WYER WILLIAM C
Form 4
March 27, 2009

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

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

OMB APPROVAL
OMB Number: 3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
WYER WILLIAM C
(Last) (First) (Middle)
403 CARYSFORT ROAD
(Street)
KEY LARGO, FL 33037
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ARTESIAN RESOURCES CORP [ARTNA]

3. Date of Earliest Transaction (Month/Day/Year)
03/25/2009

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

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

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 Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class A Non-Voting Common Stock	03/25/2009		X		1,885	A	$ 8.5	15,385	D	
Class A Non-Voting Common Stock	03/25/2009		S		1,885	D	$ 14	13,500	D	

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

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SEC 1474 (9-02)

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

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 Amour Underlying Securit (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	A o N o S
Non-Qualified Stock Option (right to buy)	$ 8.5	03/25/2009		X			1,885	11/18/1999	05/18/2009	Class A Non-Voting Common Stock	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WYER WILLIAM C 403 CARYSFORT ROAD KEY LARGO, FL 33037	X			

Signatures

William C. Wyer	03/27/2009
**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.
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Explanation of Responses:

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Item 6. ***Selected Financial Data.***

Dollars in thousands except per share data

	2010	2009	2008	2007	2006
FOR THE YEAR					
Sales	$ 136,230	$ 166,676	$ 301,765	$ 365,473	$ 508,543
(Loss) earnings before income taxes	$ (19,351)	$ (24,994)	$ (9,138)	$ 3,399	$ 23,315
Net (loss) earnings	$ (28,993)*	$ (15,434)	$ (5,556)	$ 2,593	$ 14,292
Cash dividends declared	$ 6,042	$ 6,042	$ 6,041	$ 22,824	$ 6,041
Capital expenditures	$ 891	$ 1,574	$ 2,092	$ 4,968	$ 2,485
Depreciation	$ 2,189	$ 2,704	$ 3,181	$ 3,148	$ 3,154
Weighted average common shares outstanding	8,391,244	8,391,244	8,391,244	8,391,244	8,391,244
AT YEAR END					
Working capital	$ 84,948	$ 104,374	$ 132,594	$ 141,828	$ 164,225
Current ratio	7.3:1	7.8:1	7.1:1	6.2:1	5.1:1
Property, plant and equipment, net	$ 26,722	$ 30,598	$ 32,535	$ 35,806	$ 34,069
Total assets	$ 130,713	$ 168,119	$ 196,999	$ 214,940	$ 248,403
Total liabilities	$ 21,006	$ 23,377	$ 30,781	$ 37,125	$ 50,649
Shareholders equity	$ 109,707	$ 144,742	$ 166,218	$ 177,815	$ 197,754
PER SHARE					
Basic (loss) earnings	$ (3.46)*	$ (1.84)	$ (.66)	$ .31	$ 1.70
Cash dividends declared	$ .72	$ .72	$ .72	$ 2.72	$ .72
Shareholders equity	$ 13.07	$ 17.25	$ 19.81	$ 21.19	$ 23.57

* Includes a non-cash charge of approximately $16,867,000 associated with an increase in a valuation allowance for deferred tax assets, or ($2.01) per share.

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

Overview

The Corporation designs, produces and distributes manufactured housing (HUD-Code and modular homes) and recreational vehicles (travel trailers, fifth wheels 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 thirteen manufacturing facilities in ten states. Manufactured housing and recreational vehicles 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 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.

As referenced in Item 1, manufactured homes are marketed under a number of trademarks, and are available in a variety of dimensions. HUD-Code 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. Recreational vehicles include travel trailers, fifth wheels and park models. Travel trailers and fifth wheels are marketed under the following trademarks: Aljo ; Freestyle ; Joey ; Layton ; Mountain View ; Nomad ; Rampage Trail Rider ; Wagoneer ; and Weekender . Park models are also marketed under a number of trademarks. The Corporation s recreational vehicle models are intended to provide temporary living accommodations for individuals seeking leisure travel and outdoor recreation.

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

Manufactured Housing and Recreational Vehicle Industry Conditions

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 has been affected by a continuing decline in industry sales. This decline, caused primarily by the adverse economic conditions, tightening retail and wholesale credit markets and a depressed site-built housing market, is resulting in historically low industry shipments. The industry, however, has recently experienced an increase in shipments. From January to May 2010, total shipments were approximately 21,000 units, a 5 percent increase from the same period a year ago.

Tight credit markets for retail and wholesale financing have become a significant challenge for the manufactured housing industry. According to the Manufactured Housing Institute, a lack of retail financing options and restrictive credit standards has negatively affected manufactured home buyers. In addition, a significant decline has occurred in wholesale financing, especially as national floor plan lenders have decreased lending to industry dealers.

The Corporation s recreational vehicle segment sells travel trailers, fifth wheels and park models. Sales of recreational vehicles are influenced by changes in consumer confidence, the availability of retail and wholesale financing and gasoline prices. From calendar 2007 to 2009 industry sales of travel trailers and fifth wheels decreased. This decrease is the result of recessionary conditions, decreased household wealth, tightening credit markets for retail and wholesale financing, and excess inventory of new recreational vehicles. According to the Recreational Vehicle Industry Association (RVIA), motorized and non-motorized recreational vehicle shipments for 2009 totaled approximately 166,000 units, the lowest annual total since 1991. Despite the yearly decreases, unit shipments of travel trailers and fifth wheels in the last half of 2009 totaled approximately 79,000; a 32 percent increase from the approximately 60,000 reported in the last half of 2008. In the first quarter of calendar 2010, unit shipments of travel trailers and fifth wheels totaled approximately 49,000; a 96 percent increase from the first quarter of calendar 2009. The RVIA cites dealers restocking inventories as the reason for the increase. The RVIA, however, also notes that poor job and income growth, continuing credit constraints, stagnant home prices, a volatile stock market, and the threat of higher inflation and interest rates could slow the pace of the recovery.

Fiscal 2010 Fourth Quarter Results

The Corporation experienced the following results during the fourth quarter of fiscal 2010:

Total sales were $40,695,000, a 25 percent increase from the $32,483,000 reported in the same period a year ago

Manufactured housing sales were $24,496,000, an 8 percent increase from the $22,578,000 realized in the fourth quarter of fiscal 2009. Sales increased in HUD-Code, domestic modular and Canadian modular homes.

Recreational vehicle sales increased 64 percent, from $9,905,000 in the fourth quarter of fiscal 2009 to $16,199,000 in the fourth quarter of fiscal 2010. Sales increased in recreational vehicles sold to dealers in both the United States and Canada.

Loss before income taxes for the fourth quarter of fiscal 2010 was $1,562,000 as compared to $4,332,000 for fiscal 2009 s fourth quarter

As a result of a deferred tax assets valuation allowance increase, income tax provision was $16,019,000 in the fourth quarter of fiscal 2010, compared to a benefit of $1,967,000 for the comparable period of fiscal 2009.

The Corporation s deferred tax assets consist primarily of federal and state net operating losses and tax credits that can be used to offset future tax liabilities. The federal net operating loss carryforwards have a life expectancy of twenty years, while the state net operating loss carryforwards have a life expectancy between five and twenty years. Consistent with generally accepted accounting principles, the Corporation made an additional valuation allowance of approximately $16,867,000 based on cumulative book taxable losses for fiscal 2008 to 2010. The increase in the valuation allowance is a non-cash charge. Should economic

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

Fiscal 2010 Fourth Quarter Results (Continued)

conditions improve, the Corporation may determine that a lesser valuation allowance is warranted; resulting in a reduction to income tax provision and the valuation allowance in the period of determination.

Net loss for the fourth fiscal quarter of 2010 was $17,581,000 as compared to $2,365,000 for the fourth quarter of fiscal 2009. The increase in the net loss resulted primarily from the increase in the deferred tax assets valuation allowance. On a per share basis, net loss was $2.10 as compared to $.28 for the comparable period a year ago.

Outlook

Due to challenging business conditions in fiscal 2010, the Corporation took the following actions:

Underwent efforts to decrease expenses and improve processes

Communicated with dealers and communities to take advantage of sales opportunities and position its products to be competitive in the marketplace

Consolidated the operations of a manufacturing housing facility in Halstead, Kansas and a manufacturing facility in Arkansas City, Kansas

Sold an idle manufacturing housing facility in Bossier City, Louisiana

Signed new manufactured housing and recreational vehicle repurchase agreements with two national providers of wholesale financing to be competitive in the marketplace. The period to potentially repurchase units increased from 12 to either 18 or 24 months.

Expanded dealer promotional programs to stimulate sales.

The Corporation s manufacturing housing segment encountered declining sales in fiscal 2010, and management cannot determine with certainty if the sales increase that occurred in the fourth quarter is sustainable. This uncertainty is based on continuing negative economic conditions previously referenced.

The recreational vehicle segment, after experiencing decreased year-over-year sales in the first and second quarters of fiscal 2010, did have increased sales in the third and fourth quarters. Regarding the business environment for fiscal 2011, the RVIA forecasts travel trailer and fifth wheel sales at approximately 191,000 units for calendar 2010; a 38 percent increase from calendar 2009 s total of approximately 138,000 units. In addition, the RVIA forecasts calendar 2011 shipments of approximately 206,000 units. Despite this favorable trend, business conditions for the remainder of calendar 2010 and 2011 could be negatively impacted by adverse factors previously referenced by the RVIA.

With a healthy position in cash and U.S. Treasury Bills, no bank debt, and experienced employees, the Corporation is prepared to meet the challenges ahead.

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

Results of Operations Fiscal 2010 Compared to Fiscal 2009

Sales and Unit Shipments

	2010	Percent	2009	Percent	Increase (Decrease)
	(Dollars in thousands)				
Sales					
Manufactured housing					
HUD-Code	$ 75,536	55	$ 108,779	65	$ (33,243)
Domestic modular	11,569	8	14,372	9	(2,803)
Canadian modular	3,446	3	779		2,667
	90,551	66	123,930	74	(33,379)
Recreational vehicles					
Domestic	34,092	25	33,617	20	475
Canadian	11,587	9	9,129	6	2,458
	45,679	34	42,746	26	2,933
Total Sales	$ 136,230	100	$ 166,676	100	$ (30,446)

	2010	Percent	2009	Percent	Increase (Decrease)
Unit shipments					
Manufactured housing					
HUD-Code	1,733	34	2,453	44	(720)
Domestic modular	204	4	243	5	(39)
Canadian modular	71	1	16		55
	2,008	39	2,712	49	(704)
Recreational vehicles					
Domestic	2,374	47	2,258	41	116
Canadian	726	14	574	10	152
	3,100	61	2,832	51	268
Total Unit Shipments	5,108	100	5,544	100	(436)

In fiscal 2010, the Corporation s manufactured housing unit shipments decreased approximately 26 percent as compared to a year ago; impacted primarily by a 29 percent reduction in HUD-Code sales. Domestic modular sales decreased 16 percent, while Canadian modular housing sales increased 344 percent. Adverse conditions that affected the Corporation s HUD-Code sales include:

A competitor owning finance subsidiaries, giving it an advantage regarding wholesale and retail financing

Dealers and retail customers having difficulty obtaining financing.

As previously referenced, sales in the fourth quarter increased 8 percent from the same period a year ago. In the third quarter of fiscal 2010, the Corporation signed a new repurchase agreement with a national provider of wholesale financing. The agreement allows the Corporation s dealers to continue to have a source of wholesale financing.

The Corporation s overall recreational vehicle unit shipments increased approximately 9 percent in fiscal 2010. Industry unit shipments for travel trailers and fifth wheels increased approximately 46 percent during the same period. Current industry unit shipment data for park models is not available. The size and quantity of the Corporation s dealer

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

Results of Operations Fiscal 2010 Compared to Fiscal 2009 (Continued)

Sales and Unit Shipments (Continued)

network as compared to competitors was a primary factor in unit sales increasing at a slower rate than the industry. In the second quarter of fiscal 2010, the Corporation signed new repurchase agreements with two national providers of wholesale financing. The repurchase agreements aided in sales increasing in the third and fourth quarters.

Cost of Sales

	2010	Percent of Sales*	2009	Percent of Sales*	Decrease
	(Dollars in thousands)				
Manufactured housing	$ 87,805	97	$ 121,813	98	$ 34,008
Recreational vehicles	43,595	95	43,809	102	214
Consolidated	$ 131,400	96	$ 165,622	99	$ 34,222

* 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 primarily due to less sales volume. As a percentage of sales, cost of sales decreased as a result of the Corporation s efforts to reduce manufacturing costs. In addition, the Corporation incurred during fiscal 2009 approximately $200,000 in manufacturing costs associated with the consolidation of manufactured housing facilities in Pennsylvania and Florida.

Recreational vehicle cost of sales decreased, in dollars and as a percentage of sales, due to a reduction in manufacturing costs. In addition, the Corporation incurred during fiscal 2009 approximately $100,000 in manufacturing costs associated with the consolidation of recreational vehicle facilities in California and Indiana.

Selling and Administrative Expenses

	2010	Percent of Sales	2009	Percent of Sales	Decrease
	(Dollars in thousands)				
Selling and administrative expenses	$ 26,200	19	$ 30,735	18	$ 4,535

Selling and administrative expenses decreased due to a decrease in salaries as a result of a reduction in personnel, performance based compensation, and a continuing effort to control costs. In addition, in fiscal 2009 approximately

$800,000 in severance costs was incurred for personnel at both the Corporation s headquarters and manufacturing facilities.

Operating Loss

	2010	Percent of Sales*	2009	Percent of Sales*
	(Dollars in thousands)			
Manufactured housing	$ (13,470)	(15)	$ (18,304)	(15)
Recreational vehicles	(5,308)	(12)	(9,435)	(22)
General corporate expenses	(2,592)	(2)	(1,942)	(1)
Income from life insurance proceeds	412		380	
Gain on sale of idle property, plant and equipment	1,544	1	3,396	2
Total Operating Loss	$ (19,414)	(14)	$ (25,905)	(16)

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

Results of Operations Fiscal 2010 Compared to Fiscal 2009 (Continued)

Operating Loss (Continued)

* The percentages for manufactured housing and recreational vehicles are based on segment sales. The percentage for general corporate expenses, income from life insurance proceeds, gain on sale of idle property, plant and equipment and total operating loss are based on total sales.

The operating loss for the manufactured housing segment as compared to prior year decreased primarily due to cost reduction efforts, increased fourth quarter sales, the incurrence in prior year of approximately $200,000 in manufacturing costs associated with the consolidation of manufacturing facilities in Pennsylvania and Florida, and the incurrence in prior year of $400,000 in severance costs for office personnel at various manufacturing facilities.

The operating loss for the recreational vehicle segment improved as compared to prior year as a result in increased sales, and cost reduction efforts, the incurrence in prior year of approximately $100,000 in manufacturing costs associated with the consolidation of manufacturing facilities in California and Indiana, and the incurrence in prior year of approximately $100,000 in severance costs for office personnel at various manufacturing facilities.

General corporate expenses increased due to the increase of the Corporation s liability for retirement and death benefits offered to certain employees.

The Corporation owns life insurance contracts on certain employees. The Corporation realized non-taxable income from life insurance proceeds in the amount of $412,000 in fiscal 2010, and $380,000 in fiscal 2009, which is separately stated in the Consolidated Statement of Operations and Retained Earnings.

In the third quarter of fiscal 2010, the Corporation sold an idle manufactured housing facility in Bossier City, Louisiana. The sale resulted in a pre-tax gain of $1,544,000. In the same period of fiscal year 2009, the Corporation sold an idle recreational vehicle facility located in McMinnville, Oregon. The sale resulted in a pre-tax gain of $3,396,000.

Interest Income

	2010	2009	Decrease
	(Dollars in thousands)		
Interest income	$ 63	$ 911	$ 848

Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government Securities. In fiscal 2010, the average amount available for investment was approximately $76 million with a weighted average yield of 0.2 percent. In fiscal 2009, the average amount available for investment was approximately $96 million with a weighted average yield of 1.6 percent.

Provision (Benefit) for Income Taxes

	2010	2009	Increase
	(Dollars in thousands)		
Federal	$ 7,080	$ (8,749)	$ 15,829
State	2,562	(811)	3,373
Total	$ 9,642	$ (9,560)	$ 19,202

The provision for income taxes for fiscal 2010 reflects the approximately $16,867,000 increase in the deferred tax assets valuation allowance. For fiscal 2009, the benefit for federal and state income tax is the result of pretax losses that occurred in fiscal 2009. Additional information regarding incomes taxes is located in Note 1 in Notes to Consolidated Financial Statements included in this document under Item 8.

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

Results of Operations Fiscal 2009 Compared to Fiscal 2008

Sales and Unit Shipments

	2009	Percent	2008	Percent	Increase (Decrease)
	(Dollars in thousands)				
Sales					
Manufactured housing					
HUD-Code	$ 108,779	65	$ 192,061	64	$ (83,282)
Domestic modular	14,372	9	22,733	7	(8,361)
Canadian modular	779				779
	123,930	74	214,794	71	(90,864)
Recreational vehicles					
Domestic	33,617	20	76,555	25	(42,938)
Canadian	9,129	6	10,416	4	(1,287)
	42,746	26	86,971	29	(44,225)
Total Sales	$ 166,676	100	$ 301,765	100	$ (135,089)

	2009	Percent	2008	Percent	Increase (Decrease)
Unit shipments					
Manufactured housing					
HUD-Code	2,453	44	4,215	40	(1,762)
Domestic modular	243	5	393	4	(150)
Canadian modular	16				16
	2,712	49	4,608	44	(1,896)
Recreational vehicles					
Domestic	2,258	41	5,074	49	(2,816)
Canadian	574	10	723	7	(149)
	2,832	51	5,797	56	(2,965)
Total Unit Shipments	5,544	100	10,405	100	(4,861)

Manufactured housing unit sales decreased approximately 41 percent, while the industry decreased approximately 31 percent. In certain geographic markets, such as Texas and Oklahoma, unit sales declined at a rate greater than the overall industry. Adverse conditions that affected the Corporation s unit sales include:

- Competitors owning retail sales centers, giving them an advantage in displaying their product
- A competitor owning finance subsidiaries, giving them an advantage regarding wholesale and retail financing
- Dealers being unable to obtain wholesale financing
- Retail customers being unable to obtain retail financing
- Dealers purchasing repossessed units over new units
- Decreased sales to manufactured housing communities as a result of the communities managing inventory levels

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

Results of Operations Fiscal 2009 Compared to Fiscal 2008 (Continued)

Sales and Unit Shipments (Continued)

Changing consumer preference toward product with lower price points where the Corporation has limited models.

In addressing these conditions, the Corporation is working with the communities as they manage inventory levels, and developing product with lower price points that will meet consumer demand.

Recreational vehicle unit sales decreased approximately 51 percent, while the industry unit sales for travel trailers and fifth wheels decreased approximately 50 percent. Current industry unit sales data for park models is not available.

Cost of Sales

	2009	Percent of Sales*	2008	Percent of Sales*	Decrease
	(Dollars in thousands)				
Manufactured housing	$ 121,813	98	$ 194,822	91	$ 73,009
Recreational vehicles	43,809	102	84,134	97	40,325
Consolidated	$ 165,622	99	$ 278,956	92	$ 113,334

* 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 decreased due to less sales volume and the variable nature of many direct manufacturing costs. As a percentage of sales, cost of sales increased as a result of certain manufacturing overhead costs such as depreciation, property taxes and manufacturing salaries remaining relatively constant despite lower sales. In addition, the Corporation incurred during fiscal 2009 approximately $300,000 in manufacturing costs associated with the consolidation of manufactured housing and recreational vehicle facilities in Pennsylvania, Florida, California and Indiana. In fiscal 2008, the Corporation incurred approximately $800,000 in manufacturing costs associated with the consolidation or closure of manufactured housing facilities in Florida and Louisiana, and a recreational vehicle facility in Oregon.

Selling and Administrative Expenses

		Percent of		Percent of	

	2009	Sales	2008	Sales	Decrease
	(Dollars in thousands)				
Selling and administrative expenses	$ 30,735	18	$ 36,770	12	$ 6,035

Selling and administrative expenses decreased due primarily to a decrease in salaries, performance based compensation, and a continuing effort to control costs. As a percentage of sales, selling and administrative expenses increased due to certain costs being fixed. In addition, approximately $800,000 in severance costs was incurred for personnel at both the Corporation s headquarters and manufacturing facilities. This reduction in personnel is estimated to yield an annualized savings of $1,500,000.

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

Results of Operations Fiscal 2009 Compared to Fiscal 2008 (Continued)

Operating Loss

	2009	Percent of Sales*	2008	Percent of Sales*
	(Dollars in thousands)			
Manufactured housing	$ (18,304)	(15)	$ (4,200)	(2)
Recreational vehicles	(9,435)	(22)	(7,750)	(9)
General corporate expenses	(1,942)	(1)	(2,011)	(1)
Income from life insurance proceeds	380			
Gain on sale of idle property, plant and equipment	3,396	2	670	
Total Operating Loss	$ (25,905)	(16)	$ (13,291)	(4)

* The percentages for manufactured housing and recreational vehicles are based on segment sales. The percentage for general corporate expenses, income from life insurance proceeds, gain on sale of idle property, plant and equipment and total operating loss are based on total sales.

The operating loss for manufactured housing was primarily due to the impact of decreased sales on the components of loss as noted above. This segment was also negatively affected by single-section unit sales increasing from 26 percent, as a percentage of segment sales, in fiscal 2008 to 33 percent in fiscal 2009. Single-section homes have lower margins as compared to multi-section homes. The consolidation of the manufactured housing facilities, the severance of personnel at other manufactured housing facilities, and the severance of personnel at the Corporate headquarters also had an adverse effect on operating results.

The operating loss for recreational vehicles increased primarily due to the impact of decreased sales on the components of earnings as noted above. The consolidation of facilities in California and Indiana also had a negative impact on operating results.

The Corporation owns life insurance contracts on certain employees. The Corporation realized non-taxable income from life insurance proceeds in the amount of $380,000, which is separately stated in the Consolidated Statement of Operations and Retained Earnings.

In the third quarter of fiscal 2009, the Corporation sold an idle recreational vehicle facility located in McMinnville, Oregon. The sale resulted in a pre-tax gain of $3,396,000. In the same period of fiscal 2008, the Corporation sold an idle manufactured housing facility located in Goshen, Indiana. The sale resulted in a pre-tax gain of $670,000.

Interest Income

	2009	2008	Decrease
	(Dollars in thousands)		
Interest income	$ 911	$4,153	$ 3,242

Interest income is directly related to the amount available for investment and the prevailing yields of U.S. Government Securities. In fiscal 2009, the average amount available for investment was approximately $96 million with a weighted average yield of 1.6 percent. In fiscal 2008, the average amount available for investment was approximately $101 million with a weighted average yield of 4.1 percent.

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

Results of Operations Fiscal 2009 Compared to Fiscal 2008 (Continued)

Benefit for Income Taxes

	2009	2008	Increase
	(Dollars in thousands)		
Federal	$ (8,749)	$ (3,204)	$ 5,545
State	(811)	(378)	433
Total	$ (9,560)	$ (3,582)	$ 5,978

The benefit for federal income taxes approximates the statutory rate and for state income taxes reflects current state rates effective for the period based upon activities within the taxable entities. The benefit for federal and state income tax is the result of pretax losses that occurred in fiscal 2009 and 2008. Additional information regarding incomes taxes is located in Note 1 in the Notes to Consolidated Financial Statements included in this document under Item 8.

Liquidity and Capital Resources

	May 31,		
	2010	2009	Decrease
	(Dollars in thousands)		
Cash and U.S. Treasury Bills	$ 77,257	$ 94,786	$ 17,529
Current assets, exclusive of cash and U.S. Treasury Bills	$ 21,074	$ 24,973	$ 3,899
Current liabilities	$ 13,383	$ 15,385	$ 2,002
Working capital	$ 84,948	$ 104,374	$ 19,426

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 decreased due primarily to a loss before income taxes of $19,351,000 and dividends paid of $6,042,000. Current assets, exclusive of cash and U.S. Treasury Bills, decreased primarily due to a $3,335,000 increase in accounts receivable, and a $7,488,000 decrease in other current assets. Accounts receivable increased due to increased sales in May 2010 as compared to May 2009. Other current assets decreased due primarily to an increase in the valuation allowance associated with current deferred tax assets.

Current liabilities decreased as a result of a $1,280,000 decline in accrued warranty and related expenses. The decrease occurred due to lower sales in fiscal 2010 as compared to fiscal 2009.

Capital expenditures totaled $891,000 for fiscal 2010 as compared to $1,574,000 in fiscal 2009. Capital expenditures were made primarily to replace or refurbish machinery and equipment in addition to improving manufacturing efficiencies. In the third quarter of fiscal 2009, the Corporation began a project to implement an enterprise resource planning (ERP) system. The project is expected to last until mid-fiscal 2012, and the cost is to be paid out of the Corporation s normal budget for capital expenditures. The amount of capital expended for this project through May 31, 2010 is approximately $850,000. The goal of the ERP system is to obtain better decision-making information, to react quicker to changes in market conditions, and lower the Corporation s technology costs.

The Corporation s current cash and other short-term investments are 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 with a combination of cash on hand and funds generated internally.

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

Contractual Obligations and Commitments

The following table summarizes the Corporation s contractual obligation for operating lease agreements as of May 31, 2010:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(Dollars in thousands)				
Operating Leases	$ 612	$ 277	$ 253	$ 58	$ 24

The following table summarizes the Corporation s commitments for repurchase agreements as of May 31, 2010:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(Dollars in thousands)				
Repurchase Agreements	$ 49,000	$ 38,000	$ 11,000	$	$

Additional information regarding the nature of the repurchase agreements and the operating leases is in Note 2 of the Notes to the Consolidated Financial Statements. During fiscal 2010 and 2009, the Corporation experienced a $23,000 and $235,000 loss, respectively 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:

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 reviewed all available evidence, both positive and negative in determining the realizable value of its net deferred tax assets. During the fourth quarter of fiscal 2010, the Corporation recognized an approximately $16,867,000 increase in the deferred tax assets valuation allowance. Additional information regarding the increase in the valuation allowance is in the *Income Taxes* disclosure in Note 1 of the Notes to Consolidated Financial Statements.

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, 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.

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

Critical Accounting Policies (Continued)

Depreciation

The Corporation s accounting for depreciation is referenced in the *Property, plant and equipment* disclosure in Note 1 of the Notes to Consolidated Financial Statements.

Workers Compensation Insurance

The Corporation is partially 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 and self-insurance 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 Note 1 of the Notes 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 demonstrated an ability to adjust selling prices in reaction to changing costs due to inflation. During the first quarter of fiscal 2009, however, the Corporation was unable to increase its selling prices on its manufactured housing product to cover an increase in material costs during that period. Increased selling prices were realized by the end of the second quarter of fiscal 2009.

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:

- Availability of wholesale and retail financing
- The health of the U.S. housing market as a whole
- Consumer confidence and economic uncertainty
- 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

Interest rate levels

Impact of inflation

Impact of rising fuel costs

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

Forward Looking Information (Continued)

- 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
- 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 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.

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

Index to Consolidated Financial Statements

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:

We have audited the accompanying consolidated balance sheets of Skyline Corporation and subsidiary companies (the Corporation) as of May 31, 2010 and 2009, and the related consolidated statements of earnings and retained earnings, and cash flows for each of the years in the three-year period ended May 31, 2010. We also have audited the Corporation s internal control over financial reporting as of May 31, 2010, 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, included in this Form 10-K Item 9A as Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on 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 audits 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, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included 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, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended May 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of May 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Crowe Horwath LLP

South Bend, Indiana
July 22, 2010

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Skyline Corporation and Subsidiary Companies
Consolidated Balance Sheets
May 31, 2010 and 2009

	2010	2009
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash	$ 9,268	$ 9,836
U.S. Treasury Bills, at cost plus accrued interest	67,989	84,950
Accounts receivable	9,778	6,443
Inventories	6,756	6,502
Other current assets	4,540	12,028
Total Current Assets	98,331	119,759
Property, Plant and Equipment, at Cost:		
Land	4,884	5,297
Buildings and improvements	58,001	61,773
Machinery and equipment	27,527	27,915
	90,412	94,985
Less accumulated depreciation	63,690	64,387
Net Property, Plant and Equipment	26,722	30,598
Noncurrent Deferred Tax Assets		11,851
Other Assets	5,660	5,911
Total Assets	$ 130,713	$ 168,119
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable, trade	$ 3,136	$ 1,853
Accrued salaries and wages	2,505	3,132
Accrued marketing programs	1,524	1,383
Accrued warranty and related expenses	3,339	4,619
Accrued workers compensation	1,083	1,851
Other accrued liabilities	1,796	2,547
Total Current Liabilities	13,383	15,385
Other Deferred Liabilities	7,623	7,992
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	170,211	205,246
Treasury stock, at cost, 2,825,900 shares	(65,744)	(65,744)
Total Shareholders Equity	109,707	144,742
Total Liabilities and Shareholders Equity	$ 130,713	$ 168,119

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

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Skyline Corporation and Subsidiary Companies
Consolidated Statements of Operations and Retained Earnings
For the Years Ended May 31, 2010, 2009 and 2008

	2010	2009	2008
	(Dollars in thousands, except share and per share amounts)		
OPERATIONS			
Sales	$ 136,230	$ 166,676	$ 301,765
Cost of sales	131,400	165,622	278,956
Gross profit	4,830	1,054	22,809
Selling and administrative expenses	26,200	30,735	36,770
Income from life insurance proceeds	412	380	
Gain on sale of idle property, plant and equipment	1,544	3,396	670
Operating loss	(19,414)	(25,905)	(13,291)
Interest income	63	911	4,153
Loss before income taxes	(19,351)	(24,994)	(9,138)
Provision (benefit) for income taxes:			
Federal	7,080	(8,749)	(3,204)
State	2,562	(811)	(378)
	9,642	(9,560)	(3,582)
Net loss	$ (28,993)	$ (15,434)	$ (5,556)
Basic loss per share	$ (3.46)	$ (1.84)	$ (.66)
Cash dividends per share	$ .72	$ .72	$ .72
Weighted average number of common shares outstanding	8,391,244	8,391,244	8,391,244
RETAINED EARNINGS			
Balance at beginning of year	$ 205,246	$ 226,722	$ 238,319
Net loss	(28,993)	(15,434)	(5,556)
Cash dividends paid	(6,042)	(6,042)	(6,041)
Balance at end of year	$ 170,211	$ 205,246	$ 226,722

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

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Skyline Corporation and Subsidiary Companies
Consolidated Statements of Cash Flows
For the Years Ended May 31, 2010, 2009 and 2008

	2010	2009	2008
		(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (28,993)	$ (15,434)	$ (5,556)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	2,189	2,704	3,181
Gain on sale of idle property, plant and equipment	(1,544)	(3,396)	(670)
Deferred income taxes	9,523	(7,639)	76
Change in assets and liabilities:			
Accrued interest receivable	53	81	649
Accounts receivable	(3,335)	11,801	4,516
Inventories	(254)	3,648	411
Other current assets	7,488	2,206	(2,853)
Accounts payable, trade	1,283	(2,114)	(1,195)
Accrued liabilities	(3,285)	(4,114)	(4,306)
Other, net	1,624	(1,359)	(781)
Net cash used in operating activities	(15,251)	(13,616)	(6,528)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from principal payments of U.S. Treasury Bills	315,854	238,945	412,136
Purchase of U.S. Treasury Bills	(298,946)	(222,954)	(397,942)
Proceeds from sale of idle property, plant and equipment	4,082	4,115	2,676
Purchase of property, plant and equipment	(891)	(1,574)	(2,092)
Other, net	626	405	(28)
Net cash provided by investing activities	20,725	18,937	14,750
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash dividends paid	(6,042)	(6,042)	(6,041)
Net cash used in financing activities	(6,042)	(6,042)	(6,041)
Net (decrease) increase in cash	(568)	(721)	2,181
Cash at beginning of year	9,836	10,557	8,376
Cash at end of year	$ 9,268	$ 9,836	$ 10,557

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

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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, produces and distributes manufactured housing (HUD-Code and modular homes) and towable recreational vehicles (travel trailers, fifth wheels and park models) to independent dealers and manufactured housing communities throughout the United States and Canada. These dealers and communities 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 its wholly-owned subsidiaries (the Corporation). 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 or community (customer); written or verbal approval for payment is received from a customer s financing institution or payment is received; a common carrier signs documentation accepting responsibility for the unit as agent for the customer; and the unit is removed from the Corporation s premises for delivery to a customer. 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 increased by income taxes received of $9,263,000, $4,219,000 and $1,443,000 in fiscal 2010, 2009 and 2008, respectively.

Investments The Corporation invests in United States Government securities, which are typically held until maturity and are therefore classified as held-to-maturity and carried at amortized cost. The following is a summary of the securities (dollars in thousands):

	Gross Amortized Costs	Gross Unrealized (Losses) Gains	Fair Value
May 31, 2010			
U. S. Treasury Bills	$ 67,989	$ 3	$ 67,992
May 31, 2009			
U. S. Treasury Bills	$ 84,950	$ 81	$ 85,031

The fair value is determined by a secondary market for U.S. Government Securities. At May 31, 2010, the U.S. Treasury Bills mature within four months. At May 31, 2009, the U.S. Treasury Bills matured within four months.

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

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Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

Total inventories consist of the following:

	May 31, 2010	May 31, 2009
	(Dollars in thousands)	
Raw Materials	$ 3,774	$ 3,886
Work in process	2,941	2,616
Finished goods	41	
	$ 6,756	$ 6,502

Other current assets Other current assets consist of the following:

	May 31, 2010	May 31, 2009
	(Dollars in thousands)	
Current deferred tax assets	$ 3,314	$ 6,213
Valuation allowance for current deferred tax assets	(3,314)	(1,131)
Other	4,540	6,946
	$ 4,540	$ 12,028

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. During the third quarter of fiscal 2010, the Corporation sold an idle manufacturing housing facility located in Bossier City, Louisiana. The pretax gain on the sale of this facility was $1,544,000. During the third quarter of fiscal 2009, the Corporation sold an idle recreational vehicle facility located in McMinnville, Oregon. The pretax gain on the sale of this facility was $3,396,000.

Noncurrent deferred tax assets Noncurrent deferred tax assets consist of the following:

	May 31, 2010	May 31, 2009
	(Dollars in thousands)	
Noncurrent deferred tax assets	$ 14,684	$ 11,851

Valuation allowance for noncurrent deferred tax assets	(14,684)	
	$	$ 11,851

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.

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Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

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

	Year Ended May 31, 2010	2009	2008
	(Dollars in thousands)		
Balance at the beginning of the period	$ 7,019	$ 9,037	$ 10,600
Accruals for warranties	3,062	5,598	9,654
Settlements made during the period	(5,242)	(7,616)	(11,217)
Balance at the end of the period	4,839	7,019	9,037
Non-current balance included in other deferred liabilities	1,500	2,400	2,900
Accrued warranty and related expenses	$ 3,339	$ 4,619	$ 6,137

Other deferred liabilities Other deferred liabilities consist of the following:

	May 31, 2010	2009
	(Dollars in thousands)	
Deferred compensation expense	$ 6,123	$ 5,592
Accrued warranty and related expenses	1,500	2,400
	$ 7,623	$ 7,992

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

	Year Ended May 31, 2010	2009	2008
	(Dollars in thousands)		
Current			
Federal	$ (10)	$ (1,996)	$ (3,771)
State	129	75	113
	119	(1,921)	(3,658)
Deferred			

Federal	7,090	(6,753)	568
State	2,433	(886)	(492)
	9,523	(7,639)	76
	$ 9,642	$ (9,560)	$ (3,582)

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Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

The difference between the Corporation s statutory federal income tax rate (34 percent in fiscal 2010 and 35 percent in fiscal 2009 and 2008) and the effective income tax rate is due primarily to state income taxes and changes in deferred tax assets valuation allowance and are as follows:

	Year Ended May 31, (Dollars in thousands)		
	2010	**2009**	**2008**
Income taxes at statutory federal rate	$ (6,579)	$ (8,748)	$ (3,198)
State income taxes, net of federal tax effect	(725)	(924)	(502)
New Energy Efficient Home Credit	(120)	(324)	(125)
Alternative Fuel Credit	(10)	(32)	(37)
Deferred tax assets valuation allowance	16,867	397	256
Other, net	209	71	24
Income tax provision (benefit)	$ 9,642	$ (9,560)	$ (3,582)
Effective tax rate	49.8%	(38.3)%	(39.2)%

Components of the net deferred tax assets include:

	May 31, (Dollars in thousands)	
	2010	**2009**
Current deferred tax assets		
Accrued marketing programs	$ 197	$ 223
Accrued warranty expense	1,338	1,619
Accrued workers compensation	1,230	1,522
Accrued vacation	370	432
State net operating loss carryforward		2,656
Other	179	(239)
Gross current deferred tax assets	3,314	6,213
Noncurrent deferred tax assets		
Liability for certain post-retirement benefits	2,192	1,970
Accrued warranty expense	601	1,140
Federal net operating loss carryforward	7,820	7,459
Federal tax credit carryforward	571	498
State net operating loss carryforward	3,123	
Depreciation	357	568

Other	20	216
Gross noncurrent deferred tax assets	14,684	11,851
Total gross deferred tax assets	17,998	18,064
Valuation allowance	(17,998)	(1,131)
Net deferred tax assets	$	$ 16,933

The Corporation recognizes deferred tax assets based on differences between the carrying values of assets for financial and tax reporting purposes. The realization of the deferred tax assets is dependent upon the generation of sufficient future taxable income. Generally accepted accounting principles, (GAAP), require that an entity consider

Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

both negative and positive evidence in determining whether a valuation allowance is warranted. In comparing negative and positive evidence, continual losses in recent years is considered significant, negative, objective evidence that deferred tax assets may not be realized in the future, and generally is assigned more weight than subjective positive evidence of the realizability of deferred tax assets.

Although the Corporation has a long history of profitable operations, it has reported continual losses in fiscal 2008 to 2010 due to challenging conditions in both industries in which it operates, and in the overall economy. These successive losses are objective negative evidence which, based on guidance outlined within GAAP is generally given more weight than subjective positive evidence of the ability of an entity to realize its deferred tax assets. Management believes that significant positive evidence does exist which indicates that deferred tax assets will be realized such as projections of future taxable income based on independent forecasts of the U.S housing and recreational vehicle markets; the Corporation s strong financial position which should ensure its viability well into the future; and its ability to generate taxable gains through sales of real estate. As a result of its extensive evaluation of both the positive and negative evidence, management determined the Corporation should provide an additional $16,867,000 valuation allowance for the deferred tax assets which resulted in a non-cash charge of that amount in the fourth quarter of fiscal 2010.

The Corporation s gross deferred tax assets of approximately $18 million consist of approximately $8 million in federal net operating loss and tax credit carryforwards, $4 million in state net operating loss carryforwards, and $6 million resulting from timing differences between financial and tax reporting. The federal net operating loss and tax credit carryforwards have a life expectancy of twenty years. The state net operating loss carryforwards have a life expectancy, depending on the state where a loss was incurred, between five and twenty years. If the Corporation, after considering future negative and positive evidence regarding the realization of deferred tax assets, determines that a lesser valuation allowance is warranted, it would record a reduction to income tax expense and the valuation allowance in the period of determination.

For the majority of taxing jurisdictions the Corporation is no longer subject to examination by taxing authorities for years before 2006. State income tax expense reflects minimum amounts required by certain taxing jurisdictions in which the Corporation operates.

Interest and penalties related to income tax matters are recognized in income tax expense. Accruals for interest and penalties at May 31, 2010 were insignificant.

Recently issued accounting pronouncements The 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.

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

NOTE 2 Commitments and Contingencies

The Corporation was contingently liable at May 31, 2010, 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 units in the event of default by the retailer at declining prices over the term of the repurchase period. The period to potentially repurchase units is between 12 to 24 months.

To be competitive in the marketplace regarding the availability of wholesale financing, the Corporation in the second and third quarters of fiscal 2010 signed new manufactured housing and recreational vehicle repurchase agreements with two national providers of wholesale financing.

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Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

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 $49 million at May 31, 2010 and $36 million at May 31, 2009.

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 estimates the fair value of this commitment considering both the contingent losses and the value of the guarantee. This amount has historically been insignificant. The Corporation believes that any potential loss under the agreements in effect at May 31, 2010 will not be material to its financial position or results of operations.

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

	Year Ended May 31,		
	2010	2009	2008
	(Dollars in thousands)		
Number of units repurchased	13	88	104
Obligations from units repurchased	$ 282	$ 1,784	$ 1,865
Net losses on repurchased units	$ 23	$ 235	$ 6

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.

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 totaled $600,000, $800,000 and $1,000,000 for fiscal year 2010, 2009 and 2008, respectively.

Future minimum lease commitments under operating leases are as follows:

Year Ending May 31,	Amount (Dollars in thousands)
2011	$ 277
2012	167
2013	86
2014	38
2015	20
Thereafter	24
	$ 612

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

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 2010, 2009 and 2008, the Corporation did not acquire any shares of its common stock. At May 31, 2010, the Corporation had authorization to repurchase an additional 391,300 of its common stock.

Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

NOTE 4 Employee Benefits

A) PROFIT SHARING PLANS AND 401 (K) PLANS

The Corporation has two defined contribution profit sharing plans (Plans), which together cover substantially all of its employees. The Corporation has the right to modify, suspend or discontinue contributions. Assets of the Plans are invested primarily in United States Government Securities. No contributions were made for the fiscal years ended May 31, 2010, 2009 and 2008.

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. The Corporation also purchased life insurance 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 5.5 percent in fiscal 2010, 7.0 percent in fiscal 2009 and 6.5 percent in fiscal 2008. The amount accrued for such arrangements totaled $6,123,000, $5,592,000 and $6,079,000 at May 31, 2010, 2009 and 2008, respectively. The amount charged (credited) to operations under these arrangements was $686,000, ($304,000) and ($215,000) for fiscal 2010, 2009 and 2008, respectively.

NOTE 5 Industry Segment Information

The Corporation designs, produces and distributes manufactured housing (HUD-Code and modular homes) and recreational vehicles (travel trailers, fifth wheels and park models). The percentage allocation of manufactured housing and recreational vehicle sales is:

	Year Ended May 31,		
	2010	**2009**	**2008**
Manufactured housing			
HUD-Code	55%	65%	64%
Domestic modular	8%	9%	7%
Canadian modular	3%	%	%
	66%	74%	71%
Recreational vehicles			
Domestic	25%	20%	25%
Canadian	9%	6%	4%
	34%	26%	29%

	100%	100%	100%

Total operating loss represents operating losses before interest income and provision (benefit) 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.

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.

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Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

	Year Ended May 31, 2010	2009	2008
	(Dollars in thousands)		
SALES			
Manufactured housing			
HUD-Code	$ 75,536	$ 108,779	$ 192,061
Domestic modular	11,569	14,372	22,733
Canadian modular	3,446	779	
	90,551	123,930	214,794
Recreational vehicles			
Domestic	34,092	33,617	76,555
Canadian	11,587	9,129	10,416
	45,679	42,746	86,971
Total sales	$ 136,230	$ 166,676	$ 301,765
LOSS BEFORE INCOME TAXES			
Operating Loss			
Manufactured housing	$ (13,470)	$ (18,304)	$ (4,200)
Recreational vehicles	(5,308)	(9,435)	(7,750)
General corporate expenses	(2,592)	(1,942)	(2,011)
Income from life insurance proceeds	412	380	
Gain on sale of idle property, plant and equipment	1,544	3,396	670
Total operating loss	(19,414)	(25,905)	(13,291)
Interest income	63	911	4,153
Loss before income taxes	$ (19,351)	$ (24,994)	$ (9,138)
IDENTIFIABLE ASSETS			
Operating assets			
Manufactured housing	$ 45,089	$ 65,359	$ 71,043
Recreational vehicles	17,635	17,810	24,934
Total operating assets	62,724	83,169	95,977
U.S. Treasury bills	67,989	84,950	101,022
Total assets	$ 130,713	$ 168,119	$ 196,999
DEPRECIATION			
Manufactured housing	$ 1,830	$ 2,206	$ 2,521

Recreational vehicles		359		498		660
Total depreciation	$	2,189	$	2,704	$	3,181
CAPITAL EXPENDITURES						
Manufactured housing	$	639	$	1,322	$	1,483
Recreational vehicles		252		252		609
Total capital expenditures	$	891	$	1,574	$	2,092

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Skyline Corporation and Subsidiary Companies

Notes to Consolidated Financial Statements (Continued)

NOTE 6 Financial Summary by Quarter Unaudited

Financial Summary by Quarter

2010	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
	(Dollars in thousands, except per share data)				
Sales	$ 35,874	$ 34,246	$ 25,415	$ 40,695	$ 136,230
Gross profit (loss)	277	1,066	(821)	4,308	4,830
Net (loss)	(3,907)	(3,808)	(3,697)	(17,581)*	(28,993)
Basic (loss) per share	(.47)	(.45)	(.44)	(2.10)*	(3.46)

2009	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
	(Dollars in thousands, except per share data)				
Sales	$ 62,597	$ 47,210	$ 24,386	$ 32,483	$ 166,676
Gross profit	2,203	829	(3,382)	1,404	1,054
Net (loss)	(4,146)	(4,098)	(4,825)	(2,365)	(15,434)
Basic (loss) per share	(.49)	(.49)	(.58)	(.28)	(1.84)

* Includes a non-cash charge of approximately $16,867,000 associated with an increase in a valuation allowance for deferred tax assets, or ($2.01) per share.

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

None

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

Management s Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

As of May 31, 2010, 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, 2010.

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.

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Item 9A. ***Controls and Procedures*** ***(Continued)***

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 financing reporting. Based on this assessment, management has concluded that the Corporation s internal control over financial reporting was effective as of May 31, 2010.

Crowe Horwath LLP, the independent registered public accounting firm that audited the Corporation s fiscal 2010 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, 2010, 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, 2010 that materially affected, or is reasonably likely to materially affect, the Corporation s internal control over financial reporting.

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, 2010. In addition, on September 21, 2009 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 21, 2009. The foregoing certification was unqualified.

Item 9B. ***Other Information.***

None

PART III

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

Name	Age	Position
Thomas G. Deranek	74	Chairman and Chief Executive Officer
Charles W. Chambliss	60	Vice President-Product Development and Engineering
Terrence M. Decio	58	Vice President-Marketing and Sales
Martin R. Fransted	58	Corporate Controller and Secretary
Bruce G. Page	60	Vice President-Operations
Jon S. Pilarski	47	

Vice President-Finance, Treasurer, Chief Financial Officer

Thomas G. Deranek, Chairman and Chief Executive Officer, joined the Corporation in 1964. He served as Chief of Staff from 1991 to 2001, and Vice Chairman from 2001 to 2007. He was elected Chief Executive Officer in 2001 and Chairman in 2007.

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

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

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. He previously served as the Director of Taxation and Assistant Treasurer.

Bruce G. Page, Vice President-Operations, joined the Corporation in 1969 and was elected Vice President 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, Vice President-Finance, Treasurer and Chief Financial Officer, joined the Corporation in 1994. He served as Corporate Controller from 1997 to 2007 and was elected Vice President in 2007.

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 ; Directors Qualifications and Biographical Information ; Committees ; Code of Business Conduct and Ethics ; and Section 16(a) Beneficial Ownership Reporting Compliance. The Proxy Statement for the Annual Meeting of Shareholders to be held on September 27, 2010 is incorporated herein by reference.

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.

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.

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.

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 A Other Fees sections of the Corporation s Proxy Statement.

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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 Business Conduct and 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

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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, Chairman,
Chief Executive Officer and Director

DATE: July 22, 2010

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: /s/ Jon S. Pilarski Jon S. Pilarski	Vice President-Finance, Treasurer, Chief Financial Officer	July 22, 2010
BY /s/ Martin R. Fransted Martin R. Fransted	Corporate Controller and Secretary	July 22, 2010
BY: /s/ Arthur J. Decio Arthur J. Decio	Director	July 22, 2010
BY: /s/ John C. Firth John C. Firth	Director	July 22, 2010
BY: /s/ Jerry Hammes Jerry Hammes	Director	July 22, 2010
BY: /s/ William H. Lawson William H. Lawson	Director	July 22, 2010

BY: /s/ David T. Link David T. Link	Director	July 22, 2010
BY: /s/ Andrew J. McKenna Andrew J. McKenna	Director	July 22, 2010

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