (loss) per share	.23	.07	(.26)	.27	.31
	<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>	<b>Year</b>
	<b>(Dollars in thousands, except per share data)</b>				
<b>2006</b>					
Sales	\$ 118,346	\$ 136,487	\$ 117,491	\$ 136,219	\$ 508,543
Gross profit	13,704	17,828	13,961	18,364	63,857
Net earnings	2,344	4,505	2,290	5,153	14,292
Basic earnings per share	.28	.54	.27	.61	1.70

**Table of Contents**

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

Information regarding the Corporation's change in Independent Registered Public Accounting Firms is found in the Form 8-K filed with the Securities and Exchange Commission on September 29, 2005.

**Item 9A. *Controls and Procedures.***

**Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures**

As of May 31, 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 May 31, 2007.

**Management's Report on Internal Control over Financial Reporting**

Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Corporation's internal control over financial reporting includes policies and procedures that: pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Corporation's assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Corporation's receipts and expenditures are being made only in accordance with authorizations of management and directors; provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Corporation has assessed the effectiveness of the Corporation's internal control over financial reporting based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's assessment included an evaluation of the design of the Corporation's internal control over financial reporting, and testing of the operational effectiveness of the Corporation's internal control over financial reporting. Based on this assessment, management has concluded that the Corporation's internal control over financial reporting was effective as of May 31, 2007.

Crowe Chizek and Company LLC, the independent registered public accounting firm that audited the Corporation's fiscal 2007 financial statements included in this Annual Report on Form 10-K, has also audited management's assessment of the effectiveness of the Corporation's internal control over financial reporting and the effectiveness of

the Corporation's internal control over financial reporting as of May 31, 2007, and their report thereon is included in Item 8.

**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 fiscal quarter ended May 31, 2007 that materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**Table of Contents****Chief Executive Officer and Chief Financial Officer Certifications**

The Corporation's Chief Executive Officer and Chief Financial Officer have filed with the Securities and Exchange Commission the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to the Corporation's Annual Report on Form 10-K for the fiscal year ended May 31, 2007. In addition, on September 22, 2006 the Corporation's Chief Executive Officer certified to the New York Stock Exchange (NYSE) that he was not aware of any violation by the Corporation of the NYSE corporate governance listing standards as in effect on September 22, 2006. The foregoing certification was unqualified.

**Item 9B. Other Information.**

None

**PART III****Item 10. Directors, Executive Officers and Corporate Governance (Officers are elected annually.)**

<b>Name</b>	<b>Age</b>	<b>Position</b>
Thomas G. Deranek	71	Vice Chairman and Chief Executive Officer
Charles W. Chambliss	57	Vice President-Product Development and Engineering
Terrence M. Decio	55	Vice President-Marketing and Sales
Christopher R. Leader	48	Vice President-Operations
Bruce G. Page	57	Vice President-Operations
Jon S. Pilarski	44	Corporate Controller
James R. Weigand	52	Vice President-Finance, Treasurer, Chief Financial Officer and Secretary

*Thomas G. Deranek*, Vice Chairman and Chief Executive Officer, joined the Corporation in 1964. He served as Chief of Staff from 1991 to 2001 and was elected Vice Chairman and Chief Executive Officer in September 2001.

*Charles W. Chambliss*, Vice President-Product Development and Engineering, joined the Corporation in 1973 and was elected Vice President in 1996.

*Terrence M. Decio*, Vice President-Marketing and Sales, joined the Corporation in 1973. He was elected Vice President in 1985, Senior Vice President in 1991, Senior Executive Vice President in 1993 and Vice President-Marketing and Sales in 2004.

*Christopher R. Leader*, Vice President-Operations, joined the Corporation in January 1997 and was elected Vice President in September 1997.

*Bruce G. Page*, Vice President-Operations, joined the Corporation in October 1969 and was elected Vice President-Operations in 2006. He previously served as Director of Operations from 2005 to 2006. Prior to 2005 he was the General Manager of the Corporation's manufactured housing facility in McMinnville, Oregon.

*Jon S. Pilarski*, Corporate Controller, joined the Corporation in 1994 and was elected Corporate Controller in 1997.

*James R. Weigand*, Vice President-Finance, Treasurer, Chief Financial Officer and Secretary, joined the Corporation in 1991 as Controller. He was elected an officer in 1994, Vice President-Finance & Treasurer and Chief Financial Officer in 1997 and Secretary in 2004.

Information regarding the Corporation's directors, and other information required by this Item 10 is available in the following sections of the Corporation's Proxy Statement: Election of Directors ; Code of Ethics ; and Section 16(a) Beneficial Ownership Reporting Compliance. The Proxy Statement for the Annual Meeting of Shareholders to be held on September 20, 2007 is incorporated herein by reference.

**Table of Contents**

**Item 11. *Executive Compensation.***

Information regarding executive compensation is available in the following sections of the Corporation's Proxy Statement: Compensation, Discussion and Analysis ; Compensation Committee Interlocks and Insider Participation ; and Report of the Compensation Committee on Executive Compensation. The Proxy Statement for the Annual Meeting of Shareholders to be held on September 20, 2007 is incorporated herein by reference.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

Information regarding certain beneficial owners is available in the Certain Other Beneficial Owners section of the Corporation's Proxy Statement. The Proxy Statement for the Annual Meeting of Shareholders to be held on September 20, 2007 is incorporated herein by reference.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

Information regarding related party transactions and director independence is available in the following sections of the Corporation's Proxy Statement: Transactions with Management and Director Independence and Executive Sessions. The Proxy Statement for the Annual Meeting of Shareholders to be held on September 20, 2007 is incorporated herein by reference.

**Item 14. *Principal Accounting Fees and Services.***

Information regarding accounting fees and services is located in the Audit Fees, Audit Related Fees, Tax Fees and Other Fees sections of the Corporation's Proxy Statement. The Proxy Statement for the Annual Meeting of Shareholders to be held on September 20, 2007 is incorporated herein by reference.

**PART IV**

**Item 15. *Exhibits, Financial Statement Schedules.***

(a)(1) *Financial Statements*

Financial statements for the Corporation are listed in the index under Item 8 of this document.

(a)(2) *Financial Statement Schedules*

All financial statement schedules are omitted because they are not applicable, not material or the required information is shown in the financial statements or notes thereto.

(a)(3) *Index to Exhibits*

Exhibits (Numbered according to Item 601 of Regulation S-K, Exhibit Table)

- (3)(i) Articles of Incorporation
- (3)(ii) By-Laws
- (14) Code of Ethics



- (21) Subsidiaries of the Registrant
  - (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
-

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) 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  
Registrant

BY: /s/ Thomas G. Deranek

Thomas G. Deranek, Vice Chairman,  
Chief Executive Officer and Director

DATE: July 25, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

BY:	Vice President-Finance, Treasurer, Chief	July 25, 2007
/s/ James R. Weigand	Financial Officer and Secretary	

James R. Weigand

BY:	Corporate Controller	July 25, 2007
/s/ Jon S. Pilarski		

Jon S. Pilarski

BY:	Director, Chairman of the Board, serving in a	July 25, 2007
/s/ Arthur J. Decio	non-executive officer capacity	

Arthur J. Decio

BY:	Director	July 25, 2007
/s/ John C. Firth		

John C. Firth

BY:	Director	July 25, 2007
/s/ Jerry Hammes		

Jerry Hammes

BY:	Director	July 25, 2007
/s/ Ronald F. Kloska		

Ronald F. Kloska

BY: Director July 25, 2007  
/s/ William H. Lawson

William H. Lawson

BY: Director July 25, 2007  
/s/ David T. Link

David T. Link

BY: Director July 25, 2007  
/s/ Andrew J. McKenna

Andrew J. McKenna