

SUPREME INDUSTRIES INC  
Form 10-Q  
November 05, 2010  
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**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 September 25, 2010**

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)

**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 46528**

(Address of principal executive offices) (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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)**  
**Class A**  
**Class B**

**Outstanding at October 25, 2010**  
**12,455,991**  
**1,917,882**



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## Consolidated Balance Sheets

	September 25, 2010 (Unaudited)	December 26, 2009
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 57,226	\$ 1,222,411
Investments	1,235,994	1,645,407
Accounts receivable, net	21,894,479	22,710,669
Inventories	37,606,874	31,553,351
Other current assets	5,374,659	8,870,300
<b>Total current assets</b>	<b>66,169,232</b>	<b>66,002,138</b>
<b>Property, plant and equipment, at cost</b>	<b>88,591,996</b>	<b>89,501,666</b>
Less, Accumulated depreciation and amortization	48,755,232	47,264,582
<b>Property, plant and equipment, net</b>	<b>39,836,764</b>	<b>42,237,084</b>
<b>Other assets</b>	<b>1,380,773</b>	<b>1,181,357</b>
<b>Total assets</b>	<b>\$ 107,386,769</b>	<b>\$ 109,420,579</b>

See accompanying notes to consolidated financial statements.

Table of Contents**Supreme Industries, Inc. and Subsidiaries**

## Consolidated Balance Sheets, Concluded

	September 25, 2010 (Unaudited)	December 26, 2009
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$ 22,532,330	\$ 26,226,289
Trade accounts payable	11,779,484	9,906,429
Accrued income taxes	1,002,085	989,300
Other accrued liabilities	9,092,421	7,386,251
<b>Total current liabilities</b>	44,406,320	44,508,269
<b>Long-term debt</b>	979,128	1,115,410
<b>Deferred income taxes</b>	1,438,463	1,211,262
<b>Total liabilities</b>	46,823,911	46,834,941
<b>Stockholders equity</b>	60,562,858	62,585,638
<b>Total liabilities and stockholders equity</b>	\$ 107,386,769	\$ 109,420,579

See accompanying notes to consolidated financial statements.

Table of Contents**Supreme Industries, Inc. and Subsidiaries**

## Consolidated Statements of Operations (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Net sales	\$ 62,838,770	\$ 49,805,255	\$ 171,879,771	\$ 146,009,984
Cost of sales	57,150,319	45,722,285	156,804,407	135,181,021
<b>Gross profit</b>	<b>5,688,451</b>	<b>4,082,970</b>	<b>15,075,364</b>	<b>10,828,963</b>
Selling, general and administrative expenses	5,706,733	5,223,451	17,043,608	16,066,318
Other income	(192,593)	(102,669)	(589,598)	(776,956)
<b>Operating income (loss)</b>	<b>174,311</b>	<b>(1,037,812)</b>	<b>(1,378,646)</b>	<b>(4,460,399)</b>
Interest expense	296,438	549,423	1,175,188	1,526,301
<b>Loss from continuing operations before income taxes</b>	<b>(122,127)</b>	<b>(1,587,235)</b>	<b>(2,553,834)</b>	<b>(5,986,700)</b>
Income tax benefit		(337,008)		(2,625,630)
<b>Loss from continuing operations</b>	<b>(122,127)</b>	<b>(1,250,227)</b>	<b>(2,553,834)</b>	<b>(3,361,070)</b>
Discontinued operations				
Operating loss of discontinued motorhome operations	(51,743)	(278,347)	(190,509)	(672,527)
<b>Net loss</b>	<b>\$ (173,870)</b>	<b>\$ (1,528,574)</b>	<b>\$ (2,744,343)</b>	<b>\$ (4,033,597)</b>
<b>Loss Per Share:</b>				
Loss from continuing operations	\$ (0.01)	\$ (0.09)	\$ (0.18)	\$ (0.23)
Loss from discontinued operations	(0.00)	(0.02)	(0.01)	(0.05)
<b>Net loss</b>	<b>\$ (0.01)</b>	<b>\$ (0.11)</b>	<b>\$ (0.19)</b>	<b>\$ (0.28)</b>
<b>Shares used in the computation of loss per share:</b>				
Basic	14,325,693	14,198,782	14,291,729	14,180,168
Diluted	14,325,693	14,198,782	14,291,729	14,180,168

See accompanying notes to consolidated financial statements.

Table of Contents**Supreme Industries, Inc. and Subsidiaries**

## Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended	
	September 25, 2010	September 26, 2009
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,744,343)	\$ (4,033,597)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,865,033	3,117,219
Provision for losses on doubtful receivables	51,462	78,736
Stock-based compensation expense	434,515	469,810
Losses (gains) on sale of property, plant and equipment, net	402	(239,708)
Changes in operating assets and liabilities	2,015,444	11,281,311
<b>Net cash provided by operating activities</b>	<b>2,622,513</b>	<b>10,673,771</b>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(1,046,839)	(1,655,555)
Proceeds from sale of property, plant and equipment	623,749	507,071
Purchases of investments	(1,018,499)	(85,625)
Proceeds from sales of investments	1,475,073	1,053,054
Decrease in other assets	6,559	6,559
<b>Net cash provided by (used in) investing activities</b>	<b>40,043</b>	<b>(174,496)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from revolving line of credit and long-term debt	50,794,006	55,813,354
Repayments of revolving line of credit and long-term debt	(54,624,247)	(67,178,347)
Proceeds from exercise of stock options	2,500	
<b>Net cash used in financing activities</b>	<b>(3,827,741)</b>	<b>(11,364,993)</b>
<b>Change in cash and cash equivalents</b>	<b>(1,165,185)</b>	<b>(865,718)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1,222,411</b>	<b>932,608</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 57,226</b>	<b>\$ 66,890</b>

See accompanying notes to consolidated financial statements.



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**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

Notes To Consolidated Financial Statements

NOTE 1 - BASIS OF PRESENTATION AND OPINION OF MANAGEMENT

The accompanying unaudited consolidated condensed 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 26, 2009 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. References to we, us, our, its, Supreme, or the Company refer to Supreme Industries, Inc. and its subsidiaries.

The Company has adopted a 52- or 53-week fiscal year ending the last Saturday in December. The results of operations for the three and nine months ended September 25, 2010 and September 26, 2009 are for 13- and 39-week periods, respectively.

NOTE 2 DISCONTINUED OPERATIONS

In the fourth quarter of 2009, the Company closed its Silver Crown luxury motorhome operations. This decision was triggered by a significant reduction of new motorhome sales orders and the cancellation of sales orders due to the extremely tight credit markets caused by the economic recession. The Company decided to exit the motorhome product line as part of a plan to focus on core truck and bus products and to reduce overall fixed costs.

The Company is in the process of selling or leasing the real estate of the Silver Crown division; therefore, the real estate totaling \$1.3 million is accordingly classified as held for sale at September 25, 2010. The Company plans to sell the finished units on hand as of September 25, 2010, relating to this product line in the near term.

The 2010 operating results for the Silver Crown division are classified as discontinued operations, and prior years' operating results have been reclassified to discontinued operations as follows:

	Three Months Ended		Nine Months Ended	
	Sep 25, 2010	Sep 26, 2009	Sep 25, 2010	Sep 26, 2009
Net sales	\$ 260,174	\$ 295,922	\$ 1,828,151	\$ 2,968,365
Pretax loss from operations	\$ (51,743)	\$ (376,339)	\$ (190,509)	\$ (1,197,897)

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Net loss	\$	(51,743)	\$	(278,347)	\$	(190,509)	\$	(672,527)
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Notes To Consolidated Financial Statements-Continued

NOTE 3 OTHER COMPREHENSIVE INCOME

Other comprehensive income includes unrealized gains (losses) on hedge-activity, net of tax, and unrealized gains (losses) on available-for-sale securities, net of tax. Total comprehensive loss combines net loss and other comprehensive income.

For the three- and nine-month periods ended September 25, 2010 and September 26, 2009, total comprehensive loss and other comprehensive income are as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>Sep 25, 2010</b>	<b>Sep 26, 2009</b>	<b>Sep 25, 2010</b>	<b>Sep 26, 2009</b>
Net loss	\$ (173,870)	\$ (1,528,574)	\$ (2,744,343)	\$ (4,033,597)
Other comprehensive income	42,962	97,530	284,548	228,088
Total comprehensive loss	\$ (130,908)	\$ (1,431,044)	\$ (2,459,795)	\$ (3,805,509)

NOTE 4 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>September 25, 2010</b>	<b>December 26, 2009</b>
Raw materials	\$ 19,717,295	\$ 17,512,758
Work-in-progress	7,478,945	6,528,059
Finished goods	10,410,634	7,512,534
	\$ 37,606,874	\$ 31,553,351

NOTE 5 FAIR VALUE MEASUREMENT

Generally accepted accounting principles ( GAAP ) define 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. GAAP 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:

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Level 1: Quoted prices (unadjusted) for 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 an asset or liability.

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**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

Notes To Consolidated Financial Statements-Continued

NOTE 5 FAIR VALUE MEASUREMENT- continued

The Company used the following methods and significant assumptions 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).

The carrying amounts of cash and cash equivalents, accounts receivable, and trade accounts payable approximated fair value as of September 25, 2010, and December 26, 2009, because of the relatively short maturities of these financial instruments. The carrying amount of long-term debt, including current maturities, approximated fair value as of September 25, 2010, and December 26, 2009, based upon terms and conditions available to the Company at those dates in comparison to the terms and conditions of its outstanding long-term debt.

NOTE 6 REVOLVING LINE OF CREDIT

On October 18, 2010, Supreme Industries, Inc. entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A. (the "Lender") which agreement was effective on September 30, 2010. Under the terms of the Credit Agreement, the Lender agreed to provide the Company with a revolving line of credit of up to \$30,000,000 (previously \$25,000,000) through December 31, 2011. The line of credit is limited to \$25,000,000 until the Company meets certain post-closing conditions, outlined in the Credit Agreement, at which time the full revolving credit amount of \$30,000,000 will become available. In order to qualify for the full revolving credit amount, the Company must meet certain borrowing base requirements related to accounts receivable and inventories. As additional collateral for the revolving credit facility, Supreme and certain of its affiliates have signed and delivered to the Lender Pledge and Security Agreements granting to the Lender security interests in their personal property. During the term of this revolving credit, the Company is required to comply with two financial covenants, consisting of a minimum required EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) and a minimum tangible net worth.

As of September 25, 2010, the Company had unused credit capacity of approximately \$5.5 million under its then existing \$25,000,000 credit agreement. Interest on outstanding borrowings under the revolving line of credit is based on the bank's prime rate, or certain basis points above LIBOR, depending on the pricing option selected and the Company's leverage ratio. The Company's cash management system and revolving line of credit are designed to maintain zero cash balances and, accordingly, checks outstanding in excess of bank balances are classified as additional borrowings under the revolving line of credit.

NOTE 7 - LOSS PER SHARE

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As of September 25, 2010, the assumed exercise or issuance of 160,129 shares and 212,753 shares for the three- and nine-month periods, respectively, relating to stock plans were not included in the computation of diluted loss per share. As of September 26, 2009, the assumed exercise or issuance of 253,013 shares and 186,797 shares for the three-and nine month period, respectively, relating to stock plans were not included in the computation of diluted loss per share. Inclusion of these shares in the respective periods would have been antidilutive.

Table of Contents**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

Notes To Consolidated Financial Statements    Concluded

**NOTE 8 - STOCK-BASED COMPENSATION**

The following table summarizes the activity for the unvested restricted stock units and restricted stock for the nine months ended September 25, 2010:

	Number of Shares		Weighted - Average Grant Date Fair Value
Unvested, December 26, 2009	111,736	\$	4.62
Granted			n/a
Vested	(67,749)		5.04
Unvested, September 25, 2010	43,987	\$	3.99

The total fair value of the shares vested during the nine months ended September 25, 2010 was \$341,247.

A summary of the status of the Company's outstanding stock options as of September 25, 2010, and changes during the nine months ended September 25, 2010, are as follows:

	Number of Shares		Weighted - Average Exercise Price
Outstanding, December 26, 2009	1,246,082	\$	5.00
Granted			n/a
Exercised	(1,766)		1.42
Expired	(363,720)		6.16
Forfeited			n/a
Outstanding, September 25, 2010	880,596	\$	4.53

As of September 25, 2010, outstanding options had an intrinsic value of \$87,081 and a weighted-average remaining contractual life of 3.92 years.

Total unrecognized compensation expense related to all share-based awards outstanding at September 25, 2010, was approximately \$303,000 and is to be recorded over a weighted average contractual life of 0.80 years.





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**ITEM 2.**  
**OPERATIONS.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF**

Established in 1974 as a truck body manufacturer, Supreme Industries, Inc., through its wholly-owned subsidiary, Supreme Indiana Operations, Inc., is one of the nation's leading manufacturers of specialized commercial vehicles. Utilizing a nationwide direct sales and distribution network, as well as manufacturing and service facilities in nine 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, buses, and other specialty vehicles. Building on its 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 portable storage units.

The Company and its product offerings are sensitive to various factors which include, but are not limited to, economic conditions, interest rate fluctuations, volatility in the supply chain of vehicle chassis, and the availability of credit and financing to the Company, our vendors, dealers, and end users. The Company's business is also affected by the availability and costs of certain raw materials that serve as significant components of its product offerings. The Company's risk factors are disclosed in Item 1A Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 26, 2009, and herein in Item 1A.

The following discussion should be read in conjunction with the consolidated financial statements and related notes thereto elsewhere in this document and pertain to continuing operations unless otherwise noted.

**Results of Operations**

***Overview***

During the third quarter of 2010, we continued to experience increasing revenues, and accordingly, we were able to improve our results from a pre-tax operating loss of \$1.6 million in the third quarter of 2009 to a pre-tax operating loss of \$0.1 million in the third quarter of 2010. We also improved our gross profit in 2010 by 39% for both the third quarter and for the nine months as compared with the corresponding periods in 2009. Based upon industry analysts, our own increasing backlog, and a large fleet order received for spring 2011, we are beginning to see improved market demand. However, we continue to maintain a conservative and cautious view of our markets as we move forward.

We have been experiencing improved demand for all product lines including truck, bus, and armored vehicles. Our sales backlog was \$89.3 million at September 25, 2010, as compared with \$61.9 million at September 26, 2009. With product enhancements to our Signature body to improve customer satisfaction, pent-up truck demand (due to historic lows in purchases over the past two years), and our improved backlog, we are well-positioned to improve our performance going forward, subject to a continued recovery of the truck market.

We also continue to look for opportunities to make our operations leaner and more profitable. The substantial cost reductions to date, which began in mid-2008, have been derived from, among other factors, personnel and salary reductions, suspension of the Company's 401(k) contributions, process improvements, plant closures and consolidations, outsourcing, and improved inventory management. In addition, during the fourth quarter of 2009, the Company closed its Silver Crown luxury motorhome business. The unprecedented tight credit markets caused by the severe economic recession led to a significant reduction of new motorhome orders and the cancellation of orders.

In our efforts to rebound from the severe recession and maintain our position as one of the strongest companies in our industry, we continue to implement our strategies of cost containment, production efficiencies, revenue enhancement, market expansion, and product diversification.

Table of Contents*Net Sales*

Net sales for the three months ended September 25, 2010, increased \$13.0 million to \$62.8 million as compared with \$49.8 million for the three months ended September 26, 2009. Net sales for the nine months ended September 25, 2010, increased \$25.9 million to \$171.9 million compared with \$146.0 million for the nine months ended September 26, 2009. The following table presents the components of net sales and the changes from period to period:

(\$000 s omitted)	Three Months Ended			Nine Months Ended				
	Sep 25, 2010	Sep 26, 2009	Change	Sep 25, 2010	Sep 26, 2009	Change		
Specialized vehicles:								
Trucks	\$ 35,968	\$ 27,153	\$ 8,815	32.5%	\$ 92,956	\$ 78,806	\$ 14,150	18.0%
Buses	20,368	19,515	853	4.4%	58,443	50,190	8,253	16.4%
Armored vehicles	5,718	2,735	2,983	109.1%	17,341	13,226	4,115	31.1%
	62,054	49,403	12,651	25.6%	168,740	142,222	26,518	18.6%
Composites	785	402	383	95.3%	3,140	3,788	(648)	-17.1%
	\$ 62,839	\$ 49,805	\$ 13,034	26.2%	\$ 171,880	\$ 146,010	\$ 25,870	17.7%

The truck division sales increase of \$8.8 million, or 33% for the quarter, and \$14.2 million, or 18% for the first nine months, was primarily attributable to an improved retail truck market and increased fleet shipments. We have experienced improved backlog for trucks and believe that we are well-positioned to benefit from favorable industry indicators and the expectation that customers will begin replacing aging equipment. Additionally, we are encouraged by a specific large fleet order received with shipments to commence during the first half of 2011.

Our StarTrans bus division continued to experience strong demand, increasing its sales by \$0.9 million for the quarter and \$8.3 million for the first nine months of 2010. These increases were due in part to the availability of funds from the 2009 federal economic stimulus plan enabling state and local transit authorities to purchase new units. With our strong bus backlog, we anticipate continued favorable contributions from our bus division for the remainder of 2010 and into 2011.

The armored division continued to experience increased demand with revenue increases of \$3.0 million for the quarter and \$4.1 million for the nine months of 2010. These increases were primarily the result of our contract with the U.S. Department of State to produce armored Suburbans for embassies abroad and improved demand for cash-in-transit vehicles. We believe that the armored division is well-positioned for the remainder of 2010 and into 2011 due to the increased backlog and the positive response we are receiving from other governmental agencies regarding our armored product offerings and quality.

The composite divisions represent sales of fiberglass reinforced plywood and other fiberglass products. The increase for the quarter of \$0.4 million was due to improved sales of our fiberglass reinforced plywood product. The decrease of \$0.7 million for the first nine months of 2010 was due to lower fiberglass sales resulting from the overall economic downturn.

*Cost of sales and gross profit*

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Gross profit increased by \$1.6 million, or 39.0%, to \$5.7 million for the three months ended September 25, 2010, as compared with \$4.1 million for the three months ended September 25, 2009. For the nine months ended September 25, 2010, gross profit increased by \$4.3 million, or 39.8%, to \$15.1 million compared with \$10.8 million for the nine months ended September 26, 2009. The following table presents the components of cost of sales as a percentage of net sales and the changes from period to period:

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	Three Months Ended			Nine Months Ended		
	Sep 25, 2010	Sep 26, 2009	Percent Change	Sep 25, 2010	Sep 26, 2009	Percent Change
Material	57.3%	59.4%	(2.1)%	57.8%	58.8%	(1.0)%
Direct Labor	15.4	13.7	1.7	14.7	13.8	0.9
Overhead	15.6	16.3	(0.7)	16.2	17.7	(1.5)
Delivery	2.6	2.4	0.2	2.5	2.3	0.2
Cost of sales	90.9	91.8	(0.9)	91.2	92.6	(1.4)
Gross profit	9.1%	8.2%	0.9%	8.8%	7.4%	1.4%

**Material** Material cost as a percentage of net sales decreased by 2.1% and 1.0% for the three and nine months ended September 25, 2010, respectively, as compared with the corresponding periods in 2009. The decrease in the material percentage was attributable to a higher proportion of specialty products sold through our bus and armored divisions. This was partially offset by an increase in the material percentage in the truck division due to a change in the product mix and a competitive pricing environment.

As the general economic environment begins to show signs of stability and some improvement, the potential for future raw material cost increases remains a concern for certain commodities (aluminum, steel, and wood). We closely monitor all major commodities and continually review the financial stability of our primary vendors. We also strive to reduce manufacturing costs through the use of improved technologies, processes, and supply-chain management tactics and strategies.

**Direct Labor** Direct labor as a percentage of net sales increased by 1.7% and 0.9% for the three and nine months ended September 25, 2010, respectively, as compared with the corresponding periods in 2009. The increase in the direct labor percentage was due to new employee training costs in order to support the higher production and sales levels in 2010. Historically, our labor percentage has increased during ramp-up periods due to the new employee training costs.

**Overhead** Manufacturing overhead as a percentage of net sales decreased by 0.7% and 1.5% for the three and nine months ended September 25, 2010, respectively, as compared with the corresponding periods in 2009. The overall overhead percentage declined due to the fixed nature of certain overhead expenses that do not fluctuate with sales volume changes. Additionally, the decrease in the overhead percentage was the result of our cost reduction efforts which have included personnel reductions, process improvements, and plant consolidations. Partially offsetting the decrease in the percentage was group health insurance costs which were higher than anticipated as a result of several large claims. In an effort to control future claim costs, the Company continues to implement design changes to its group health insurance plan.

**Delivery** Delivery as a percentage of net sales increased by 0.2% for the three and nine months ended September 25, 2010, as compared with the corresponding periods in 2009. The Company continues to explore more cost-effective delivery methods to mitigate the adverse impact of ongoing high fuel costs.

### *Selling, general and administrative expenses*

Selling, general and administrative ( G&A ) expenses increased by \$0.5 million, or 9.6%, to \$5.7 million for the three months ended September 25, 2010, as compared with \$5.2 million for the three months ended September 26, 2009. For the nine months ended September 25, 2010, selling and G&A expenses increased by \$0.9 million, or 5.6%, to \$17.0 million compared with \$16.1 million for the nine months ended

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September 26, 2009. The following table presents selling and G&A expenses as a percentage of net sales and the changes from period to period:

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(\$000 s omitted)	Three Months Ended						Nine Months Ended					
	Sep 25, 2010		Sep 26, 2009		Change		Sep 25, 2010		Sep 26, 2009		Change	
Selling expenses	\$ 1,910	3.1%	\$ 1,677	3.4%	\$ 233	-0.3%	\$ 5,852	3.4%	\$ 5,385	3.7%	\$ 467	-0.3%
G&A expenses	3,797	6.0	3,546	7.1	251	-1.1	11,192	6.5	10,681	7.3	511	-0.8
Total	\$ 5,707	9.1%	\$ 5,223	10.5%	\$ 484	-1.4%	\$ 17,044	9.9%	\$ 16,066	11.0%	\$ 978	-1.1%

**Selling expenses** Selling expenses increased for the three and nine months ended September 25, 2010, as compared with the corresponding periods in 2009. The increase for both periods was primarily attributable to higher commission expense resulting from the improvement in the sales volume. However, selling expenses as a percentage of sales decreased 0.3% for the three and nine months, respectively, as compared with the corresponding periods in 2009.

**G&A expenses** G&A expenses increased for the three and nine months ended September 25, 2010, as compared with the corresponding period in 2009. The increase was primarily attributable to costs incurred to engage a consulting firm to assist the Company with its profit improvement plan and higher legal fees resulting from a lawsuit the Company is vigorously contesting. These costs were offset by reduced employee headcount and the related payroll and benefit cost savings. Reductions in our administrative workforce have been a significant part of the cost savings initiatives that we began implementing in mid-2008. G&A expenses as a percentage of sales decreased 1.1% and 0.8% for the three and nine months, respectively, as compared with the corresponding periods in 2009.

### *Other income*

For the three months ended September 25, 2010, other income was \$0.2 million as compared with \$0.1 million for the three months ended September 26, 2009. For the nine months ended September 25, 2010, other income was \$0.6 million as compared with \$0.8 million for the nine months ended September 26, 2009. Other income consisted of rental income, gain or loss on sale of assets, and other miscellaneous income received by the Company.

### *Interest expense*

Interest expense was \$0.3 million for the three months ended September 25, 2010, compared with \$0.5 million for the three months ended September 26, 2009. For the nine months ended September 25, 2010, interest expense was \$1.2 million compared with \$1.5 million for the nine months ended September 26, 2009. A reduction in chassis interest expense was partially attributable to measures implemented to improve bailment chassis inventory management. The bank interest expense reflected lower prevailing interest rates coupled with reduced debt levels due to lower working capital levels. This was somewhat offset by higher (performance-based) pricing provisions under our bank credit facility as recent operating losses triggered an increase in interest rates.

### *Loss from continuing operations before income taxes*

The loss from continuing operations before income taxes was \$0.1 million (-0.2% of net sales) for the three months ended September 25, 2010, compared to a net loss of \$1.6 million (-3.2% of net sales) for the three months ended September 26, 2009. For the nine months ended

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September 25, 2010, the loss from continuing operations before income taxes was \$2.6 million (-1.5% of net sales) compared with \$6.0 million (-4.1% of net sales) for the nine months ended September 26, 2009.



Table of Contents***Income taxes***

The Company fully utilized its net operating loss carryback benefits during its 2009 tax year, for which refunds have been subsequently received. Accordingly, we recorded a deferred tax asset for the net operating losses generated during the three-and nine-month periods ended September 25, 2010. The ultimate realization of these deferred tax assets is dependent upon future taxable income. Because the Company has incurred tax losses in the prior two years, there is no certainty that the Company will utilize the full benefit of these deferred tax assets; therefore, it has recorded a valuation allowance for the net operating losses generated during the three quarters of 2010, thus no tax benefit has been recorded for the 2010 periods. The estimated effective income tax rate for the nine months ended September 26, 2009, was 44%. The estimated effective income tax rate for the three quarters of 2009 was favorably impacted by tax benefits associated with the Company's wholly-owned captive insurance subsidiary, federal alternative fuel tax credits, and research and development tax credits. The combination of these tax benefits, in addition to the incurred pretax losses, resulted in an overall tax benefit position for the Company in 2009.

***Discontinued Operations***

As noted earlier, the Company closed its Silver Crown luxury motorhome business and has, accordingly, reflected prior-period results as discontinued operations. The unprecedented tight credit markets caused by the severe economic recession led to a significant reduction in new motorhome orders and the cancellation of orders. For the three months ended September 25, 2010, the after tax operating loss from this discontinued operation was \$52,000 compared with an after tax operating loss of \$0.3 million for the three months ended September 26, 2009. For the nine months ended September 25, 2010, the after tax operating loss from the Silver Crown discontinued operation was \$0.2 million compared with an after tax operating loss of \$0.7 million for the nine months ended September 26, 2009.

***Basic and diluted loss per share***

The following table presents basic and diluted loss per share and the changes from period to period:

	Three Months Ended			Nine Months Ended		
	Sep 25, 2010	Sep 26, 2009	Change	Sep 25, 2010	Sep 26, 2009	Change
Basic and diluted net loss per share:						
Loss from continuing operations	\$ (0.01)	\$ (0.09)	\$ 0.08	\$ (0.18)	\$ (0.23)	\$ 0.05
Loss from discontinued operations		(0.02)	0.02	(0.01)	(0.05)	0.04
Net Loss	\$ (0.01)	\$ (0.11)	\$ 0.10	\$ (0.19)	\$ (0.28)	\$ 0.09

**Liquidity and Capital Resources****Cash Flows**

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The Company's primary sources of liquidity have been cash flows from operating activities and borrowings under a credit facility entered into by Supreme Indiana Operations, Inc., the Company's wholly-owned subsidiary, and certain of its affiliates. Principal uses of cash have been to fund recent operating losses, support working capital needs, meet debt service requirements, and fund capital expenditure needs.

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*Operating activities*

Cash flows from operations represent the net loss sustained in the reported periods adjusted for non-cash charges and changes in operating assets and liabilities. Operating activities provided \$2.6 million of cash for the nine months ended September 25, 2010, as compared with cash provided of \$10.7 million for the nine months ended September 26, 2009. Our net loss, adjusted for depreciation and amortization, favorably impacted cash flows by \$0.1 million for the nine months ended September 25, 2010. For the first nine months of 2010, cash provided by operating activities was favorably impacted by an increase in accounts payable of \$1.9 million, a \$1.7 million increase in accrued other liabilities, and a decrease in accounts receivables totaling \$0.8 million. The Company also received a federal income tax refund generated by our 2009 net operating loss carryback totaling \$4.2 million. This was offset by a \$6.1 million increase in inventories due to higher production levels to support the increased backlog and the increased sales volume. The Company continues to improve its inventory management resulting in higher inventory turns, which improved by over 13% compared to the third quarter of 2009.

*Investing activities*

Cash provided by investing activities was \$40,000 for the nine months ended September 25, 2010, as compared with cash used of \$175,000 for the nine months ended September 26, 2009. During the first nine months of 2010, the Company made short-term investments totaling \$1.0 million through its wholly-owned captive insurance subsidiary and had capital expenditures totaling \$1.0 million, which consisted primarily of replacement equipment. These amounts were reduced by the proceeds from the sale of assets of \$0.6 million and proceeds from the sales of investments totaling \$1.5 million.

*Financing activities*

Financing activities used \$3.8 million of cash for the nine months ended September 25, 2010, principally due a reduction of debt under our revolving bank credit facility as compared with cash used of \$11.4 million for the nine months ended September 26, 2009. Because of the prevailing industry conditions and our focus on restoring profitability and reducing debt, the Company's Board of Directors suspended paying cash dividends effective as of February 16, 2009. Future dividends will be subject to business conditions, the Company's financial position, and requirements for working capital, property, plant, and equipment expenditures, and other corporate purposes.

Capital Resources

On October 18, 2010, Supreme Industries, Inc. entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A. (the "Lender") which agreement was effective on September 30, 2010. Under the terms of the Credit Agreement, the Lender agreed to provide the Company with a revolving line of credit of up to \$30,000,000 (previously \$25,000,000) through December 31, 2011. The line of credit is limited to \$25,000,000 until the Company meets certain post-closing conditions, outlined in the Credit Agreement, at which time the full revolving credit amount of \$30,000,000 will become available. In order to qualify for the full revolving credit amount, the Company must meet certain borrowing base requirements related to accounts receivable and inventories. As additional collateral for the revolving credit facility, Supreme and certain of its affiliates have signed and delivered to the Lender Pledge and Security Agreements granting to the Lender security interests in their personal property. During the term of this revolving credit, the Company is required to comply with two financial covenants, being a minimum required EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) and a minimum tangible net

worth.

As of September 25, 2010, the Company had unused credit capacity of approximately \$5.5 million under its then existing \$25,000,000 credit agreement. Interest on outstanding borrowings under the revolving line of credit is based on the bank's prime rate, or certain basis points above LIBOR, depending on the pricing option selected and the Company's leverage ratio. The Company's cash management system and revolving line of credit are designed to maintain zero cash balances and, accordingly, checks outstanding in excess of bank balances are classified as additional borrowings under the revolving line of credit.

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**Summary of Liquidity and Capital Resources**

The Company's primary capital requirements are to support working capital demands, meet its debt service obligations, and finance capital expenditure requirements. The Company has a substantial asset collateral base that it believes is more than sufficient to support its current outstanding revolving line of credit obligation. Further, additional liquidity is obtained through selling products and collecting the resulting trade accounts receivable. The funds collected are used to pay creditors and employees and to fund working capital needs.

The Company believes that it has adequate availability under its new bank credit facility and sufficient additional liquidity resources to finance its expected working capital needs.

**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 condensed 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 26, 2009. 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 products are 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, chassis, 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 to assure correct relief of inventories for products sold. The calculations to estimate costs not captured in the bill of materials take into account

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the customized nature of products, historical inventory relief percentages, scrap variances, and other factors which could impact inventory relief.

The accuracy of the inventory relief is not fully known until physical inventories are conducted at each of the Company's locations. We conduct semi-annual physical inventories at a majority of our locations and schedule them in a manner that provides coverage in each of our calendar quarters. We have invested significant resources in our continuing effort to improve the physical inventory process and accuracy of our inventory accounting system.

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**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. The captive insurance subsidiary helps the Company manage its risk exposures and, under the Internal Revenue Code, the net underwriting income of such small captive insurance subsidiary 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 accrued 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, an economic slowdown in the specialized vehicle industry, limitations on the availability of chassis on which the Company's products are 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 26, 2009.

**ITEM 4. CONTROLS AND PROCEDURES.**

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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 September 25, 2010.



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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 amounts provided by insurance coverage will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

On January 21, 2009, The Armored Group ( TAG ) filed a complaint against the Company in the Superior Court of the State of Arizona in and for the County of Maricopa alleging breach of oral contract and other claims. TAG alleges that, under an oral agreement between it and the Company, the Company has an obligation to pay to TAG a 10% commission on all sales of armored vehicles to the United States Department of State under a contract with the United States Department of State providing for up to \$100,000,000 in sales. As of September 25, 2010, sales of armored vehicles to the United States Department of State under this contract were approximately \$24,000,000. Since the Company believed that this lawsuit is totally without merit (there was never any such oral agreement or factual basis for TAG's other claims), the Company filed a Motion for Summary Judgment which was denied by the trial court on October 6, 2010. No date for a jury trial has been set. The Company has instructed its attorneys to vigorously contest TAG's claim. However, due to the inherent nature of litigation, the ultimate outcome of this case

(whether by jury trial or otherwise) is uncertain and unpredictable.

**ITEM 1A.**

**RISK FACTORS.**

For a discussion of those Risk Factors affecting the Company, you should carefully consider the Risk Factors discussed in Part I, under Item 1A: Risk Factors contained in our Annual Report on Form 10-K for the year ended December 26, 2009, which is herein incorporated by reference. We have added an additional risk factor to reflect current litigation.



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For each chassis, bailment shall end upon the earlier of: (1) the time that the chassis is sold by Ford to an authorized Ford dealer; and (2) upon authorized return of the chassis to Ford by us.

The foregoing description of the Bailment Agreement is incomplete and is qualified in its entirety by reference to the Bailment Agreement, a copy of which is included as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

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**ITEM 6.**        **EXHIBITS.**

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.
- Exhibit 3.4        Amended and Restated Bylaws of the Company dated May 7, 2008, filed as Exhibit 3.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on May 7, 2008, and incorporated herein by reference.
- Exhibit 10.1\*      Ford Authorized Converter Pool Agreement, dated November 1, 2010, between Supreme Indiana Operations, Inc. and Ford Motor Company.
- 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.

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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: November 5, 2010  
By: */s/ Herbert M. Gardner*  
Herbert M. Gardner  
Chairman of the Board and Chief Executive Officer

DATE: November 5, 2010  
By: */s/ Jeffery D. Mowery*  
Jeffery D. Mowery  
Vice President of Finance and Chief Financial Officer

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