

ADCARE HEALTH SYSTEMS INC
 Form 4
 October 01, 2008

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
 BROGDON CONNIE B

2. Issuer Name and Ticker or Trading Symbol
 ADCARE HEALTH SYSTEMS INC
 [ADK]

5. Relationship of Reporting Person(s) to Issuer
 (Check all applicable)

(Last) (First) (Middle)
 593 ATLANTA STREET
 (Street)

3. Date of Earliest Transaction
 (Month/Day/Year)
 09/30/2008

____ Director
 ____ Officer (give title below)
 ___X___ 10% Owner
 ____ Other (specify below)

ROSWELL, GA 30075
 (City) (State) (Zip)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 ___X___ Form filed by One Reporting Person
 ____ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Common Stock	09/30/2008		P		4,160	A	\$ 1.85
					166,131		

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
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Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BROGDON CONNIE B 593 ATLANTA STREET ROSWELL, GA 30075		X		

Signatures

/s/ Connie B.
Brogdon

10/01/2008

**Signature of Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. = "font-family:Times New Roman" SIZE="2">**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. Mine Safety Disclosures.
Not applicable.

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Item 4.5 *Executive Officers of the Registrant.*

Pursuant to General Instruction G.(3) of Form 10-K, the following information is included as an unnumbered item in this Part I in lieu of being included in the Corporation's Proxy Statement for the 2015 Annual Meeting of Shareholders:

The executive officers of the Corporation are as follows:

Name	Age	Position
Richard W. Florea	52	President and Chief Executive Officer
Terrence M. Decio	63	Vice President, Marketing and Sales
Martin R. Fransted	63	Corporate Controller and Secretary
Jon S. Pilarski	52	Vice President, Finance & Treasurer, Chief Financial Officer
Robert C. Davis	50	Vice President, Operations

Richard W. Florea, President and Chief Executive Officer, was appointed as President and Chief Executive Officer of Skyline effective July 27, 2015. Prior to joining Skyline Mr. Florea served as President and Chief Operating Officer for Truck Accessories Group, LLC, a producer of fiberglass caps and tonneaus for light and mid-sized trucks. From 1998 through 2009, he was President and Chief Operating Officer of Dutchmen Manufacturing, Inc., a maker of travel trailers. Mr. Florea was a division sales manager for Skyline from 1994 to 1998.

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.

Martin R. Fransted, Corporate Controller and Secretary, joined the Corporation in 1981 and was elected Corporate Controller and Secretary in 2007.

Jon S. Pilarski, Vice President, Finance & Treasurer, Chief Financial Officer, joined the Corporation in 1994. He served as Corporate Controller from 1997 to 2007 and was elected Vice President in 2007.

Robert C. Davis, Vice President, Operations, joined the Corporation in 1999. He worked in Corporate Operations from 2009 to 2010, served as Corporate Operations Manager and Senior Operations Manager from 2010 to 2012, and Director of Operations from 2012 to 2013. He was elected Vice President in 2013.

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 NYSE MKT LLC. At May 31, 2015, there were 662 shareholders of record of Skyline Corporation common stock. The following table sets forth the high and low sales prices for the Corporation's common stock for each full quarterly period within the fiscal years ended May 31, 2015 and 2014.

	Common Stock Price Range			
	2015		2014	
	High	Low	High	Low
First quarter	\$ 4.79	\$ 3.20	\$ 5.31	\$ 3.76
Second quarter	\$ 4.17	\$ 2.50	\$ 5.25	\$ 4.26
Third quarter	\$ 4.30	\$ 3.30	\$ 6.70	\$ 4.56
Fourth quarter	\$ 3.91	\$ 3.14	\$ 6.44	\$ 4.50

Skyline has not paid any cash dividends on its common stock over the past two fiscal years. Skyline presently intends to retain future earnings, if any, for use in the operation of the business and does not anticipate paying any cash dividends in the foreseeable future.

As of May 31, 2015, Skyline had no compensation plans under which equity securities of the Company were authorized for issuance.

The name, address and phone number of the Corporation's stock transfer agent and registrar is:

Computershare Trust Company, N.A.

P. O. Box 30170

College Station, TX 77842

(312) 588-4237

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**Overview**

The Corporation designs, produces and markets manufactured housing, modular housing and park models to independent dealers and manufactured housing communities located throughout the United States and Canada. To better serve the needs of its dealers and communities, the Corporation has nine manufacturing facilities in eight states. Manufactured housing, modular housing and park models are sold to dealers and communities either through floor plan financing with various financial institutions or on a cash basis. While the Corporation maintains production of manufactured housing, modular homes and park models throughout the year, seasonal fluctuations in sales do occur.

Manufactured Housing, Modular Housing and Park Model Industry Conditions

Sales and production of manufactured housing and modular housing are affected by winter weather conditions at the Corporation's northern plants. Park model sales are generally higher in the spring and summer months than in the fall and winter months. Manufactured and modular housing are marketed under a number of trademarks, and are available in a variety of dimensions. Park models are marketed under the following

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trademarks: Kensington ; Shore Park ; Stone Harbor ; and Vacation Villa . Manufactured housing products are built according to standards established by the U.S. Department of Housing and Urban Development. Modular homes are built according to state, provincial or local building codes. Park models are built according to specifications established by the American National Standards Institute, and are intended to provide temporary living accommodations for individuals seeking leisure travel and outdoor recreation.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Manufactured Housing, Modular Housing and Park Model Industry Conditions (Continued)**

Sales of manufactured housing, modular housing and park models are affected by the strength of the U.S. economy, interest rate and employment levels, consumer confidence and the availability of wholesale and retail financing. Recent trends regarding calendar year unit shipments of the Corporation's products and their respective industries are as follows:

Manufactured Housing	2010	2011	2012	2013	2014
Industry	50,066	51,606	54,901	60,210	64,331
Percentage Increase (Decrease)		3%	6%	10%	7%
Skyline	1,894	1,880	1,848	2,205	2,678
Percentage Increase (Decrease)		(1%)	(2%)	19%	21%
Modular Housing					
*Industry	12,928	12,202	13,290	14,020	13,856
Percentage Increase (Decrease)		(6%)	9%	5%	(1%)
**Skyline	250	347	382	350	477
Percentage Increase (Decrease)		39%	10%	(8%)	36%

* Domestic shipment only. Canadian industry shipments not available.

** Includes domestic and Canadian unit shipments

Park Models	2010	2011	2012	2013	2014
Industry	3,486	2,761	2,780	3,598	3,781
Percentage Increase (Decrease)		(21%)	1%	29%	5%
Skyline	129	170	138	171	307
Percentage Increase (Decrease)		32%	(19%)	24%	80%

Discontinued Operations

During September 2014, the Corporation made a strategic decision to exit the recreational vehicle industry in order to focus on its core housing business. As a result, on October 7, 2014 (Closing Date), the Corporation completed the sale of certain assets associated with its recreational vehicle segment (the Transaction) to Evergreen Recreational Vehicles, LLC (ERV). The Transaction was completed pursuant to the terms of an Asset Purchase Agreement entered into between the Corporation and ERV on the Closing Date, as well as the terms of a Real Property Purchase Agreement entered into on that same date between the Corporation and an affiliate of ERV, Skyline RE Holding LLC (which, collectively with ERV, is referred to herein as Evergreen).

The assets of the recreational vehicle segment disposed of in the Transaction included, but were not are limited to:

A recreational vehicle manufacturing facility consisting of approximately 135,000 square feet situated on 18.2 acres located in Bristol, Indiana;

Intellectual properties such as trademarks, licenses, and product designs associated with the recreational vehicle segment;

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Furniture, machinery, software, and equipment;

Raw material and work-in-process inventories;

Product designs, plans, and specifications; and

Customer purchase orders and contracts, customer lists, and supplier lists.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Discontinued Operations (Continued)**

The amount and nature of the consideration received by the Corporation for the assets sold included:

A cash payment of \$175,000;

A separate cash payment of approximately \$806,000, less prorated property taxes of approximately \$73,000 and selling expenses of approximately \$2,000, for the Bristol, Indiana manufacturing facility; and

Evergreen had the right, but not the obligation, to purchase the raw material inventory at 50 percent of the Corporation's cost of approximately \$1,600,000, which they have exercised as described below. Consequently, the Corporation incurred an approximate \$910,000 charge in the second and fourth quarters reflecting the reduction in value of the inventory plus inventory that will not be used by Evergreen. Through May 31, 2015, the Corporation received approximately \$681,000 for inventory used by Evergreen. Subsequent to May 31, the Corporation received final payment for the inventory.

In addition, under the Asset Purchase Agreement, Evergreen did not assume or agree to pay, perform, or discharge any of the Corporation's liabilities or obligations, which remained the liabilities and obligations of the Corporation.

The Bristol facility, and assets other than raw material and finished goods inventories, was sold at approximately net book value.

The following table summarizes the results of discontinued operations:

	Year Ended May 31,	
	2015	2014
	(Dollars in thousands)	
Net Sales	\$ 9,676	\$ 38,651
Operating loss of discontinued operations	\$ (5,986)	\$ (4,557)
Loss on disposal of discontinued operations	(240)	
Loss before income taxes	(6,226)	(4,557)
Income tax benefit		
Loss from discontinued operations, net of taxes	\$ (6,226)	\$ (4,557)

Loss on disposal of discontinued operations consisted of a \$910,000 charge associated with the reduction in value of raw material inventory, less a gain of approximately \$670,000 resulting from the sale of two idle recreational vehicle manufacturing facilities in Elkhart, Indiana to Forest River Manufacturing, LLC.

The Corporation's park model business, which was formerly reported in the recreational vehicle segment, was not disposed as part of the transaction with Evergreen and is now reported in the housing segment because net sales do not warrant separate segment reporting.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Discontinued Operations (Continued)**

The following is a summary of assets and liabilities of discontinued operations at:

	May 31, 2015	May 31, 2014
	(Dollars in thousands)	
Current Assets:		
Accounts receivable	\$ 30	\$ 4,770
Inventories	110	2,703
	\$ 140	\$ 7,473
Property, Plant and Equipment:		
Property, plant and equipment, at cost	\$	\$ 9,812
Less accumulated depreciation		7,901
	\$	\$ 1,911
Current Liabilities:		
Accounts payable, trade	\$ 8	\$ 2,089
Accrued salaries and wages		419
Accrued marketing programs	37	330
Other accrued liabilities	59	186
	\$ 104	\$ 3,024

In accordance with the Asset Purchase Agreement the Corporation is responsible for the payment of product warranty claims associated with recreational vehicles sold by the Corporation. Consequently, this obligation is not included in the liabilities of discontinued operations on the Consolidated Balance Sheets at May 31, 2015 and 2014.

Fiscal 2015 Results

The Corporation experienced the following results during fiscal 2015:

Net sales from continuing operations were \$186,985,000, an approximate 22 percent increase from the \$153,080,000 reported in the same period a year ago.

Loss from continuing operations for fiscal 2015 was \$4,188,000 as compared to a net loss of \$7,307,000 for the same period a year ago.

Loss from discontinued operations, net of incomes taxes, was \$6,226,000 for fiscal 2015 as compared to \$4,557,000 for the same period a year ago.

Net loss for fiscal 2015 was \$10,414,000 as compared to \$11,864,000 for fiscal 2014. On a per share basis, net loss was \$1.24 as compared to \$1.41 for the comparable period a year ago.

An idle housing facility located in Ocala, Florida was sold for a gain of \$243,000.

Life insurance policy loans of approximately \$2,022,000 were repaid.

The Corporation experienced increased net sales from continuing operations in fiscal 2015 as compared to fiscal 2014, and management cannot determine with certainty if this trend will continue. This uncertainty is based on potential adverse changes in economic growth, interest rate and employment levels, and consumer confidence.

Secured Revolving Credit Facility

On March 20, 2015, the Corporation (Borrower(s)) entered into a Loan and Security Agreement (the Loan Agreement) with First Business Capital Corp. (First Business Capital). Under the Loan Agreement, First Business Capital will provide a secured revolving credit facility to the Borrowers for a term of three years, renewable on an annual basis thereafter with each renewal for a successive one-year term. The Borrowers may obtain loan advances up to a maximum of \$10,000,000 subject to certain collateral-obligation ratios.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Secured Revolving Credit Facility (Continued)**

In addition, loan advances bear interest at 3.75% in excess of *The Wall Street Journal's* published one year LIBOR rate, and are secured by substantially all of the Borrowers' assets, now owned or hereafter acquired. Interest is payable monthly, in arrears, and all principal and accrued but unpaid interest is due and payable upon termination of the Loan Agreement.

Also under the Loan Agreement, First Business Capital agreed to issue, or cause to be issued by a bank affiliate or other bank, letters of credit for the account of the Borrowers. However, no advances have yet been made in connection with such letters of credit.

As part of the financing, the Corporation paid First Business Capital a facility fee of \$150,000 at closing, and also agreed to pay the following fees to First Business Capital during the term of the facility: (i) annual facility fees of \$50,000; (ii) an unused line fee payable in arrears at the rate of 0.25% per annum on the average daily unused amount of the facility during the prior calendar month; (iii) monthly bank assessment fees equal to 0.25% per annum of the maximum loan amount; (iv) certain overadvance fees (currently \$1,000 per day) in the event outstanding obligations and letter of credit liabilities under the facility exceeds the amount permitted under the Loan Agreement; and (v) monthly letter of credit fees payable in arrears at the rate of 0.25% on the outstanding amount of letters of credit issued and outstanding during the prior month.

The Loan Agreement contains covenants that limit the ability of the Borrowers to, among other things: (i) incur or guarantee other indebtedness; (ii) create or incur liens, mortgages, or security interests on their assets; (iii) expend more than \$600,000 per year for the lease, purchase, or acquisition of any asset; (iv) consummate asset sales, acquisitions, or mergers; (v) pay dividends or repurchase stock; (vi) make certain investments; (vii) enter into certain transactions with affiliates; and (viii) amend a Borrower's articles of incorporation or bylaws.

The Loan Agreement also requires compliance with certain financial covenants (in each case calculated as set forth in the Loan Agreement), including: (i) minimum net worth; (ii) minimum net earnings; and (iii) maximum net loss.

If the Borrowers default in their obligations under the Loan Agreement, then the unpaid balances under the facility will bear interest at 3.0% per annum in excess of the rate that would apply in the absence of a default. Other remedies available to First Business Capital upon an event of default include the right to accelerate the maturity of all obligations, the right to foreclose on and otherwise repossess the collateral securing the obligations, all rights of a secured creditor under applicable law, and all other rights set forth in the Loan Agreement.

The events of default under the Loan Agreement include the following: (i) certain events of bankruptcy and insolvency; (ii) failure to make required payments; (iii) misrepresentations to First Business Capital; (iv) failure to comply with certain covenants and agreements; (v) termination or default under guarantees or subordination agreements; (vi) certain cross-default events; (vii) changes in control involving the Borrowers; (viii) certain injunctions or attachments are issued against a Borrower's assets or restricting its business; and (ix) a material adverse change occurs with respect to the Borrowers.

The foregoing description of the Loan Agreement is a summary, does not purport to be complete, and is qualified in its entirety by reference to the full text of the Loan Agreement and various other loan documents, copies of which are attached as exhibits to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 2015 and are incorporated by reference herein.

Management's Plan

The Corporation's consolidated financial statements were prepared on a going concern basis, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business. Due to recurring losses, the Corporation experienced negative cash flows from operating activities. The level of

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Management's Plan (Continued)**

historical negative cash flows from operations raise substantial doubt about the Corporation's ability to continue as a going concern. To continue as a going concern, management determined that certain strategies need to be pursued to raise capital, increase sales and decrease costs. These strategies include but are not limited to:

Divest Non-Core Assets: Management is focused on driving profitable growth in the Corporation's core housing business.

Progress:

In October 2014, the Corporation sold its recreational vehicle segment to focus solely on its core housing business and to raise cash. Additional information regarding the sale is in Note 2 of Notes to Consolidated Financial Statements.

In addition to the sale of the RV business, the Corporation sold an idle housing facility in fiscal 2015 and two idle housing facilities and one undeveloped parcel of land in fiscal 2014. A buyer is also being sought for an undeveloped parcel of land the Corporation owns.

Increase Sales:

Working to increase sales to manufactured housing dealers by gaining a greater presence on the properties of manufactured housing dealers and manufactured housing communities.

Continuing to work with manufactured housing communities to identify opportunities for increasing sales.

Increasing sales of modular homes and park models by cultivating relationships with modular housing developers and campground owners that are outside the Corporation's historical distribution channels.

Establishing additional distribution channels and forging new strategic relationships.

Progress:

Manufactured housing net sales in fiscal 2015 increased 23 percent compared to fiscal 2014. One factor for the increase was due to increased sales to manufactured housing dealers. Another factor was the Mansfield facility having twelve months of sales in fiscal 2015 versus four months in fiscal 2014. Finally, in fiscal 2015 manufactured housing sales to the Corporation's six largest communities increased approximately 24 percent compared to fiscal 2014.

Park model net sales increased approximately 103 percent compared with fiscal 2014. Included in this increase was a 119 percent increase in sales to the Corporation's six largest communities.

Modular housing net sales for fiscal 2015 decreased approximately 5 percent as compared to fiscal 2014. As referenced in Net Sales and Unit Shipments, prior year net sales included \$3,900,000 from a contract with National Community Renaissance of California that was outside the Corporation's normal business model. The Corporation does not plan on performing this type of contract in the foreseeable future. When the effect of this contract is excluded from prior year net sales, fiscal 2015 net modular sales increased approximately 12 percent.

During the second quarter, the Corporation established a relationship with a manufactured housing retailer that specializes in internet-based marketing and provides factory tours to potential customers. This retailer operates retail sales centers located at four of the Corporation's housing

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facilities. This relationship is expected to help drive additional sales by more fully exploiting this increasingly important distribution channel for the Corporation's products. This initiative began generating sales to four locations in the third and fourth quarters.

Decrease Costs: Skyline continues to streamline costs with a focus on maximizing efficiencies and resources.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Management's Plan (Continued)**Progress:

The Corporation's Purchasing Department has obtained significant price concessions from certain suppliers. In addition, management has continued to analyze staffing needs and make reductions when considered appropriate. In connection with the sale of the RV business and in determining staffing needs for fiscal 2016, the Corporation identified and implemented reductions in corporate personnel who received compensation of approximately \$630,000 in fiscal 2015.

Raise Additional Capital:Progress:

On March 20, 2015, the Corporation entered into a Loan and Security Agreement with First Business Capital Corp. providing for a renewable three-year secured revolving credit facility. Under the new credit facility, the Company may obtain loan advances up to a maximum of \$10 million, subject to certain collateral-obligation ratios.

Outstanding loan advances under the facility will bear interest at 3.75% in excess of *The Wall Street Journal's* published one year LIBOR rate. The facility will be used to support the Company's working capital needs and other general corporate purposes, and is secured by substantially all of the Company's and its subsidiaries' assets. Additional information regarding the revolving credit facility is described in "Secured Revolving Credit Facility" above. Subsequent to May 31, 2015, the Corporation on two occasions did not meet a covenant requiring a monthly loss not exceeding \$500,000. In addition, at least one monthly loss exceeding \$500,000 is projected during the third fiscal quarter of fiscal 2016; a period where net sales are at its lowest for the year. The inability to meet the aforementioned covenants represents an event of default, which if not cured or waived could negatively affect the Corporation's ability to obtain financing under the facility and thereby have an adverse effect on liquidity. The Corporation has requested a waiver of the existing covenant defaults together with a modification of this covenant.

Management believes that it will be able to execute their strategies as noted above. Management is prepared to modify these strategies as appropriate to meet prevailing business and market conditions.

Results of Operations Fiscal 2015 Compared to Fiscal 2014Net Sales and Unit Shipments

	2015	Percent	2014	Percent	Increase (Decrease)
	(Dollars in thousands)				
Net Sales					
Manufactured Housing	\$ 148,674	79	\$ 120,830	79	\$ 27,844
Modular Housing	23,697	13	25,034	16	(1,337)
Park Models	14,614	8	7,216	5	7,398
Total Net Sales	\$ 186,985	100	\$ 153,080	100	\$ 33,905
Unit Shipments					
Manufactured Housing	2,691	79	2,434	78	257
Modular Housing	344	10	457	15	(113)
Park Models	391	11	231	7	160
Total Unit Shipments	3,426	100	3,122	100	304

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Net sales increased approximately 22 percent. The increase was comprised of a 23 percent increase in manufactured housing net sales, a 5 percent decrease in modular housing net sales, and a 103 percent increase in

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Results of Operations Fiscal 2015 Compared to Fiscal 2014 (Continued)****Net Sales and Unit Shipments (Continued)**

park model net sales. Current year manufactured housing net sales includes approximately \$4,817,000 of first and second quarters net sales attributable to the facility located in Mansfield, Texas. This facility commenced housing operations in the third quarter of fiscal 2014. Prior year modular housing net sales includes \$3,900,000 from a contract with National Community Renaissance of California to provide 127 modular housing units that were assembled into two multi-story apartment buildings. The contract was outside the Corporation's normal business model of producing and selling single family manufactured and modular housing for dealers and communities. The Corporation does not plan on performing this type of contract in the foreseeable future.

For fiscal 2015, the percentage increase or decrease in unit shipments from the comparable period last year are as follows:

	Skyline	Industry
Manufactured Housing	11%	8%
Modular Housing	(25%)	Not available
Park Models	69%	2%
Total	10%	Not applicable

Compared to prior year, the average net sales price for manufactured housing, modular housing and park models increased approximately 11 percent, 26 percent and 20 percent, respectively. The increase primarily results from the sale of homes and park models with larger square footage and greater amenities.

Cost of Sales

	2015	Percent of Net Sales	2014	Percent of Net Sales	Increase
			(Dollars in Thousands)		
Cost of Sales	\$ 169,891	91	\$ 142,011	93	\$ 27,880

Cost of sales, in dollars, increased as a result of increased net sales. Included in current year cost of sales is approximately \$5,047,000 of first and second quarter costs attributable to the Mansfield, Texas facility, which was not fully operational as a housing facility a year ago. As previously referenced, housing operations commenced in the third quarter of fiscal 2014. As a percentage of net sales, cost of sales decreased due to improvements in both material cost and direct labor.

Selling and Administrative Expenses

	2015	Percent of Net Sales	2014	Percent of Net Sales	Increase
			(Dollars in thousands)		
Selling and administrative expenses	\$ 21,194	11	\$ 19,111	12	\$ 2,083

Selling and administrative expenses, increased primarily as a result of the following:

The Mansfield, Texas facility incurred approximately \$472,000 in expenses in the first six months of fiscal 2015 as compared to \$143,000 for the same period a year ago.

Approximately \$248,000 in costs were incurred associated with the Special Committee of the Board of Directors tasked to evaluate strategic initiatives.

Sales-based incentive compensation increased approximately \$487,000.

Marketing programs increased approximately \$184,000.

The establishment of a \$536,000 allowance for doubtful accounts in fiscal 2015.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Selling and Administrative Expenses (Continued)**

The prior year included a \$250,000 decrease in the expense related to the Corporation's liability for retirement and death benefits offered to certain current and former employees as a result of a change in the interest rate used in valuing the liability.

As a percentage of net sales, selling and administrative expenses declined due to certain costs remaining fixed amid rising sales.

Gain on Sale of Idle Property, Plant and Equipment

In the fourth quarter of fiscal 2015, an idle housing facility located in Ocala, Florida was sold for a gain of \$243,000. During the second quarter of fiscal 2014, the Corporation sold an idle housing facility located in Fair Haven, Vermont for a gain of \$162,000. In the third quarter of fiscal 2014, an idle housing facility located in Halstead, Kansas was sold for a gain of \$300,000. In the fourth quarter of fiscal 2014, undeveloped land located in Elkhart, Indiana was sold for a gain of \$244,000.

Interest Expense

Interest expense of \$368,000 and \$71,000 for fiscal 2015 and 2014, respectively, related to interest on life insurance policy loans. In fiscal 2015, the Corporation incurred \$13,000 of amortization of debt financing costs associated with the secured revolving credit facility.

Interest Income

Interest income of \$50,000 and \$100,000 for fiscal 2015 and 2014, respectively, consisted of interest received from the Corporation's Note receivable.

Liquidity and Capital Resources

	May 31,		Increase (Decrease)
	2015	2014	
	(Dollars in thousands)		
Cash	\$ 4,995	\$ 6,031	\$ (1,036)
Current assets, exclusive of cash	\$ 26,586	\$ 35,639	\$ (9,053)
Current liabilities	\$ 15,117	\$ 18,247	\$ (3,130)
Working capital	\$ 16,464	\$ 23,423	\$ (6,959)

As noted in the Consolidated Statements of Cash Flows, cash decreased primarily due to net cash usage of \$6,591,000 for operating and financing activities offset by net cash provided by investing activities of \$5,555,000. Current assets, exclusive of cash, decreased mainly due to a \$7,333,000 decrease in assets of discontinued operations, a \$956,000 decrease in workers' compensation security deposit, and a \$1,000,000 decrease in accounts receivable. Assets of discontinued operations declined as a result of the Corporation's sale of its recreational vehicle segment. Workers' compensation security deposit decreased due to the utilization of a portion of the deposit to pay fiscal 2015 workers' compensation insurance policy. Accounts receivable declined as a result of the establishment of an allowance for doubtful accounts, and timing of payments from dealers and communities at May 31, 2015 as compared to May 31, 2014.

Current liabilities decreased due to the following factors:

Liabilities of discontinued operations decreased \$2,920,000 resulting from the Corporation's sale of its recreational vehicle segment.

Other accrued liabilities decreased primarily as a result of fulfilling \$718,000 of certain obligations under the Corporation's contract with National Community Renaissance of California.

Accrued warranty and related expenses increased \$814,000 resulting in part from increased unit sales.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Liquidity and Capital Resources (Continued)**

Capital expenditures totaled \$473,000 for fiscal 2015 as compared to \$753,000 for fiscal 2014. Approximately \$568,000 of prior year expenditures was attributable to the renovation of the Mansfield, Texas facility to accommodate housing production.

Certain key cash flow metrics related to discontinued operations for fiscal 2015 are set forth below (in thousands):

Loss from discontinued operations, net of income taxes	\$ (6,226)
Depreciation	\$ 67
Reduction in value of raw material inventory	\$ 910
Gain on sale of property, plant and equipment	\$ (670)

With the sale of the recreational vehicle segment, the Corporation anticipates that cash needs associated with this discontinued operation will significantly decrease in future periods since it will not be funding significant operating losses. As previously referenced, the Corporation has current assets of discontinued operations of \$140,000, current liabilities of discontinued operations of \$104,000, and an estimated \$642,000 of current warranty obligations associated with the recreational vehicle segment that is reported in continuing obligations.

As noted in the Management's Plan section of Item 7, the Corporation is aggressively pursuing strategies in order to increase sales and decrease costs. Management believes that it will be able to execute their strategies as noted above. Management is prepared to modify these strategies as appropriate to meet prevailing business and market conditions. The Management Plan also references a secured revolving credit facility that the Corporation entered during fiscal 2015. Subsequent to May 31, 2015, the Corporation on two occasions did not meet a covenant requiring a monthly loss not exceeding \$500,000. In addition, at least one monthly loss exceeding \$500,000 is projected during the third fiscal quarter of fiscal 2016; a period where net sales are at its lowest for the year. The inability to meet the aforementioned covenants represents an event of default, which if not cured or waived could negatively affect the Corporation's ability to obtain financing under the facility and thereby have an adverse effect on liquidity. The Corporation has requested a waiver of the existing covenant defaults together with a modification of this covenant.

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:

Deferred Tax Assets

Net deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted tax rates. The Corporation has a full valuation allowance against its deferred tax assets. In addition, net deferred tax assets consist of federal net operating loss and tax credit carryforwards, state net operating loss carryforwards and temporary differences between financial and tax reporting. Additional information regarding the increase in the valuation allowance is referenced in Note 10 of the Notes to Consolidated Financial Statements.

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Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).*

Revenue Recognition

The Corporation's accounting for revenue recognition is referenced in Note 1 of the Notes to Consolidated Financial Statements.

Product Warranties

As referenced in Note 1 of the Notes to Consolidated Financial Statements, homes, park models and recreational vehicles are sold with a fifteen-month 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.

Recently Issued Accounting Pronouncements

Information regarding recently issued accounting pronouncements is located in Note 1 of the Note to Consolidated Financial Statements.

Impact of Inflation

The consolidated financial statements included in this report reflect transactions in the dollar values in which they were incurred and, therefore, do not attempt to measure the impact of inflation. On a long-term basis, the Corporation has adjusted selling prices in reaction to changing costs due to inflation.

Forward Looking Information

The preceding Management's Discussion and Analysis contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Forward-looking statements are also made elsewhere in this report. Skyline publishes other forward-looking statements from time to time. Statements that are not historical in nature, including those containing words such as anticipate, estimate, should, expect, believe, intend, and similar expressions, are intended to identify forward-looking statements. We caution you to be aware of the speculative nature of forward-looking statements. Although these statements reflect Skyline's good faith belief based on current expectations, estimates, and projections about (among other things) the industry and the markets in which Skyline operates, they are not guarantees of future performance. Whether actual results will conform to management's expectations and predictions is subject to a number of known and unknown risks and uncertainties, including the following:

Consumer confidence and economic uncertainty;

Availability of wholesale and retail financing;

The health of the U.S. housing market as a whole;

Federal, state and local regulations pertaining to the manufactured housing industry;

The cyclical nature of the manufactured housing and park model industries;

General or seasonal weather conditions affecting sales;

Potential impact of natural disasters on sales and raw material costs;

Potential periodic inventory adjustments by independent retailers;

Interest rate levels;

Impact of inflation;

Impact of fuel and labor costs;

Competitive pressures on pricing and promotional costs;

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued).
Forward Looking Information (Continued).**

Catastrophic events impacting insurance costs;

The availability of insurance coverage for various risks to the Corporation;

Market demographics; and

Management's ability to attract and retain executive officers and key personnel. Consequently, all of Skyline's forward-looking statements are qualified by these cautionary statements. Skyline may not realize the results anticipated by management or, even if Skyline substantially realizes the results management anticipates, the results may not have the consequences to, or effects on, Skyline or its business or operations that management expects. Such differences may be material. Except as required by applicable laws, Skyline does not intend to publish updates or revisions of any forward-looking statements management makes to reflect new information, future events or otherwise.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Skyline Corporation

Elkhart, Indiana

We have audited the accompanying consolidated balance sheets of Skyline Corporation and subsidiary companies (the Corporation) as of May 31, 2015 and 2014, and the related consolidated statements of operations and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of May 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred recurring operating losses and negative cash flows from operating activities. The Company has a line of credit in place, however prospective debt covenant violations may limit the Company's ability to access these funds which would impact its liquidity. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Crowe Horwath LLP

Fort Wayne, Indiana

August 26, 2015

Table of Contents**Skyline Corporation and Subsidiary Companies****Consolidated Balance Sheets****May 31, 2015 and 2014****(Dollars in thousands)**

	2015	2014
ASSETS		
Current Assets:		
Cash	\$ 4,995	\$ 6,031
Accounts receivable, less allowance for doubtful accounts of \$536 in 2015 and \$0 in 2014	15,259	16,259
Note receivable, current		50
Inventories	9,008	8,627
Workers compensation security deposit	1,732	2,688
Other current assets	447	542
Assets of discontinued operations	140	7,473
Total Current Assets	31,581	41,670
Note Receivable, non-current		1,581
Property, Plant and Equipment, at Cost:		
Land	2,996	3,586
Buildings and improvements	36,280	39,254
Machinery and equipment	16,332	17,238
	55,608	60,078
Less accumulated depreciation	44,039	46,036
	11,569	14,042
Assets of discontinued operations, net of accumulated depreciation		1,911
	11,569	15,953
Other Assets	7,289	6,550
Total Assets	\$ 50,439	\$ 65,754

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

Table of Contents**Skyline Corporation and Subsidiary Companies****Consolidated Balance Sheets (Continued)****May 31, 2015 and 2014****(Dollars in thousands, except share and per share amounts)**

	2015	2014
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable, trade	\$ 3,025	\$ 3,050
Accrued salaries and wages	2,565	2,255
Accrued marketing programs	2,319	2,526
Accrued warranty and related expenses	4,511	3,697
Other accrued liabilities	2,593	3,695
Liabilities of discontinued operations	104	3,024
Total Current Liabilities	15,117	18,247
Long-Term Liabilities:		
Other deferred liabilities	7,637	7,386
Life insurance loans	4,312	6,334
Total Long-Term Liabilities	11,949	13,720
Commitments and Contingencies See Note 12		
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	83,877	94,291
Treasury stock, at cost, 2,825,900 shares	(65,744)	(65,744)
Total Shareholders Equity	23,373	33,787
Total Liabilities and Shareholders Equity	\$ 50,439	\$ 65,754

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

Table of Contents**Skyline Corporation and Subsidiary Companies****Consolidated Statements of Operations and Retained Earnings****For the Years Ended May 31, 2015 and 2014****(Dollars in thousands, except share and per share amounts)**

	2015	2014
OPERATIONS		
Net sales	\$ 186,985	\$ 153,080
Cost of sales	169,891	142,011
Gross profit	17,094	11,069
Selling and administrative expenses	21,194	19,111
Gain on sale of idle property, plant and equipment	243	706
Operating loss	(3,857)	(7,336)
Interest expense	(381)	(71)
Interest income	50	100
Loss from continuing operations before income taxes	(4,188)	(7,307)
Benefit from income taxes		
Loss from continuing operations	(4,188)	(7,307)
Loss from discontinued operations, net of income taxes	(6,226)	(4,557)
Net loss	\$ (10,414)	\$ (11,864)
Basic loss per share	\$ (1.24)	\$ (1.41)
Loss per share from continuing operations	\$ (.50)	\$ (.87)
Loss per share from discontinued operations	\$ (.74)	\$ (.54)
Weighted average number of common shares outstanding	8,391,244	8,391,244
RETAINED EARNINGS		
Balance at beginning of year	\$ 94,291	\$ 106,155
Net loss	(10,414)	(11,864)
Balance at end of year	\$	