

SUPREME INDUSTRIES INC  
Form 10-Q  
May 13, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 29, 2008

or

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

For the transition period from            to

Commission File Number: 1-8183

**SUPREME INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

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

**75-1670945**  
(I.R.S. Employer Identification No.)

**2581 E. Kercher Rd., P.O. Box 237, Goshen, Indiana**  
(Address of principal executive offices)

**46528**  
(Zip Code)

Registrant's telephone number, including area code: **(574) 642-3070**

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

| Common Stock (\$.10 Par Value) | Outstanding at May 8, 2008 |
|--------------------------------|----------------------------|
| Class A                        | 11,012,944                 |
| Class B                        | 2,024,133                  |

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SUPREME INDUSTRIES, INC.

CONTENTS

|                                      | <b>Page No.</b>   |    |
|--------------------------------------|---|----|
| <u>PART I. FINANCIAL INFORMATION</u> |   |    |
| <u>ITEM 1.</u>                       | <u>Financial Statements.</u>  |    |
|                                      | <u>Consolidated Balance Sheets</u>  | 1  |
|                                      | <u>Consolidated Statements of Income</u>  | 3  |
|                                      | <u>Consolidated Statements of Cash Flows</u>  | 4  |
|                                      | <u>Notes to Consolidated Financial Statements</u>   | 5  |
| <u>ITEM 2.</u>                       | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u> | 9  |
| <u>ITEM 3.</u>                       | <u>Quantitative and Qualitative Disclosures About Market Risk.</u>                            | 16 |
| <u>ITEM 4.</u>                       | <u>Controls and Procedures.</u>   | 16 |
| <u>PART II. OTHER INFORMATION</u>    |   |    |
| <u>ITEM 1.</u>                       | <u>Legal Proceedings.</u>   | 17 |
| <u>ITEM 2.</u>                       | <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>                           | 17 |
| <u>ITEM 3.</u>                       | <u>Defaults Upon Senior Securities.</u>   | 17 |
| <u>ITEM 4.</u>                       | <u>Submission of Matters to a Vote of Security Holders.</u>                                   | 17 |
| <u>ITEM 5.</u>                       | <u>Other Information.</u>   | 17 |
| <u>ITEM 6.</u>                       | <u>Exhibits.</u>  | 17 |

SIGNATURES

INDEX TO EXHIBITS

EXHIBITS

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## PART I. FINANCIAL INFORMATION

**ITEM 1. FINANCIAL STATEMENTS.****Supreme Industries, Inc. and Subsidiaries**

Consolidated Balance Sheets

|   | March 29,<br>2008<br>(Unaudited) | December 29,<br>2007  |
|---|----------------------------------|-----------------------|
| <b>ASSETS</b>                                   |                                  |                       |
| <b>Current assets:</b>                          |                                  |                       |
| Cash and cash equivalents                       | \$ 67,830                        | \$ 1,266,133          |
| Investments                                     | 3,389,666                        | 2,215,267             |
| Accounts receivable, net                        | 28,768,411                       | 28,628,324            |
| Inventories                                     | 51,774,184                       | 46,643,480            |
| Other current assets                            | 6,117,122                        | 5,171,503             |
| <b>Total current assets</b>                     | <b>90,117,213</b>                | <b>83,924,707</b>     |
| <b>Property, plant and equipment, at cost</b>   | <b>93,382,489</b>                | <b>92,530,190</b>     |
| Less, Accumulated depreciation and amortization | 46,084,624                       | 45,100,465            |
| <b>Property, plant and equipment, net</b>       | <b>47,297,865</b>                | <b>47,429,725</b>     |
| <b>Goodwill and intangible assets, net</b>      | <b>1,359,798</b>                 | <b>1,371,891</b>      |
| <b>Other assets</b>                             | <b>62,673</b>                    | <b>64,860</b>         |
| <b>Total assets</b>                             | <b>\$ 138,837,549</b>            | <b>\$ 132,791,183</b> |

See accompanying notes to consolidated financial statements.

## Supreme Industries, Inc. and Subsidiaries

Consolidated Balance Sheets, Concluded

|   | March 29,<br>2008<br>(Unaudited) | December 29,<br>2007  |
|---|----------------------------------|-----------------------|
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>        |                                  |                       |
| <b>Current liabilities:</b>                       |                                  |                       |
| Current maturities of long-term debt              | \$ 725,488                       | \$ 748,406            |
| Trade accounts payable                            | 15,360,839                       | 14,642,616            |
| Accrued income taxes                              | 540,792                          | 498,162               |
| Other accrued liabilities                         | 9,046,206                        | 9,510,095             |
| <b>Total current liabilities</b>                  | <b>25,673,325</b>                | <b>25,399,279</b>     |
| <b>Long-term debt</b>                             | <b>35,524,333</b>                | <b>29,002,718</b>     |
| <b>Deferred income taxes</b>                      | <b>2,589,055</b>                 | <b>2,589,055</b>      |
| <b>Other long-term liabilities</b>                | <b>773,300</b>                   | <b>333,046</b>        |
| <b>Total liabilities</b>                          | <b>64,560,013</b>                | <b>57,324,098</b>     |
| <b>Stockholders' equity</b>                       | <b>74,277,536</b>                | <b>75,467,085</b>     |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 138,837,549</b>            | <b>\$ 132,791,183</b> |

See accompanying notes to consolidated financial statements.

## Supreme Industries, Inc. and Subsidiaries

Consolidated Statements of Income (Unaudited)

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | March 29,<br>2008  | March 31,<br>2007 |
| Net sales  | \$ 75,924,356      | \$ 83,891,983     |
| Cost of sales  | 68,333,218         | 74,920,597        |
| <b>Gross profit</b>  | <b>7,591,138</b>   | <b>8,971,386</b>  |
| Selling, general and administrative expenses                 | 6,948,612          | 6,929,747         |
| Other income   | (244,948)          | (89,977)          |
| <b>Operating income</b>                                      | <b>887,474</b>     | <b>2,131,616</b>  |
| Interest expense   | 585,960            | 743,171           |
| <b>Income before income taxes</b>                            | <b>301,514</b>     | <b>1,388,445</b>  |
| Income taxes   | 75,000             | 424,000           |
| <b>Net income</b>  | <b>\$ 226,514</b>  | <b>\$ 964,445</b> |
| <b>Earnings Per Share:</b>                                   |                    |                   |
| Basic  | \$ .02             | \$ .08            |
| Diluted  | .02                | .08               |
| <b>Shares used in the computation of earnings per share:</b> |                    |                   |
| Basic  | 12,929,776         | 12,726,845        |
| Diluted  | 13,077,629         | 12,835,053        |
| <b>Cash dividends per common share</b>                       | <b>\$ .095</b>     | <b>\$ .095</b>    |

See accompanying notes to consolidated financial statements.

**Supreme Industries, Inc. and Subsidiaries**

## Consolidated Statements of Cash Flows (Unaudited)

|   | Three Months Ended |                    |
|---|--------------------|--------------------|
|   | March 29,<br>2008  | March 31,<br>2007  |
| <b>Cash flows from operating activities:</b>  |                    |                    |
| Net income  | \$ 226,514         | \$ 964,445         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                    |                    |
| Depreciation and amortization   | 1,068,221          | 1,075,893          |
| Amortization of intangibles   | 12,093             | 12,093             |
| Provision for losses on doubtful receivables  | 38,180             | 42,293             |
| Stock-based compensation expense  | 131,632            | 48,668             |
| Losses (gains) on disposal of property, plant and equipment                                 | 532                | (70)               |
| Changes in operating assets and liabilities   | (5,800,025)        | 2,156,468          |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>(4,322,853)</b> | <b>4,299,790</b>   |
| <b>Cash flows from investing activities:</b>  |                    |                    |
| Additions to property, plant and equipment  | (954,444)          | (999,968)          |
| Proceeds from sale of property, plant and equipment   | 17,551             | 70                 |
| Purchases of investments  | (1,226,173)        | (1,200,000)        |
| Decrease in other assets  | 2,186              | 13,978             |
| <b>Net cash used in investing activities</b>  | <b>(2,160,880)</b> | <b>(2,185,920)</b> |
| <b>Cash flows from financing activities:</b>  |                    |                    |
| Proceeds from revolving line of credit and other long-term debt                             | 34,408,551         | 31,577,297         |
| Repayments of revolving line of credit and other long-term debt                             | (27,909,854)       | (34,042,658)       |
| Payment of cash dividends   | (1,238,017)        | (1,204,866)        |
| Proceeds from exercise of stock options   | 24,750             | 359,813            |
| <b>Net cash provided by (used in) financing activities</b>                                  | <b>5,285,430</b>   | <b>(3,310,414)</b> |
| <b>Change in cash and cash equivalents</b>  | <b>(1,198,303)</b> | <b>(1,196,544)</b> |
| <b>Cash and cash equivalents, beginning of period</b>                                       | <b>1,266,133</b>   | <b>1,307,463</b>   |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 67,830</b>   | <b>\$ 110,919</b>  |

See accompanying notes to consolidated financial statements.

**Supreme Industries, Inc. and Subsidiaries**

Notes To Consolidated Financial Statements

NOTE 1 - BASIS OF PRESENTATION AND OPINION OF MANAGEMENT

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all of the information and financial statement disclosures necessary for a fair presentation of consolidated financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, the information furnished herein includes all adjustments necessary to reflect a fair statement of the interim periods reported. All adjustments are of a normal and recurring nature. The December 29, 2007 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The Company has adopted a 52- or 53-week fiscal year ending the last Saturday in December. The results of operations for the three months ended March 29, 2008 and March 31, 2007 are for 13-week periods.

NOTE 2 - OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) includes unrealized losses on hedge-activity, net of tax, and unrealized gains on available-for-sale securities, net of tax. Other comprehensive loss for the three-month periods ended March 29, 2008 and March 31, 2007 was \$334,427 and \$46,899, respectively. Total comprehensive income (loss) combines net income and other comprehensive income (loss). Total comprehensive income (loss) for the three month periods ended March 29, 2008 and March 31, 2007 was \$(107,913) and \$917,546, respectively.

NOTE 3 - INVENTORIES

Inventories, which are stated at the lower of cost or market with cost determined using the first-in, first-out method, consist of the following:

|                  | <b>March 29,<br/>2008</b> | <b>December 29,<br/>2007</b> |
|------------------|---------------------------|------------------------------|
| Raw materials    | \$ 28,780,501             | \$ 25,042,022                |
| Work-in-progress | 10,868,970                | 9,676,041                    |
| Finished goods   | 12,124,713                | 11,925,417                   |
|                  | \$ 51,774,184             | \$ 46,643,480                |



**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

Notes To Consolidated Financial Statements, Continued

The valuation of raw materials, work-in-progress, and finished goods inventories at interim dates is based upon bills of materials, scrap, and other estimated factors that affect inventory relief. The Company has historically experienced both favorable and unfavorable adjustments resulting from physical inventories. Pre-tax physical inventory adjustments recorded during the three-month periods ended March 29, 2008 and March 31, 2007 were a favorable \$48,000 and an unfavorable \$161,000, respectively. The Company continues to refine its inventory relief in an effort to minimize book to physical inventory adjustments.

**NOTE 4 FAIR VALUE MEASUREMENT**

Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing and asset or liability.

The Company used the following methods and significant assumptions used to estimate the fair value of items:

Investments: The fair values of investments available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

Derivatives: Our derivative instruments consist of interest rate swaps. As such, significant fair value inputs can generally be verified and do not typically involve significant management judgments (Level 2 inputs).



**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

Notes To Consolidated Financial Statements, Continued

**NOTE 5 - EARNINGS PER SHARE**

The number of shares used in the computation of basic and diluted earnings per share are as follows:

|  | <b>Three Months Ended</b> |                           |
|--|---------------------------|---------------------------|
|  | <b>March 29,<br/>2008</b> | <b>March 31,<br/>2007</b> |
| Weighted average number of shares outstanding<br>(used in computation of basic earnings per share) | 12,929,776                | 12,726,845                |
| Assumed exercise or issuance of shares relating<br>to stock plans                                  | 147,853                   | 108,208                   |
| Diluted shares outstanding (used in computation<br>of diluted earnings per share)                  | 13,077,629                | 12,835,053                |

**NOTE 6 - STOCK-BASED COMPENSATION**

A summary of the status of the Company's outstanding stock options as of March 29, 2008, and changes during the three months ended March 29, 2008 are as follows:

|                                | <b>Number of<br/>Shares</b> | <b>Weighted -<br/>Average<br/>Exercise<br/>Price</b> |
|--------------------------------|-----------------------------|--|
| Outstanding, December 30, 2007 | 989,181                     | \$ 6.44  |
| Granted                        | 6,000                       | 6.20   |
| Exercised                      | (5,500)                     | 4.50   |
| Forfeited                      |                             |  |
| Outstanding, March 29, 2008    | 989,681                     | 6.45   |

The intrinsic value of the options exercised during the three-month period ended March 29, 2008 was \$7,700. The intrinsic value of all options outstanding at March 29, 2008 was \$209,550 and outstanding options had a weighted-average remaining contractual life of 2.45 years.

**NOTE 7 - COMMON STOCK**

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The Company paid cash dividends, to all Class A and Class B common stockholders, of nine and one-half cents (\$0.095) for each of the three-month periods ended March 29, 2008 and March 31, 2007.

**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

Notes To Consolidated Financial Statements, Concluded.

NOTE 8 - SUBSEQUENT EVENT

On May 6, 2008, the Company's Board of Directors declared a nine and one-half cents (\$0.095) per share cash dividend payable on May 27, 2008 to all class A and B common stockholders of record on May 20, 2008.

NOTE 9 ADOPTION OF NEW ACCOUNTING STANDARD

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS 157 is effective for fiscal years beginning after November 15, 2007; however, on February 12, 2008, the FASB issued FSP FAS 157-2 which delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially deferred the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for 2008, we adopted SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. The partial adoption of SFAS 157 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities- including an Amendment of FASB Statement No. 115 ( SFAS 159 ), which allows an entity to choose to measure certain financial instruments and liabilities at fair value. Subsequent measurements for the financial instruments and liabilities an entity elects of fair value will be recognized in earnings. SFAS 159 also establishes additional disclosure requirements. SFAS 159 is effective for the Company beginning in fiscal 2008. The Company did not elect the fair value option for any financial assets or financial liabilities.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, which changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement's disclosure requirements are effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the effects that SFAS No. 161 may have on our consolidated financial statement disclosures.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

**Overview**

Established in 1974 as a truck body manufacturer, Supreme Industries, Inc., through its wholly-owned subsidiary Supreme Corporation, is one of the nation's leading manufacturers of specialized vehicles. Utilizing a nationwide direct sales and distribution network, as well as manufacturing and service facilities in 13 states across the continental United States, Supreme is able to meet the needs of customers across all of North America.

The Company engages principally in the production and sale of customized truck bodies, shuttle buses, and other specialty vehicles. Building on our expertise in providing both cargo and passenger transportation solutions, the Company's specialty vehicle offerings include products such as customized armored vehicles, homeland response vehicles, and luxury motor coaches. Through vertical integration and proprietary processes, the Company also supplies both internal and external customers with high quality fiberglass and fiberglass-reinforced components.

The Company and its product offerings are sensitive to various factors which include, but are not limited to, interest rate fluctuations, changes in governmental regulations, and the volatility in the supply chain of vehicle chassis. The Company's business is also affected by the availability and costs of certain raw materials that serve as significant components to our product offerings.

Company growth in recent years has been achieved through internal product development, business acquisitions, and joint ventures. The Company operates only in businesses related to its core competencies and currently has no plans to deviate from this strategy.

The following discussion should be read in conjunction with the unaudited consolidated financial statements and related notes thereto elsewhere in this document.

**Results of Operations**

***Net Sales***

Net sales for the three months ended March 29, 2008 decreased \$8.0 million, or 9.5%, to \$75.9 million compared to \$83.9 million for the three months ended March 31, 2007. The decrease was primarily related to our core dry freight truck body sales, our largest product group, which declined by \$10.0 million, or 23.8%. We attribute the decrease in our core product sales to an industry-wide decline in demand in the retail truck market. This decline began in early 2007 and the prevailing industry expectations are that the lower demand levels will continue throughout 2008 and possibly into 2009. However, this could potentially create future pent-up demand. We are positioned to capitalize on an economic recovery as we execute our strategic plan, including the redesign of our core van body product line. This new van body is expected to be less expensive to produce, enable increased inventory turns, and reduce the lead-time required to produce and deliver finished product. Our progress on the redesign remains on schedule with production currently set to begin late in 2008. Additionally, the decrease in first quarter 2008 net sales resulted from the timing of shipments to our major fleet customers. 2007 fleet shipments began early in January while 2008 shipments started in late February due to changing customer buying patterns. Overall, we anticipate our 2008 fleet sales volume to remain relatively

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unchanged compared to 2007. Partially offsetting the decrease in dry freight truck body sales were sales improvements in our StarTrans bus division which experienced a 12.5% increase to \$18.4 million, coupled with our Silver Crown division, where sales were \$4.4 million, a 123% increase, resulting from the increased market penetration of this

2006 acquisition. Our total sales backlog was \$85.8 million at March 29, 2008 compared to \$81.3 million at March 31, 2007.

As we move into the second quarter, the availability of General Motors (GM) chassis is a concern due to a labor dispute between the United Auto Workers and GM's axle supplier. The potential disruption in the supply of GM chassis could adversely affect our profitability and result in higher inventory carrying costs. The Company has established relationships with all major chassis manufacturers and, to mitigate the potential adverse impact of the labor dispute, will attempt to divert its source of supply to other chassis manufacturers. Additionally, because of the Company's product diversification, management believes the Company is in a favorable position to withstand the potential adverse effect of a possible chassis supply interruption.

### *Cost of sales and gross profit*

Gross profit decreased by \$1.4 million, or 15.6%, to \$7.6 million (10.0% of net sales) for the three months ended March 29, 2008 compared to \$9.0 million (10.7% of net sales) for the three months ended March 31, 2007. The following table presents the components of cost of sales as a percentage of net sales for the first quarter of 2008 and 2007 and the changes as a percentage of sales:

|               | March 29,<br>2008 | March 31,<br>2007 | Percent<br>Change |
|---------------|-------------------|-------------------|-------------------|
| Material      | 57.3%             | 58.7%             | -1.4%             |
| Direct labor  | 14.0              | 13.5              | 0.5               |
| Overhead      | 16.1              | 14.8              | 1.3               |
| Delivery      | 2.6               | 2.3               | 0.3               |
| Cost of sales | 90.0              | 89.3              | 0.7               |
| Gross profit  | 10.0%             | 10.7%             | -0.7%             |

**Material** Material cost as a percentage of net sales for the three months ended March 29, 2008 was 57.3% compared to 58.7% for the corresponding period in 2007. The decrease of 1.4% was attributable to an improvement of 0.7% in our core truck division due to a favorable product mix and higher selling prices in certain markets. Additionally, our StarTrans bus division material percentage decreased due to the use of more customer-supplied chassis versus purchased chassis.

Raw material costs are increasing for aluminum, steel, and petroleum-based materials. Accordingly, we announced a 3% price increase, effective March 14, 2008, on all core truck product lines. This price increase, along with cost savings measures such as a redesign of our core truck product and lean manufacturing initiatives, as well as ongoing efforts in product diversification should help enable us to mitigate the effect of rising raw material costs. We are closely monitoring and managing all material costs through frequent communication and negotiation with our suppliers and we will continue to address unavoidable raw material cost increases by increasing the price of our products, as necessary and as our markets will bear them. The Company also continues to strive to reduce the manufacturing costs of our products through research and development of innovative materials and the use of robotics.



**Direct Labor** Direct labor as a percentage of net sales for the three months ended March 29, 2008 was 14.0% compared to 13.5% for the three months ended March 31, 2007. The direct labor percentage increase was the result of the timing of fleet customer buying patterns and the normal startup costs of additional production lines to fulfill fleet orders. Historically, we have experienced an improvement in our direct labor percentage once line startup costs decline. However, the historical labor improvement may not be realized this year should there be an interruption in chassis supply (as discussed previously) due to labor disputes in our chassis supply chain. Additionally, our StarTrans bus division experienced an increase in its labor percentage due to employee training costs associated with a plant expansion which was required to satisfy a strong backlog at that operation.

**Overhead** Overhead as a percentage of net sales for the three months ended March 29, 2008 was 16.1% compared to 14.8% for the three months ended March 31, 2007. The overhead percentage increase of 1.3% was due to the fixed nature of certain expenses that do not fluctuate when sales and production volume changes. Additionally, the Company was unfavorably impacted by higher utility costs as a result of an unusually cold winter in the Northeast and Midwest. We will continue to focus on reducing expenses and managing our overhead cost structure based on our level of sales and production volume.

**Delivery** Delivery as a percentage of net sales for the three months ended March 29, 2008 was 2.6% compared to 2.3% for the three months ended March 31, 2007, reflecting the impact of higher fuel costs. We continue to try to pass on the higher fuel related costs to customers despite competitive pressures in the marketplace.

***Selling, general and administrative expenses***

Selling, general and administrative ( SG&A ) expenses were \$6.9 million for each of the periods presented. However, SG&A expenses comprised 9.2% of net sales for the three months ended March 29, 2008 and 8.3% of net sales for the three months ended March 31, 2007. The increased percentage reflects the generally fixed nature of most of our SG&A expenses. The following table presents selling and G&A expenses as a percentage of net sales and the respective changes:

|                  | March 29,<br>2008 | March 31,<br>2007 | Percent<br>Change |
|------------------|-------------------|-------------------|-------------------|
| Selling expenses | 3.2%              | 3.1%              | 0.1%              |
| G&A expenses     | 6.0               | 5.2               | 0.8               |
| Total            | 9.2%              | 8.3%              | 0.9%              |

**Selling expenses** Selling expenses decreased by \$0.2 million, or 7.7%, to \$2.4 million for the three months ended March 29, 2008 from \$2.6 million for the three months ended March 31, 2007. Selling expenses declined due to increased cooperative marketing credits the Company received from chassis manufacturers. These credits, determined solely by programs established by the chassis manufacturers, are used to offset marketing and promotional expenses.



**G&A expenses** General and administrative expenses increased by \$0.2 million, or 4.7%, to \$4.5 million for the three months ended March 29, 2008, from \$4.3 million for the three months ended March 31, 2007. The increase in general and administrative expenses was primarily due to additional stock-based compensation, software maintenance agreement costs, and business insurance premiums.

***Other income***

Other income increased by \$0.1 million to \$0.2 million for the three months ended March 29, 2008 compared to \$0.1 million for the three months ended March 31, 2007. Other income consisted of rental income, gain on sale of assets, and other miscellaneous income received by the Company through its various business activities.

***Interest expense***

Interest expense decreased by \$0.1 million, or 14.3%, to \$0.6 million (0.8% of net sales) for the three months ended March 29, 2008, compared to \$0.7 million (0.8% of net sales) for the three months ended March 31, 2007. The decrease in bank interest expense reflects lower prevailing interest rates coupled with lower working capital requirements related to the lower sales volume experienced in the 2008 quarter.

***Income taxes***

The Company's effective income tax rate was 24.9% for the three months ended March 29, 2008, compared to 30.5% for the three months ended March 31, 2007. The estimated effective income tax rate for both periods was favorably impacted by tax benefits associated with the Company's wholly-owned captive insurance subsidiary, additional manufacturing tax deductions allowed under the 2004 American Jobs Creation Act, federal alternative fuel tax credits, and research and development tax credits. The effective income tax rate for the previous year ended December 29, 2007 was 22.9%.

***Net income and earnings per share***

Net income decreased by \$0.8 million, or 80.0%, to \$0.2 million (0.3% of net sales) for the three months ended March 29, 2008, from to \$1.0 million (1.2% of net sales) for the three months ended March 31, 2007. The following table presents basic and diluted earnings per share and the changes from quarter-to-quarter:

|                     | March 29,<br>2008 |      | March 31,<br>2007 |      | Change    |
|---------------------|-------------------|------|-------------------|------|-----------|
| Earnings per share: |                   |      |                   |      |           |
| Basic               | \$                | 0.02 | \$                | 0.08 | \$ (0.06) |
| Diluted             | \$                | 0.02 | \$                | 0.08 | \$ (0.06) |



**Liquidity and Capital Resources**

Proceeds from the Company's revolving line of credit were the major source of cash flows during the first quarter of 2008. The Company's cash management system and revolving line of credit have been designed to maintain zero cash balances and, accordingly, excess cash generated from operations is utilized to reduce borrowings. All borrowings under the revolving line of credit remain unsecured.

***Operating activities***

Operating activities used \$4.3 million of cash for the three months ended March 29, 2008 compared to cash provided of \$4.3 million for the three months ended March 31, 2007. For the first quarter of 2008, operating cash was unfavorably impacted by a \$5.1 million increase in inventory, offset by a \$0.7 million increase in accounts payable. Net income, adjusted for depreciation and amortization, provided cash flows from operating activities totaling \$1.3 million and \$2.0 million in first quarter of 2008 and 2007, respectively. Working capital increased \$5.9 million during the first quarter of 2008 principally due to the higher inventory levels as a result of large fleet contracts.

***Investing activities***

Cash used in investing activities remained relatively unchanged at \$2.2 million for the three months ended March 29, 2008 and March 31, 2007. Investments in our wholly-owned captive subsidiary increased \$1.2 million during the first quarter of 2008. Capital expenditures were \$1.0 million during the first quarter of 2008 and consisted principally of investments in replacement equipment. Additionally, our Silver Crown operation began construction of a new facility to expand capacity to meet the increased demand for its products. The Company expects to invest approximately \$4.0 million in additions to property, plant, and equipment in 2008.

***Financing activities***

Financing activities provided \$5.3 million for the three months ended March 29, 2008 compared to cash used of \$3.3 million for the three months ended March 31, 2007. The higher levels of financing activities for the first quarter of 2008 occurred as a result of the increased inventory levels. The Company also received \$25,000 and \$360,000 from the exercise of stock options for the first quarter of 2008 and 2007, respectively. The Company paid cash dividends of nine and one-half cents per share, or \$1.2 million, for the first quarter of 2008 and 2007.

**Critical Accounting Policies and Estimates**

Management's discussion and analysis of its financial position and results of operations are based upon the Company's consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company's significant accounting policies are discussed in Note 1 of the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 29, 2007. In management's opinion, the Company's critical accounting policies include revenue recognition, allowance for doubtful accounts, excess and obsolete inventories, inventory relief, accrued insurance, and accrued warranty.

**Revenue Recognition** The Company generally recognizes revenue when the unit is shipped to the customer. Revenue on certain customer requested bill and hold transactions is recognized after the customer is notified that the products have been completed according to customer specifications, have passed all of the Company's quality control inspections, and are ready for delivery based on established delivery terms.

**Allowance for Doubtful Accounts** The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required which would adversely affect our future operating results.

**Excess and Obsolete Inventories** The Company must make estimates regarding the future use of raw materials and finished products and provide for obsolete or slow-moving inventories. If actual product life cycles, product demand, and/or market conditions are less favorable than those projected by management, additional inventory write-downs may be required which would adversely affect future operating results.

**Inventory Relief** For monthly and quarterly financial reporting, cost of sales is recorded and inventories are relieved by the use of standard bills of material adjusted for scrap and other estimated factors affecting inventory relief. Because of our large and diverse product line and the customized nature of each order, it is difficult to place full reliance on the bills of material for accurate relief of inventories. Although the Company continues to refine the process of creating accurate bills of materials, manual adjustments (which are based on estimates) are necessary in an effort to assure correct relief of inventories for products sold. The calculations to estimate costs not captured in the bill of materials take into account the customized nature of products, historical inventory relief percentages, scrap variances, and other factors which could impact inventory relief.

**Critical Accounting Policies and Estimates, Concluded**

**Accrued Insurance** - The Company has a self-insured retention against product liability claims with insurance coverage over and above the retention. The Company is also self-insured for a portion of its employee medical benefits and workers' compensation. Product liability claims are routinely reviewed by the Company's insurance carrier, and management routinely reviews other self-insurance risks for purposes of establishing ultimate loss estimates. In addition, management must determine estimated liability for claims incurred but not reported. Such estimates, and any subsequent changes in estimates, may result in adjustments to our operating results in the future.

The Company utilizes a wholly-owned small captive insurance company to insure certain of its business risks. Certain risks, traditionally self-insured by the Company and its subsidiaries, are insured by the captive insurance subsidiary. In addition, certain business risks not traditionally insured are insured by the captive insurance subsidiary. Since the captive insurance company has not reinsured any of its coverages, the Company's overall self-insurance risk has not changed. The captive insurance subsidiary helps the Company manage its risk exposures and, under the Internal Revenue Code, the net underwriting income of such a small captive is not taxable.

**Accrued Warranty** - The Company provides limited warranties for periods of up to five years from the date of retail sale. Estimated warranty costs are provided at the time of sale and are based upon historical experience.

**Forward-Looking Statements**

This report contains forward-looking statements, other than historical facts, which reflect the view of management with respect to future events. When used in this report, words such as "believe," "expect," "anticipate," "estimate," "intend," and similar expressions, as they relate to the Company's plans or operations, identify forward-looking statements. Such forward-looking statements are based on assumptions made by, and information currently available to, management. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that the expectations reflected in such forward-looking statements are reasonable, and it can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from such expectations include, without limitation, limitations on the availability of chassis on which the Company's product is dependent, availability of raw materials, raw material cost increases and severe interest rate increases. Furthermore, the Company can provide no assurance that such raw material cost increases can be passed on to its customers through implementation of price increases for the Company's products. The forward-looking statements contained herein reflect the current view of management with respect to future events and are subject to those factors and other risks, uncertainties, and assumptions relating to the operations, results of operations, cash flows and financial position of the Company. The Company assumes no obligation to update the forward-looking statements or to update the reasons actual results could differ from those contemplated by such forward-looking statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

There has been no material change from the information provided in the Company's Annual Report on Form 10-K, Item 7A: Quantitative and Qualitative Disclosures About Market Risk, for the year ended December 29, 2007.

**ITEM 4. CONTROLS AND PROCEDURES.**

a. Evaluation of Disclosure Controls and Procedures.

In connection with the preparation of this Form 10-Q, an evaluation was performed under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of March 29, 2008.

b. Changes in Internal Control over Financial Reporting.

There has been no change in the Company's internal control over financial reporting during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company continues to take action to assure compliance with the internal controls, disclosure controls, and other requirements of the Sarbanes-Oxley Act of 2002. Management, including the Company's Chief Executive Officer and Chief Financial Officer, cannot guarantee that the internal controls and disclosure controls will prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of a control system have been met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no system of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in any cost-effective control system, misstatements due to error or fraud may occur and not be detected.



**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

The Company is subject to various investigations, claims, and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company. The Company has established accruals for matters that are probable and reasonably estimable. Management believes that any liability that may ultimately result from the resolution of these matters in excess of accruals and or amounts provided by insurance coverage will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

Not applicable.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

Not applicable.

**ITEM 6. EXHIBITS.**

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Exhibits:

- Exhibit 3.1 Certificate of Incorporation of the Company, filed as Exhibit 3(a) to the Company's Registration Statement on Form 8-A, filed with the Commission on September 18, 1989, and incorporated herein by reference.
- Exhibit 3.2 Certificate of Amendment of Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on June 10, 1993 filed as Exhibit 3.2 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1993, and incorporated herein by reference.
- Exhibit 3.3 Certificate of Amendment of Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on May 29, 1996 filed as Exhibit 3.3 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1996, and incorporated herein by reference.

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|               |   |
|---------------|---|
| Exhibit 3.4   | Bylaws of the Company, filed as Exhibit 3(b) to the Company's Registration Statement on Form 8-A, filed with the Commission on September 18, 1989, and incorporated herein by reference.                |
| Exhibit 3.5   | Amendment to Bylaws (as amended November 20, 2007), filed as Exhibit 3.5 to the Company's annual report on Form 10-K for the fiscal year ended December 29, 2007, and incorporated herein by reference. |
| Exhibit 31.1* | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| Exhibit 31.2* | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| Exhibit 32.1* | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| Exhibit 32.2* | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |

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\*Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUPREME INDUSTRIES, INC.

DATE: May 13, 2008

BY: /s/ Herbert M. Gardner  
Herbert M. Gardner  
Chairman of the Board and Chief  
Executive Officer

DATE: May 13, 2008

BY: /s/ Jeffery D. Mowery  
Jeffery D. Mowery  
Vice President of Finance and Chief  
Financial Officer

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INDEX TO EXHIBITS

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