SUPREME INDUSTRIES INC
Form 10-Q
May 10, 2013


# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 30, 2013**

**or**

**o 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** | **75-1670945** |
|---|---|
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer Identification No.) |

**2581 E. Kercher Rd., 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 x No o

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 x No o

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 o | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company x |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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 April 26, 2013 |
|---|---|
| Class A | 13,655,273 |
| Class B | 1,716,937 |

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**SUPREME INDUSTRIES, INC.**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | March 30, 2013 (Unaudited) | December 29, 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 28,208 | $ 59,056 |
| Investments | 2,885,883 | 2,887,172 |
| Accounts receivable, net | 22,997,856 | 18,781,735 |
| Inventories | 40,072,090 | 32,308,931 |
| Deferred income taxes | 1,748,837 | 2,298,181 |
| Other current assets | 4,014,990 | 4,672,211 |
| **Total current assets** | 71,747,864 | 61,007,286 |
| | | |
| **Property, plant and equipment, at cost** | 93,282,968 | 92,795,659 |
| Less, Accumulated depreciation and amortization | 49,532,492 | 49,857,671 |
| **Property, plant and equipment, net** | 43,750,476 | 42,937,988 |
| | | |
| **Other assets** | 1,127,242 | 1,142,809 |
| **Total assets** | $ 116,625,582 | $ 105,088,083 |
| | | |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Current liabilities:** | | |
| Current maturities of long-term debt | $ 4,248 | $ 16,934 |
| Trade accounts payable | 20,433,011 | 11,936,544 |
| Other accrued liabilities | 9,568,087 | 10,409,930 |
| **Total current liabilities** | 30,005,346 | 22,363,408 |
| | | |
| **Long-term debt** | 14,797,725 | 14,089,063 |
| **Deferred income taxes** | 2,238,595 | 1,472,730 |
| **Total liabilities** | 47,041,666 | 37,925,201 |
| | | |
| **Stockholders equity** | 69,583,916 | 67,162,882 |
| **Total liabilities and stockholders equity** | $ 116,625,582 | $ 105,088,083 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

| | Three Months Ended March 30, 2013 | Three Months Ended March 31, 2012 |
|---|---|---|
| Net sales | $ 65,880,891 | $ 72,166,821 |
| Cost of sales | 54,472,790 | 61,351,104 |
| **Gross profit** | 11,408,101 | 10,815,717 |
| | | |
| Selling, general and administrative expenses | 8,575,760 | 8,548,390 |
| Other income | (713,391) | (478,948) |
| **Operating income** | 3,545,732 | 2,746,275 |
| | | |
| Interest expense | 142,318 | 264,749 |
| **Income before income taxes** | 3,403,414 | 2,481,526 |
| | | |
| Income tax expense | 1,099,608 | |
| **Net income** | 2,303,806 | 2,481,526 |
| | | |
| Other comprehensive loss | (4,454) | |
| **Total comprehensive income** | $ 2,299,352 | $ 2,481,526 |
| | | |
| **Income per share:** | | |
| Basic | $ 0.15 | $ 0.16 |
| Diluted | 0.15 | 0.16 |
| | | |
| **Shares used in the computation of income per share:** | | |
| Basic | 15,250,784 | 15,161,149 |
| Diluted | 15,544,353 | 15,380,960 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| | Three Months Ended | |
|---|---|---|
| | **March 30, 2013** | **March 31, 2012** |
| **Cash flows from operating activities:** | | |
| Net income | $ 2,303,806 | $ 2,481,526 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 871,046 | 796,610 |
| Provision for losses on doubtful receivables | 73,076 | |
| Deferred income taxes | 1,315,209 | |
| Stock-based compensation expense | 80,094 | 56,411 |
| Gains on sale of property, plant and equipment, net | (398,206) | (325,644) |
| Changes in operating assets and liabilities | (4,529,487) | (5,606,369) |
| **Net cash used in operating activities** | (284,462) | (2,597,466) |
| **Cash flows from investing activities:** | | |
| Additions to property, plant and equipment | (1,673,417) | (2,561,707) |
| Proceeds from sale of property, plant and equipment | 1,229,753 | 664,146 |
| Proceeds from sale of investments | 1,289 | |
| Decrease in other assets | | 102,186 |
| **Net cash used in investing activities** | (442,375) | (1,795,375) |
| **Cash flows from financing activities:** | | |
| Proceeds from revolving line of credit and other long-term debt | 21,208,662 | 72,542,810 |
| Repayments of revolving line of credit and other long-term debt | (20,512,686) | (68,208,356) |
| Payment of debt issuance costs | (41,575) | |
| Proceeds from exercise of stock options | 41,588 | 16,807 |
| **Net cash provided by financing activities** | 695,989 | 4,351,261 |
| **Change in cash and cash equivalents** | (30,848) | (41,580) |
| **Cash and cash equivalents, beginning of period** | 59,056 | 106,833 |
| **Cash and cash equivalents, end of period** | $ 28,208 | $ 65,253 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## NOTE 1 BASIS OF PRESENTATION AND OPINION OF MANAGEMENT

The accompanying unaudited condensed 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. The December 29, 2012 condensed 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 months ended March 30, 2013 and March 31, 2012 are for 13-week periods.

### Revised Financial Statements

As disclosed in the Company s quarterly report on Form 10-Q for the period ended June 30, 2012, as a result of its recent implementation of a perpetual inventory system, the Company determined that certain of its previously filed financial statements contained errors related to revenue recognition whereby beginning in the third quarter of 2009 and continuing through the first quarter of 2012 revenue at the Texas armored division plant was inappropriately recognized prior to the product being delivered to a customer due to an irregularity. The Company concluded that the errors were isolated to this one location and were not material. In order to assess materiality with respect to the errors, the Company considered Staff Accounting Bulletin ( SAB ) 99, Materiality, and SAB 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, and determined that the impact of the errors on prior period consolidated financial statements was immaterial. Accordingly, the Company s condensed consolidated statement of comprehensive income for the three months ended March 31, 2012, was revised and reflects the correction of these immaterial errors. The following table summarizes the impact on the Company s condensed consolidated statement of comprehensive income:

| | Three Months Ended March 31, 2012 | |
|---|---|---|
| **($000 s omitted)** | **As Previously Reported** | **As Revised** |
| Net sales | $ 72,520 | $ 72,167 |
| Net income | $ 2,558 | $ 2,482 |

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**NOTE 2 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:

| | March 30, 2013 | December 29, 2012 |
|---|---|---|
| Raw materials | $ 25,984,041 | $ 21,557,053 |
| Work-in-progress | 5,399,405 | 3,654,801 |
| Finished goods | 8,688,644 | 7,097,077 |
| | $ 40,072,090 | $ 32,308,931 |

**NOTE 3 OTHER CURRENT ASSETS**

Other current assets include assets held for sale of $1.4 million and $2.1 million at March 30, 2013 and December 29, 2012, respectively. During the first quarter of 2013, the Company realized a gain of approximately $0.4 million on the sale of real estate.

**NOTE 4 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:

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.

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 March 30, 2013, and December 29, 2012, 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 March 30, 2013, and December 29, 2012, 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.

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**NOTE 5 LONG-TERM DEBT**

***Revolving Line of Credit***

On December 19, 2012, the Company entered into a revised Credit Agreement (the Credit Agreement ) with Wells Fargo Bank (the Lender and the Administrative Agent ). Under the terms of the Credit Agreement, Lender agrees to provide to the Company a revolving line of credit of up to $45.0 million. The term of this revolving line of credit is for a period ending on December 19, 2017. As of March 30, 2013, the outstanding balance under the Credit Agreement was $14.8 million and the Company had unused credit capacity of $30.2 million. Interest on outstanding borrowings under the Credit Agreement was based on the Lender s prime rate or LIBOR depending on the pricing option selected and the Company s leverage ratio (as defined in the Credit Agreement) resulting in an effective rate of 3.75% at March 30, 2013.

Pursuant to the terms of the Credit Agreement, the Company, Administrative Agent, and one or more Lenders (if there are additional lenders other than the initial Lender) intended to establish a secured term loan facility which (i) must be secured by real property and improvements reasonably satisfactory to Administrative Agent, and (ii) must provide, pursuant to documentation in form and substance reasonably satisfactory to Administrative Agent, for one or more term loan commitments to make one or more term loans in an aggregate original principal amount of at least $10.0 million. If the parties to the Credit Agreement did not establish the secured term loan facility before March 29, 2013, then the revolving credit commitment was to be permanently reduced by $10.0 million effective as of March 29, 2013. However, an amendment was entered into, effective as of March 29, 2013, extending the date to establish the secured facility and avoid the revolving credit commitment reduction until April 30, 2013. Effective April 29, 2013, the Company and the Lender entered into a $10.0 million secured term loan facility, payable in quarterly installments of $166,667 commencing on June 28, 2013, plus interest at the Lender s prime rate or LIBOR (as defined in the Credit Agreement), through maturity on December 19, 2017.

**NOTE 6 STOCK-BASED COMPENSATION**

The following table summarizes the activity for the outstanding stock options for the three months ended March 30, 2013:

| | Number of Shares | | Weighted - Average Exercise Price |
|---|---|---|---|
| Outstanding, December 29, 2012 | 959,808 | $ | 3.93 |
| Granted | | | |
| Exercised | (52,334) | | 2.09 |
| Expired | | | |
| Forfeited | (19,478) | | 4.69 |
| Outstanding, March 30, 2013 | 887,996 | $ | 4.03 |

As of March 30, 2013, outstanding exercisable options had an intrinsic value of $988,839 and a weighted-average remaining contractual life of 2.25 years.

Total unrecognized compensation expense related to all share-based awards outstanding at March 30, 2013, was approximately $290,052 and will be recorded over a weighted average contractual life of 2.4 years.

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**NOTE 7 INCOME TAXES**

For the first quarter of 2013, the Company recorded income tax expense at an effective tax rate of 32.3%, which differed from the federal statutory rate primarily because of state income tax and federal permanent income tax differences. Supreme reported no tax provision in the first quarter of 2012 due to the utilization of previously unrecognized net operating loss carryforwards.

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

In October of 2011, the Company was named a defendant in a personal injury suit (Paul Gendrolis and Katherine Gendrolis v. Saxon Fleet Sales, Kolstad Company, and Supreme Industries, Inc.) which was filed in the United States District Court, District of Massachusetts. The complaint seeks $10 million in damages based on allegations that a truck body manufactured by the Company contained an improperly installed plate or lip, which caused Paul Gendrolis to trip and become injured. Claims alleged against the Company include negligence, breach of warranty, breach of consumer protection laws, and loss of consortium. Due to the inherent risk of litigation, the outcome of this case is uncertain and unpredictable. The Company is vigorously defending this matter. The Company has insurance coverage for personal injury claims with the Company s self-insurance deductible being $250,000.

In February of 2012, the Company was named a defendant in a claim that a fleet of buses manufactured by the Company was defective (King County v. Supreme Corporation) which was filed in Superior Court in King County, Washington. The complaint seeks a sum of approximately $7 million which the plaintiff alleges was paid for the fleet, costs of investigation and repairs, and incidental and consequential damages. These allegations against the Company include breach of contract, breach of implied warranties of fitness and merchantability, and a request for declaratory judgment on the issue of revocation of acceptance of the fleet. Due to the inherent risk of litigation, the outcome of this case is uncertain and unpredictable. The Company is vigorously defending this matter.

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

**Company 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. 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 and law enforcement vehicles.

The Company s transportation equipment products are used by a wide variety of industrial, commercial and law enforcement customers. The Company utilizes a nationwide direct sales and distribution network consisting of approximately 25 bus distributors, a limited number of truck equipment distributors, and approximately 1,000 commercial truck dealers. The Company s manufacturing and service facilities are located in seven states across the continental United States allowing us to meet the needs of customers across all of North America. Additionally, the

Company s favorable customer relations, strong brand-name recognition, extensive product offerings, bailment chassis arrangements, and product innovation, competitively positions Supreme with a strategic footprint in the markets it serves.

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The Company and its product offerings are affected by 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, or 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 29, 2012.

**Management Changes**

As announced on April 17, 2013, the Company appointed Mark D. Weber as President and Chief Executive Officer. Mr. Weber was previously employed with Federal Signal Corporation, where he spent 17 years in a variety of senior executive roles. Most recently, he was the Group President responsible for five divisions with revenues in excess of $500 million. Prior to his service at Federal Signal, he worked at Cummins Engine Company for 17 years in numerous operations management and new product development assignments. We expect his operational experience to add a great deal of value to Supreme s leadership team.

Additionally, Jeff Fuhrmeister was named Vice President of Sales and Marketing in the first quarter of 2013. He was previously employed by Penske, where he had more than 26 years of experience in various roles, most recently serving as the Senior Vice President of Vehicle Supply, Planning and Remarketing. His background and expertise will further expand our management team.

**Results of Operations**

The following discussion should be read in conjunction with the condensed consolidated financial statements and related notes (See Note 1 Basis of Presentation and Opinion of Management ) thereto elsewhere in this document.

***Overview***

Consolidated net sales of $65.9 million for the first quarter of 2013 declined 8.7% from $72.2 million in last year s comparable period. The truck division, which represented 76% of total net sales, recorded higher sales in the quarter compared with the prior year as the Company increased its retail sales, offsetting the industry-wide decline in rental fleet orders. Bus sales declined $7.4 million during the first quarter of 2013 due to competitive pricing pressure, particularly on state and municipal orders. In addition, armored sales increased during the quarter, which also helped offset the decline in bus sales.

Gross margin as a percentage of net sales increased to 17.3%, compared with 15.0% in last year s comparable period due to a favorable product mix and efficiency improvements. Pre-tax income increased 37.2% to $3.4 million compared with $2.5 million in last year s comparable period. For the first quarter of 2013, the Company recorded income tax expense at an effective tax rate of 32.3%. Supreme reported no tax provision in the first quarter of 2012 due to the utilization of previously unrecognized net operating loss carryforwards. Net income for the first quarter of 2013 was $2.3 million compared with net income of $2.5 million in the comparable 2012 quarter.

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Our sales backlog at March 30, 2013 totaled $84.4 million, up from $67.9 million at December 29, 2012, though lower than the $107.2 million backlog at March 31, 2012. As noted earlier, the decline from 2012 s first quarter sales and backlog was due to an industry-wide reduction in rental fleet orders for 2013. During this year s first quarter, the Company experienced increased order activity in the truck division, which has translated into a 24% improvement in the backlog since year-end.

Working capital was $41.7 million at March 30, 2013, up from $38.6 million at December 29, 2012. During the quarter, Supreme invested $1.7 million in facilities and equipment primarily to complete capital projects initiated in 2012. Total debt increased to $14.8 million at quarter end, compared with $14.1 million at December 29, 2012. Stockholders equity increased 3.6% to $69.6 million, or book value of $4.55 per share, at March 30, 2013, compared with $67.2 million, or book value of $4.41 per share, at December 29, 2012.

During the first quarter of 2013, we filled two key executive positions as previously noted, continued to upgrade facilities and produced our highest quarterly gross margin percentage since 1999. As we continue to manage the Company for profitable growth, our key areas of ongoing focus include:

- Continuing to invest in our facilities to drive further productivity gains;
- Strategically driving top-line growth;
- Improving sourcing to continue to lower material costs;
- Continuing our product development initiatives related to both new and existing products; and
- Ongoing product line rationalization to improve gross margins and remain focused on our core truck, bus, and armored products.

We continue to aggressively review all aspects of our business by means of a continuous improvement culture to ensure the ongoing growth and strength of the Company. The Company expects to benefit and leverage the strong foundation built to make further improvements in its future financial performance.

***Net Sales***

Net sales for the three months ended March 30, 2013 decreased $6.3 million, or 8.7%, to $65.9 million as compared with $72.2 million for the three months ended March 31, 2012. The following table presents the components of net sales and the changes from period to period:

| | Three Months Ended | | | |
|---|---|---|---|---|
| **($000 s omitted)** | **Mar 30, 2013** | **Mar 31, 2012** | **Change** | |
| Specialized vehicles: | | | | |
| Trucks | $ 49,986 | $ 49,180 | $ 806 | 1.6% |
| Buses | 10,693 | 18,092 | (7,399) | (40.9) |
| Armored vehicles | 4,353 | 4,049 | 304 | 7.5 |
| | 65,032 | 71,321 | (6,289) | (8.8) |
| Fiberglass products | 849 | 846 | 3 | 0.4 |
| | $ 65,881 | $ 72,167 | $ (6,286) | (8.7)% |

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Truck division sales increased by $0.8 million, or 1.6%, for the three months ended March 30, 2013 due to increased retail orders which more than compensated for the industry-wide decline in rental fleet orders during the first quarter of 2013. Taking advantage of our improved flexibility at our truck manufacturing facilities, we were able to quickly react to the changing market demands.

Bus division sales decreased by $7.4 million, or 40.9%, for the three months ended March, 2013 resulting from continued declining demand for buses from state and local municipalities. This has led some competitors to offer incentives and discounts at what we believe to be unsustainable levels. The bus division represents one of our greatest opportunities for future improvement and we are instituting manufacturing and process enhancements at our redesigned bus facility.

Armored division sales increased by $0.3 million, or 7.5%, for the three months ended March 30, 2013. Although sales increased from the prior year quarter, we are closely monitoring government procurements, which directly affect our business with the U.S. Department of State to produce armored SUVs for embassies abroad. Using existing products and capabilities as its foundation, the Company continues to look for opportunities to expand its product offerings and increase its customer base for specialty products.

***Cost of sales and gross profit***

Gross profit increased by $0.6 million, or 5.5%, to $11.4 million for the three months ended March 30, 2013, as compared with $10.8 million for the three months ended March 31, 2012. The following presents the components of cost of sales as a percentage of net sales and the changes from period to period:

**Material** Material cost as a percentage of net sales decreased by 2.9% for the three months ended March 30, 2013, as compared with the corresponding period in 2012. The decrease in the material percentage was due to favorable product mix, improved sourcing on certain materials and our focus on improved product pricing. Although commodity raw material prices are stable, the potential for future raw material cost increases remains an ongoing area of concern and focus for certain commodities including aluminum, steel, and wood products. The Company closely monitors major commodities to identify raw material cost escalations and attempts to pass through cost increases as markets will allow by having material adjustment clauses in most key customer contracts.

**Direct Labor** Direct labor as a percentage of net sales decreased by 1.4% for the three months ended March 30, 2013, as compared with the corresponding period in 2012. The decrease in the direct labor percentage resulted from efficiencies achieved at certain locations due to recent plant redesign and product flow changes. This decrease was partially offset by increased labor costs at the bus division resulting from the move to a newly renovated facility.

**Overhead** Manufacturing overhead as a percentage of net sales increased by 2.2% for the three months ended March 30, 2013, as compared with the corresponding period in 2012. The increase was primarily due to the fixed nature of certain overhead expenses that do not fluctuate with sales volume changes and non-recurring costs associated with the implementation of an inventory management system.

**Delivery** Delivery costs as a percentage of net sales decreased by 0.2% for the three months ended March 30, 2013, as compared with the corresponding period in 2012.

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

Selling, general and administrative ( G&A ) expenses remained unchanged at $8.6 million for the three months ended March 30, 2013 and March 31, 2012. The following table presents selling and G&A expenses as a percentage of net sales and the changes from period to period as a percentage of net sales:

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | **Three Months Ended** | | | | | |
| **($000 s omitted)** | | **Mar 30, 2013** | | | **Mar 31, 2012** | | | **Change** | |
| Selling expenses | $ | 3,064 | 4.6% | $ | 2,565 | 3.5% | $ | 499 | 1.1% |
| G&A expenses | | 5,512 | 8.4 | | 5,983 | 8.3 | | (471) | 0.1 |
| Total | $ | 8,576 | 13.0% | $ | 8,548 | 11.8% | $ | 28 | 1.2% |

**Selling expenses** Selling expenses increased $0.5 million for the three months ended March 30, 2013, as compared to the corresponding period in 2012. As a percentage of net sales, selling expenses increased 1.1% for the three months ended March 30, 2013, as compared with the corresponding period in 2012. The increase as a percentage of net sales resulted from a change in the sales commission structure implemented in late 2011 which better correlates to the profit contribution levels.

**G&A expenses** G&A expenses decreased $0.5 million for the three months ended March 30, 2013, as compared to the corresponding period in 2012. As a percentage of net sales, G&A expenses increased 0.1% for the three months ended March 30, 2013, as compared with the corresponding period in 2012. The decrease of $0.5 million was the result of several factors including lower legal fees and severance costs related to senior management changes made in early 2012.

***Other income***

Other income was $0.7 million for the three months ended March 30, 2013, compared with $0.5 million for the three months ended March 31, 2012. Other income consisted of rental income, gain on the sale of assets, and other miscellaneous income received by the Company. During the first quarter of 2013, the Company realized a gain of approximately $0.4 million on the sale of real estate.

***Interest expense***

Interest expense was $0.1 million for the three months ended March 30, 2013, compared with $0.3 million for the three months ended March 31, 2012. The decline in interest expense resulted from a combination of lower average bank borrowings and lower chassis interest expense. The effective interest rate on bank borrowings was 3.75% at quarter end, and the Company was in compliance with all provisions of its Credit Agreement.

***Income taxes***

For the first quarter of 2013, the Company recorded income tax expense at an effective tax rate of 32.3%, which differed from the federal statutory rate primarily because of state income tax and federal permanent income tax differences.  Supreme reported no tax provision in the first quarter of 2012 due to the utilization of previously unrecognized net operating loss carryforwards.

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***Net income***

Net income decreased by $0.2 million to $2.3 million (3.5% of net sales) for the three months ended March 30, 2013, from net income of $2.5 million (3.4% of net sales) for the three months ended March 31, 2012 which excluded a tax provision as previously discussed.  Income before income taxes increased 37.2% to $3.4 million compared with $2.5 million in 2012 s first quarter.

***Basic and diluted income per share***

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

| | Three Months Ended | |
|---|---|---|
| | **Mar 30, 2013** | **Mar 31, 2012** |
| **Income per share:** | | |
| Basic | $ 0.15 | $ 0.16 |
| Diluted | 0.15 | 0.16 |
| | | |
| **Shares used in the computation of income per share:** | | |
| Basic | 15,250,784 | 15,161,149 |
| Diluted | 15,544,353 | 15,380,960 |

**Liquidity and Capital Resources**

**Cash Flows**

The Company s primary sources of liquidity have been cash flows from operating activities and borrowings under its credit agreements. Principal uses of cash have been to support working capital needs, meet debt service requirements, and fund capital expenditures.

***Operating activities***

Cash flows from operations represent the net income earned in the reported periods adjusted for non-cash charges and changes in operating assets and liabilities. Net cash used in operating activities totaled $0.3 million for the three months ended March 30, 2013 as compared with $2.6 million for the three months ended March 31, 2012. Net cash used in operating activities was adversely impacted by a $7.8 million increase in inventories and a $4.2 million increase in accounts receivable, both reflecting increased business activity at the end of March 2013 as compared to the end of December 2012. These were offset by an $8.5 million increase in trade accounts payable related primarily to the increase in inventories necessary to support the increase in sales order backlog.

***Investing activities***

Net cash used in investing activities was $0.4 million for the three months ended March 30, 2013 as compared with $1.8 million for the three months ended March 31, 2012. During the first quarter of 2013, the Company s capital expenditures totaled $1.7 million and consisted primarily of investments in facilities and equipment to complete capital projects initiated in 2012. Additionally, cash of $1.2 million was provided as a result of net proceeds received from the sale of an excess capacity facility in Goshen, Indiana, which was previously included in assets held for sale.

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***Financing activities***

Net cash provided by financing activities was $0.7 million for the first quarter of 2013, resulting from net borrowings from the Company s revolving line of credit as compared with $4.4 million for the first quarter of 2012.

## Capital Resources

***Revolving Line of Credit***

On December 19, 2012, the Company entered into a revised credit agreement with Wells Fargo Bank for a revolving line of credit of up to $45.0 million. The term of this revolving line of credit is for a period ending on December 19, 2017. As of March 30, 2013, the outstanding balance under the credit agreement was $14.8 million and the Company was in compliance with all provisions of its credit agreement.

Pursuant to the terms of the Credit Agreement, the Company, Administrative Agent, and one or more Lenders (if there are additional lenders other than the initial Lender) intended to establish a secured term loan facility which (i) must be secured by real property and improvements reasonably satisfactory to Administrative Agent, and (ii) must provide, pursuant to documentation in form and substance reasonably satisfactory to Administrative Agent, for one or more term loan commitments to make one or more term loans in an aggregate original principal amount of at least $10.0 million. If the parties to the Credit Agreement did not establish the secured term loan facility before March 29, 2013, then the revolving credit commitment was to be permanently reduced by $10.0 million effective as of March 29, 2013. However, an amendment was entered into, effective as of March 29, 2013, extending the date to establish the secured facility and avoid the revolving credit commitment reduction until April 30, 2013. Effective April 29, 2013, the Company and the Lender entered into a $10.0 million secured term loan facility, payable in quarterly installments of $166,667 commencing on June 28, 2013, plus interest at the Lender s prime rate or LIBOR (as defined in the Credit Agreement), through maturity on December 19, 2017.

## Summary of Liquidity and Capital Resources

The Company s primary capital needs are for working capital demands, to meet its debt service obligations, and to finance capital expenditure requirements. Cash generated from operations, and borrowings available under our credit agreement, are expected to be sufficient to finance the known and/or foreseeable liquidity and capital needs of the Company for at least the next 12 months based on our current cash flow budgets and forecasts of our liquidity 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 condensed 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, 2012. In management s opinion, the Company s critical accounting policies include revenue recognition, allowance for doubtful accounts, excess and obsolete inventories, inventory relief, fair value of assets held for sale, 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 which is determined by management based on the Company s historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables against the allowance when all attempts to collect the receivable have failed.

***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. Periodically, management reviews inventories and adjusts the excess and obsolete reserves based on product life cycles, product demand, and/or market conditions.

***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 cost 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 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.

***Fair Value of Assets Held for Sale*** Assets held for sale are carried at fair value less costs to dispose. The Company evaluates the carrying value of property held for sale whenever events or changes in circumstances indicate that a property s carrying amount may not be recoverable. Such circumstances could include, but are not limited to (1) a significant decrease in the market value of an asset, or (2) a significant adverse change in the extent or manner in which an asset is used. The Company measures the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds its fair value. The Company estimates the fair value of its properties held for sale based on appraisals and other current market data.

***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.

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***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 within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended, 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 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, restrictions on financing imposed by the Company s primary lender, 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 29, 2012.

**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 30, 2013.

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.

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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 establishes accruals for matters that are probable and reasonably estimable.

### 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 29, 2012, which is herein incorporated by reference.

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

Not applicable.

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

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

Not applicable.

**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 | Second Amended and Restated Bylaws, filed as Exhibit 3.1 to the Company s current report on Form 8-K, filed on February 22, 2011, and incorporated herein by reference. |
| Exhibit 10.1 | Amendment No. 1 to Credit Agreement, effective as of March 29, 2013, by and among Supreme Industries, Inc. and Wells Fargo Bank, National Association, and acknowledged by Supreme Industries, Inc. subsidiary guarantors, filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed on April 4, 2013, 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. |
| Exhibit 101* | The following financial statements from the Company s Quarterly Report on Form 10-Q for the quarter ended March 30, 2013, filed on May 10, 2013, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Cash Flows and (iv) the Notes to Consolidated |

Financial Statements.

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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.

| | | |
|---|---|---|
| | By: | /s/ Mark D. Weber |
| DATE: May 10, 2013 | Mark D. Weber<br>President and Chief Executive Officer | |
| | By: | /s/ Matthew W. Long |
| DATE: May 10, 2013 | Matthew W. Long<br>Chief Financial Officer | |

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## INDEX TO EXHIBITS

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