

SUPREME INDUSTRIES INC
Form 10-Q
August 14, 2007

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 June 30, 2007

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)

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

Edgar Filing: SUPREME INDUSTRIES INC - Form 10-Q

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

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

Common Stock (\$.10 Par Value)	Outstanding at July 25, 2007
Class A	10,833,299
Class B	2,024,133

SUPREME INDUSTRIES, INC.

CONTENTS

		Page No.
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	
<u>ITEM 1.</u>	<u>Financial Statements.</u>	
	<u>Consolidated Balance Sheets</u>	1
	<u>Consolidated Statements of Income</u>	3
	<u>Consolidated Statements of Cash Flows</u>	4
	<u>Notes to Consolidated Financial Statements</u>	5
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	7
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk.</u>	13
<u>ITEM 4.</u>	<u>Controls and Procedures.</u>	14
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>ITEM 1.</u>	<u>Legal Proceedings.</u>	14
<u>ITEM 1A.</u>	<u>Risk Factors.</u>	15
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	15
<u>ITEM 3.</u>	<u>Defaults Upon Senior Securities.</u>	15
<u>ITEM 4.</u>	<u>Submission of Matters to a Vote of Security Holders.</u>	15
<u>ITEM 5.</u>	<u>Other Information.</u>	16
<u>ITEM 6.</u>	<u>Exhibits.</u>	16
<u>SIGNATURES</u>		
<u>INDEX TO EXHIBITS</u>		
<u>EXHIBITS</u>		

PART I. FINANCIAL INFORMATION

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

Consolidated Balance Sheets

	June 30, 2007 (Unaudited)	December 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 112,316	\$ 1,307,463
Investments	2,675,947	1,542,101
Accounts receivable, net	28,832,776	31,116,276
Inventories	47,230,407	53,506,367
Other current assets	3,114,115	4,222,705
Total current assets	81,965,561	91,694,912
Property, plant and equipment, at cost	91,368,323	91,471,500
Less, Accumulated depreciation and amortization	43,566,680	43,082,017
Property, plant and equipment, net	47,801,643	48,389,483
Goodwill and intangible assets, net	1,396,076	1,420,261
Other assets	705,368	620,064
Total assets	\$ 131,868,648	\$ 142,124,720

The accompanying notes are a part of the consolidated financial statements.

Supreme Industries, Inc. and Subsidiaries

Consolidated Balance Sheets, Concluded

	June 30, 2007 (Unaudited)	December 30, 2006
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 1,261,229	\$ 1,807,425
Trade accounts payable	13,532,552	13,508,441
Accrued income taxes	543,041	495,678
Other accrued liabilities	9,555,113	9,318,050
Total current liabilities	24,891,935	25,129,594
Long-term debt	27,398,096	38,863,229
Deferred income taxes	2,962,616	2,923,216
Total liabilities	55,252,647	66,916,039
Stockholders' equity	76,616,001	75,208,681
Total liabilities and stockholders' equity	\$ 131,868,648	\$ 142,124,720

The accompanying notes are a part of the consolidated financial statements.

Supreme Industries, Inc. and Subsidiaries

Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30, 2007	July 1, 2006	Six Months Ended June 30, 2007	July 1, 2006
Net sales	\$ 88,161,027	\$ 98,863,512	\$ 172,053,010	\$ 184,610,650
Cost of sales	77,071,811	88,332,555	151,992,408	164,474,007
Gross profit	11,089,216	10,530,957	20,060,602	20,136,643
Selling, general and administrative expenses	7,599,884	7,341,767	14,529,631	14,200,733
Other expense (income)	(139,164)	(96,851)	(229,141)	(204,091)
Operating income	3,628,496	3,286,041	5,760,112	6,140,001
Interest expense	667,819	834,660	1,410,990	1,535,585
Income before income taxes	2,960,677	2,451,381	4,349,122	4,604,416
Income taxes	917,000	886,000	1,341,000	1,666,000
Net income	\$ 2,043,677	\$ 1,565,381	\$ 3,008,122	\$ 2,938,416
Earnings Per Share:				
Basic	\$.16	\$.12	\$.24	\$.23
Diluted	.16	.12	.23	.23
Shares used in the computation of earnings per share:				
Basic	12,818,569	12,692,632	12,772,457	12,691,143
Diluted	12,902,531	12,892,625	12,870,298	12,913,984
Cash dividends per common share	\$.095	\$.095	\$.19	\$.19

The accompanying notes are a part of the consolidated financial statements.

Supreme Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2007	July 1, 2006
Cash flows from operating activities:		
Net income	\$ 3,008,122	\$ 2,938,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,139,922	2,132,269
Amortization of intangibles	24,185	
Provision for losses on doubtful receivables	96,341	101,766
Stock-based compensation expense	154,610	
Loss on disposal of property and equipment	15,641	21,045
Changes in operating assets and liabilities, net of effect of business acquisition in 2006	9,880,246	(2,355,210)
Net cash provided by operating activities	15,319,067	2,838,286
Cash flows from investing activities:		
Business acquisition		(1,050,000)
Additions to property, plant and equipment	(1,574,217)	(2,181,914)
Proceeds from disposal of property and equipment	6,494	1,936,518
Purchase of short-term investments	(1,131,492)	(1,232,457)
Decrease (increase) in other assets	24,497	(127,160)
Net cash used in investing activities	(2,674,718)	(2,655,013)
Cash flows from financing activities:		
Proceeds from revolving line of credit and other long-term debt	60,102,739	47,220,558
Repayments of revolving line of credit and other long-term debt	(72,114,068)	(46,109,305)
Payment of cash dividends	(2,423,710)	(2,411,647)
Proceeds from exercise of stock options	595,543	
Net cash used in financing activities	(13,839,496)	(1,300,394)
Change in cash and cash equivalents	(1,195,147)	(1,117,121)
Cash and cash equivalents, beginning of period	1,307,463	1,515,532
Cash and cash equivalents, end of period	\$ 112,316	\$ 398,411
Supplemental disclosure of noncash investing and financing activities:		
Liabilities assumed in business acquisition	\$	\$ 163,222

The accompanying notes are a part of the consolidated financial statements.

SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

NOTE 1 - BASIS OF PRESENTATION AND OPINION OF MANAGEMENT

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all of the information and financial statement disclosures necessary for a fair presentation of consolidated financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, the information furnished herein includes all adjustments necessary to reflect a fair statement of the interim periods reported. All adjustments are of a normal and recurring nature. The December 30, 2006 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The Company has adopted a 52 or 53 week fiscal year ending the last Saturday in December. The results of operations for the three and six months ended June 30, 2007 and July 1, 2006 are for 13 and 26 week periods, respectively.

Certain amounts in the consolidated statements of income for 2006 have been reclassified to conform to the presentation of the 2007 consolidated statements of income. The reclassifications had no impact on net sales, cost of sales, pretax income or net income as previously reported. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 30, 2006.

NOTE 2 - OTHER COMPREHENSIVE INCOME

Other comprehensive income includes unrealized gains on hedge-activity, net of tax, and unrealized depreciation on available-for-sale securities, net of tax. Other comprehensive income for the three and six month periods ended June 30, 2007 was \$119,655 and \$72,756, respectively. Other comprehensive income for the three and six month periods ended July 1, 2006 was \$109,580 and \$261,507, respectively. Total comprehensive income combines net income and other comprehensive income. Total comprehensive income for the three and six month periods ended June 30, 2007 was \$2,163,332 and \$3,080,878, respectively. Total comprehensive income for the three and six month periods ended July 1, 2006 was \$1,674,961 and \$3,199,923, respectively.

NOTE 3 - INVENTORIES

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

	June 30, 2007	December 30, 2006
Raw materials	\$ 27,376,917	\$ 29,569,267
Work-in-progress	9,256,012	11,199,112
Finished goods	10,597,478	12,737,988
	\$ 47,230,407	\$ 53,506,367

The valuation of raw materials, work-in-progress and finished goods inventories at interim dates is based upon a gross profit percentage method, bills of materials, scrap and other estimated factors that affect inventory relief. The Company has historically experienced both favorable and unfavorable adjustments resulting from physical inventories. The Company continues to refine its inventory relief in an effort to minimize book to physical inventory adjustments.

NOTE 4 - EARNINGS PER SHARE

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

	Three Months Ended		Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Weighted average number of shares outstanding (used in computation of basic earnings per share)	12,818,569	12,692,632	12,772,457	12,691,143
Effect of dilutive stock options	83,962	199,993	97,841	222,841
Diluted shares outstanding (used in computation of diluted earnings per share)	12,902,531	12,892,625	12,870,298	12,913,984

NOTE 5 - STOCK-BASED COMPENSATION

A summary of the status of the Company's outstanding stock options as of June 30, 2007, and changes during the six months ended June 30, 2007 are as follows:

	Number of Shares	Weighted - Average Exercise Price
Outstanding, January 1, 2007	1,228,320	\$ 6.12
Granted	110,195	6.42
Exercised	(254,834)	5.04
Forfeited	(25,500)	6.47
Outstanding, June 30, 2007	1,058,181	6.53

The intrinsic value of the options exercised during the three and six month periods ended June 30, 2007 was \$227,480 and \$311,705, respectively. The intrinsic value of all options outstanding at June 30, 2007 was \$664,222 and outstanding options had a weighted-average remaining contractual life of 2.46 years.

NOTE 6 - COMMON STOCK

The Company paid cash dividends, to all Class A and Class B common stockholders, of nine and one-half cents (\$0.095) and nineteen cents (\$0.19) per share for each of the three and six month periods ended June 30, 2007 and July 1, 2006.

NOTE 7 - SUBSEQUENT EVENT

On August 7, 2007, the Company's Board of Directors declared a nine and one-half cents (\$0.095) per share cash dividend payable on August 28, 2007 to all class A and B common stockholders of record on August 21, 2007.

NOTE 8 - ADOPTION OF NEW ACCOUNTING STANDARD

In July 2006, the Financial Accounting Standards Board issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). This Interpretation revises the recognition test for tax positions taken in tax returns such that a tax benefit is recorded only when it is more likely than not that the tax position will be allowed upon examination by taxing authorities, which is presumed to occur. The amount of such a tax benefit to be recorded is the largest amount that is more likely than not to be allowed. The adoption of FIN 48 did not have a material impact on the Company's financial position or results of operations. The amount of unrecognized tax benefits at January 1, 2007 totaled approximately \$500,000, and the full amount would increase operating income thus impacting the Company's effective tax rate, if ultimately recognized in income.

The Company is subject to U.S. federal income tax as well as various state taxes and is no longer subject to examination by taxing authorities for years before 2003. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. Interest and penalties related to income tax matters are recognized in income tax expense. Interest and penalties accrued for at June 30, 2007 were insignificant.

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

Results of Operations

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

Net Sales

Net sales for the three months ended June 30, 2007 decreased \$10.7 million, or 10.8%, to \$88.2 million compared to \$98.9 million for the three months ended July 1, 2006. Net sales for the six months ended June 30, 2007 decreased \$12.5 million, or 6.8%, to \$172.1 million from \$184.6 million for the six months ended July 1, 2006. The decrease in net sales for the three and six months ended June 30, 2007 was primarily attributable to a reduction of \$16.3 million and \$20.6 million, respectively, in our core truck sales. The decrease was partially offset by higher net sales for the three and six months ended June 30, 2007, in our Silver Crown division of \$3.0 million and \$4.1 million, respectively, and our Composites division of \$.8 million and \$3.1 million, respectively. Net sales in our StarsTrans bus division remained relatively constant from period-to-period. We attribute the decrease in our core truck sales to an industry-wide downturn in truck sales due to the increased cost of chassis and an overall soft truck market. New and more stringent diesel engine emission standards, which became effective for engines produced beginning January 1, 2007, caused truck buyers to accelerate their purchases into 2006. Assuming the continuation of these business conditions, we are anticipating that net sales in the second half of 2007 will be lower than the comparable 2006 period. The increase in sales in our Silver Crown motorhome division sales was the result of the operation being a startup during 2006. Our total sales backlog was \$72.2 million at June 30, 2007 compared to \$81.1 million at July 1, 2006.

Cost of sales and gross profit

Gross profit increased by \$.6 million, or 5.7%, to \$11.1 million (12.6% of net sales) for the three months ended June 30, 2007 compared to \$10.5 million (10.7% of net sales) for the three months ended July 1, 2006. For the six months ended June 30, 2007, gross profit was unchanged at \$20.1 million (11.7% of net sales) compared to \$20.1 million (10.9% of net sales) for the six months ended July 1, 2006. The following table presents the components of cost of sales as a percentage of net sales and the changes from period-to-period:

	Three Months Ended		Percent Change	Six Months Ended		Percent Change
	June 30, 2007	July 1, 2006		June 30, 2007	July 1, 2006	
Material	57.0 %	58.5 %	-1.5	57.8 %	57.8 %	0.0 %
Direct labor	13.4	13.9	-0.5	13.5	14.0	-0.5
Overhead	14.5	14.4	0.1	14.6	14.8	-0.2
Delivery	2.5	2.5	0.0	2.4	2.5	-0.1
Cost of sales	87.4	89.3	-1.9	88.3	89.1	-0.8
Gross profit	12.6 %	10.7 %	1.9	11.7 %	10.9 %	0.8 %

Material Material cost as a percentage of net sales decreased 1.5% for the three months ended June 30, 2007 and was unchanged for the six months ended June 30, 2007 when compared to corresponding periods in 2006. The Company's core truck division's material percentage decreased 3.3% and 2.0% for the three and six months ended June 30, 2007, respectively, primarily due to favorable truck product mix. However, the change in the consolidated material percentages was impacted by product mix as our StarTrans Bus division, our Silver Crown division and our Composites divisions, which have higher material content, accounted for 29.2% of our net sales in the first six months of 2007 compared to 22.8% of our net sales in the first six months of 2006. Raw material prices continue to remain a concern. However, we are closely monitoring and managing material costs through close communication and negotiation with key suppliers.

Direct Labor Direct labor as a percentage of net sales decreased .5% for the three and six months ended June 30, 2007, respectively, when compared to corresponding periods in 2006. The direct labor improvement was the result of the efficiencies realized from contracting fewer temporary employees at our core truck divisions due to reduced sales volume. Additionally, in the first half of 2006, we experienced a delay in OEM supplied chassis which caused the Company to temporarily shut down production lines, thereby negatively affecting labor and overhead absorption.

Overhead Overhead as a percentage of net sales increased .1% and decreased .2% for the three and six months ended June 30, 2007, respectively, when compared to the same periods in 2006. The improvement of .2% for the six months ended June 30, 2007 was primarily due to a continued focus to reduce expenses and manage our overhead structure for the lower sales volume experienced in the first half of the year. However, the improvement was somewhat offset by an increase in group health insurance claims. To combat the increase in group health insurance claims, the Company continues to implement changes to its group health insurance plan in an effort to control future claim costs.

Delivery Delivery expense as a percentage of net sales was unchanged for the three months ended June 30, 2007 and decreased .1% for the six months ended July 1, 2007 when compared to corresponding periods in 2006.

Selling, general and administrative expenses

Selling, general and administrative (G&A) expenses were \$7.6 million (8.6% of net sales) for the three months ended June 30, 2007 compared to \$7.3 million (7.4% of net sales) for the three months ended July 1, 2006. For the six months ended June 30, 2007, selling and G&A expenses were \$14.5 million (8.4% of net sales) compared to \$14.2 million (7.7% of net sales) for the six months ended July 1, 2006. The following table presents selling and G&A expenses as a percentage of net sales and the changes from period-to-period:

	Three Months Ended			Percent Change	Six Months Ended			Percent Change				
	June 30, 2007		July 1, 2006		June 30, 2007		July 1, 2006					
Selling expenses	3.3	%	3.0	%	0.3	%	3.2	%	3.0	%	0.2	%
G&A expenses	5.3		4.3		1.0		5.2		4.7		0.5	
Total	8.6	%	7.3	%	1.3	%	8.4	%	7.7	%	0.7	%

Selling expenses Selling expenses decreased by \$.1 million, or 5.2%, to \$2.9 million for the three months ended June 30, 2007 from \$3.0 million for the three months ended July 1, 2006. For the six months ended June 30, 2007 and July 1, 2007, selling expenses remained unchanged at \$5.5 million.

G&A expenses General and administrative expenses increased by \$.4 million, or 9.7% to \$4.7 million for the three months ended June 30, 2007 from \$4.3 million for the three months ended July 1, 2006. For the six months ended June 30, 2007, general and administrative expenses increased \$.3 million, or 3.4%, to \$9.0 million from \$8.7 million for the six months ended July 1, 2006. The increase in general and administrative expenses was primarily due to fees associated with complying with the requirements of the Sarbanes-Oxley Act of 2002.

Other Income

Other income was relatively constant at \$.1 million and \$.2 million for the three and six months ended June 30, 2007 and July 1, 2006, respectively. Other income consists of rental income, gain on sale of assets and other miscellaneous income received by the Company through its various business activities.

Interest expense

Interest expense was \$.7 million (.8% of net sales) for the three months ended June 30, 2007 compared to \$.8 million (.8% of net sales) for the three months ended July 1, 2006. For the six months ended June 30, 2007, interest expense was \$1.4 million (.8% of net sales) compared to \$1.5 million (.8% of net sales) for the six months ended July 1, 2006. The decrease in interest expense is due to less borrowing under the Company's working capital line of credit and a decrease in chassis interest expense. The decrease in chassis interest expense was due to reduced consigned chassis inventory levels relating to light-duty chassis. In 2006, we experienced an unanticipated slow down in the light-duty truck market causing a build up of consigned chassis inventory which resulted in increased interest expense.

Income taxes

The Company's effective income tax rate was 31% for the three and six months ended June 30, 2007 compared to 36% for the three and six months ended July 1, 2006. The 2006 effective income tax rate was subsequently reduced during the third and fourth quarters of 2006 and was 30% for the year ended December 30, 2006. In addition to being in a lower tax bracket, the effective income tax rate was favorably impacted by tax-exempt underwriting income of a wholly-owned small captive insurance subsidiary, by the additional tax deduction allowed manufacturers under the 2004 American Jobs Creation Act and federal and state research and development tax credits.

Net income and earnings per share

Net income increased by \$.4 million for the three months ended June 30, 2007 to \$2.0 million (2.3% of net sales) from \$1.6 million (1.6% of net sales) for the three months ended July 1, 2006. For the six months ended June 30, 2007, net income increased by \$.1 million to \$3.0 million (1.7% of net sales) from \$2.9 million (1.6% of net sales) for the six months ended July 1, 2006.

Basic and diluted earnings per share increased \$.04 per share, or 33% to \$.16 per share for the three months ended June 30, 2007 from \$.12 per share for the three months ended July 1, 2006. Basic earnings per share were \$.24 for the six months ended June 30, 2007 compared to \$.23 for the six months ended July 1, 2007. Diluted earnings per share remained constant at \$.23 per share for the six months ended June 30, 2007 and July 1, 2006.

Liquidity and Capital Resources

Cash generated from operations and reductions in working capital were major sources of cash flows during the first six months of 2007. The Company's cash management system and revolving line of credit are designed to maintain zero cash balances and, accordingly, excess cash generated from operations is utilized to reduce borrowings.

Operating activities

Operating activities provided \$15.3 million for the six months ended June 30, 2007 compared to a \$2.8 million for the six months ended July 1, 2006. Working capital decreased \$9.5 million during the six months ended June 30, 2007, principally due to lower inventories of \$6.3 million and lower accounts receivables of \$2.3 million. Net income, adjusted for depreciation and amortization, also provided \$5.2 million and \$5.1 million for the first half of 2007 and 2006, respectively.

Investing activities

Investing activities used \$2.7 million for the six months ended June 30, 2007 and July 1, 2006. Capital expenditures totaled \$1.6 million for first half of 2007 and consisted principally of replacement equipment.

Financing activities

Financing activities used \$13.8 million for the six months ended June 30, 2007 compared to \$1.3 for the six months ended July 1, 2006. Our positive cash flow, used to significantly reduce our bank borrowings during the second quarter of 2007, occurred as a result of a reduction of \$9.5 million in working capital in the first half of 2007 compared to a \$1.0 million increase in working capital for the first half of 2006. The Company also received \$.6 million from the exercise of stock options in the first half of 2007. The Company's board of directors approved quarterly cash dividends of nine and one-half cents per share, or \$2.4 million, for the first two quarters of 2007 and 2006.

Critical Accounting Policies and Estimates

Management's discussion and analysis of its financial position and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires Management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company's significant accounting policies are discussed in Note 1 of the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 30, 2006. In Management's opinion, the Company's critical accounting policies include revenue recognition, allowance for doubtful accounts, excess and obsolete inventories, inventory relief, accrued insurance and accrued warranty.

Revenue Recognition The Company generally recognizes revenue when the unit is shipped to the customer. Revenue on certain customer requested bill and hold transactions is recognized subsequent to when the customer is notified that the product(s) 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 condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required which would affect our future operating results.

Excess and Obsolete Inventories The Company must make estimates regarding the future use of raw materials and finished products and provides a provision for obsolete or slow-moving inventories. If actual product life cycles, product demand or market conditions are less favorable than those projected by Management, additional inventory write-downs may be required which would 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 a gross profit percentage method and 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 estimate calculations consider 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 known until physical inventories are conducted at each of the Company's plant locations. We have recently adopted a policy of conducting semi-annual physical inventories at all locations and recording any adjustments relating thereto. We are not performing quarterly physical inventories at all locations due to the excessive costs and severe disruption to our production process. We have dedicated significant in-house resources in our continuing effort to refine our approach to these physical inventories so as to enable us to improve the accuracy of our inventory accounting system.

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

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

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

Forward-Looking Statements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There has been no material change from the information provided in the Company's Annual Report on Form 10-K, Item 7A: Quantitative and Qualitative Disclosures About Market Risk, for the year ended December 30, 2006.

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).

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.

Not applicable.

ITEM 1A. RISK FACTORS.

There have been no material changes in our risk factors from those previously disclosed in our Annual Report on Form 10-K for the year ended December 30, 2006.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

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

Supreme Industries, Inc.'s annual meeting of stockholders was held on May 3, 2007. Below is a summary of matters voted upon at that meeting.

a) The following individuals were elected Directors by the holders of the Company's Class A Common Stock for a one year term.

	For	Withheld
Arthur M. Borden	8,252,963	701,559
William C. Hurtt, Jr. (*)	8,259,266	695,256
Mark C. Neilson	8,258,874	695,648

(*) The Company has filed a Form 8-K to announce the election of Edward L. Flynn as a member of the Company's Board of Directors, and as a member of the Company's Audit Committee, effective May 15, 2007, to succeed William C. Hurtt, Jr., who died on April 25, 2007.

The following individuals were elected Directors by the holders of the Company's Class B Common Stock by a vote of 1,973,889 for, 50,244 withheld.

William J. Barrett

Robert J. Campbell

Thomas Cantwell

Herbert M. Gardner

Omer G. Kropf

Robert W. Wilson

b) An amendment to the Company's Amended and Restated 2004 Stock Option Plan was approved by the holders of the Company's Class A and Class B Common Stock by a vote of 6,910,491 for, 1,174,925 against, 13,582 abstentions and 2,879,657 unvoted.

c) Crowe Chizek and Company LLC was ratified as the Company's independent registered public accounting firm by the holders of the Company's Class A and Class B Common Stock by a vote of 10,523,805 in favor, 400,970 against, 3,636 abstaining, and 50,244 unvoted.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS.

Exhibits:

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

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: August 14, 2007

BY: /s/ Jeffery D. Mowery
Jeffery D. Mowery

Vice President of Finance and Chief
Financial Officer

(Signing on behalf of the Registrant
and as Principal Financial and
Accounting Officer)

INDEX TO EXHIBITS

Exhibit Number	Description of Document
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
