SUPREME INDUSTRIES INC
Form 10-Q
November 05, 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 September 28, 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 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 October 22, 2013**
Class A	**14,522,675**
Class B	**1,771,949**

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 28, 2013 (Unaudited)	December 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,838	$ 59,056
Investments	2,866,350	2,887,172
Accounts receivable, net	23,143,545	18,781,735
Inventories	36,983,687	32,308,931
Deferred income taxes	2,025,718	2,298,181
Other current assets	4,574,635	4,672,211
Total current assets	69,613,773	61,007,286
Property, plant and equipment, at cost	94,573,923	92,795,659
Less, Accumulated depreciation and amortization	49,840,247	49,857,671
Property, plant and equipment, net	44,733,676	42,937,988
Other assets	1,295,885	1,142,809
Total assets	$ 115,643,334	$ 105,088,083
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 666,668	$ 16,934
Trade accounts payable	15,059,061	11,936,544
Other accrued liabilities	11,037,225	10,409,930
Total current liabilities	26,762,954	22,363,408
Long-term debt	15,089,171	14,089,063
Deferred income taxes	1,430,729	1,472,730
Other long-term liabilities	50,048	
Total liabilities	43,332,902	37,925,201
Stockholders equity	72,310,432	67,162,882
Total liabilities and stockholders equity	$ 115,643,334	$ 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		Nine Months Ended	
	September 28, 2013	**September 29, 2012**	**September 28, 2013**	**September 29, 2012**
Net sales	$ 67,310,853	$ 71,671,126	$ 209,738,971	$ 228,411,988
Cost of sales	56,629,738	60,097,281	174,045,648	192,508,241
Gross profit	10,681,115	11,573,845	35,693,323	35,903,747
Selling, general and administrative expenses	8,354,912	7,570,491	25,507,577	24,231,123
Legal settlement and related costs		328,415	3,600,161	455,415
Other income	(94,227)	(174,445)	(827,008)	(766,585)
Operating income	2,420,430	3,849,384	7,412,593	11,983,794
Interest expense	315,963	149,710	537,354	729,520
Income before income taxes	2,104,467	3,699,674	6,875,239	11,254,274
Income tax expense (benefit)	573,030	129,183	2,114,865	(195,134)
Net income	1,531,437	3,570,491	4,760,374	11,449,408
Other comprehensive income (loss)	(31,265)	1,814	(62,534)	2,561
Total comprehensive income	$ 1,500,172	$ 3,572,305	$ 4,697,840	$ 11,451,969
Income per share:				
Basic	$ 0.09	$ 0.22	$ 0.30	$ 0.72
Diluted	0.09	0.22	0.29	0.71
Shares used in the computation of income per share:				
Basic	16,160,518	15,966,506	16,087,864	15,945,830
Diluted	16,546,113	16,243,852	16,425,542	16,209,108

See accompanying Notes to Condensed Consolidated Financial Statements.

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SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended	
	September 28, 2013	September 29, 2012
Cash flows from operating activities:		
Net income	$ 4,760,374	$ 11,449,408
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	2,657,081	2,363,367
Provision for losses on doubtful receivables	77,278	30,034
Deferred income taxes	230,462	(817,134)
Stock-based compensation expense	313,563	216,834
Gains on sale of property, plant and equipment, net	(352,893)	(362,098)
Changes in operating assets and liabilities	(5,382,460)	(4,935,149)
Net cash provided by operating activities	2,303,405	7,945,262
Cash flows from investing activities:		
Additions to property, plant and equipment	(5,042,419)	(5,354,288)
Proceeds from sale of property, plant and equipment	1,251,959	4,213,153
Purchases of investments	(20,824)	(11,635)
Proceeds from sale of investments	41,646	
Decrease in other assets		129,878
Net cash used in investing activities	(3,769,638)	(1,022,892)
Cash flows from financing activities:		
Proceeds from revolving line of credit and other long-term debt	59,583,131	226,248,425
Repayments of revolving line of credit and other long-term debt	(57,933,289)	(229,906,247)
Payment of debt issuance costs	(358,975)	
Proceeds from exercise of stock options	136,148	88,515
Net cash provided by (used in) financing activities	1,427,015	(3,569,307)
Change in cash and cash equivalents	(39,218)	3,353,063
Cash and cash equivalents, beginning of period	59,056	106,833
Cash and cash equivalents, end of period	$ 19,838	$ 3,459,896

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 presentation 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 and nine months ended September 28, 2013 and September 29, 2012 are for 13-week and 39-week periods, respectively.

Stock Dividend

On May 8, 2013, the Company s Board of Directors declared a five percent (5%) stock dividend on its outstanding Class A and Class B Common Stock. Stockholders of record on May 20, 2013 received a stock dividend for each share owned on that date, paid on June 3, 2013. All share and per share data have been adjusted to reflect the stock dividend on a retroactive basis.

Reclassification

Certain amounts in the prior year unaudited condensed consolidated financial statements have been reclassified to conform with the current year presentation. These reclassifications had no effect on net income, stockholders equity, or total assets as previously reported.

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:

	September 28, 2013	December 29, 2012
Raw materials	$ 23,284,651	$ 21,557,053
Work-in-progress	4,741,838	3,654,801
Finished goods	8,957,198	7,097,077
	$ 36,983,687	$ 32,308,931

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NOTE 3   OTHER CURRENT ASSETS

Other current assets include assets held for sale of $2.0 million and $2.1 million at September 28, 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. Additionally, during the third quarter of 2013, the Company reclassified approximately $0.7 million of real estate from property, plant, and equipment to assets held for sale.

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).

Derivatives: Our derivative instruments consist of interest rate swaps, currently reflected as other long-term liabilities on the Consolidated Condensed Balance Sheets. The Company obtains fair values from financial institutions that utilize internal models with observable market data inputs to estimate the fair value of these instruments (Level 2 inputs).

The carrying amounts of cash and cash equivalents, accounts receivable, and trade accounts payable approximated fair value as of September 28, 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 September 28, 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

Credit Agreement

On December 19, 2012, the Company entered into an Amended and Restated Credit Agreement (the Credit Agreement) with Wells Fargo Bank (the Lender). Under the terms of the Credit Agreement, Lender agrees to provide to the Company a credit facility of up to $45.0 million, consisting of a revolving credit facility, a term loan facility, and a letter of credit facility. The Credit Agreement is for a period of five years ending on December 19, 2017. The Company had unused credit capacity of $25.4 million at September 28, 2013. Interest on outstanding borrowings under the Credit Agreement is 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 interest rate of 2.53% at September 28, 2013.

Revolving Credit Facility

The revolving credit facility provides for borrowings of up to $35.0 million. The Company s cash management system and revolving credit facility are designed to maintain zero cash balances and, accordingly, checks outstanding in excess of bank balances are classified as borrowings under the revolving credit facility. Checks outstanding in excess of bank balances were $2.3 million and additional borrowings against the revolving credit facility totaled $3.6 million at September 28, 2013. The revolving credit facility also requires a quarterly commitment fee ranging from 0.20% to 0.50% per annum depending on the Company s financial ratios and based upon the average daily unused portion.

Term Loan Facility

The term loan facility provides for borrowings of up to $10.0 million. Effective April 29, 2013, the Company and the Lender entered into a $10.0 million term loan. The term loan is secured by real estate and improvements, 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. As of September 28, 2013, the outstanding balance under the term loan facility was $9.8 million.

On August 9, 2013, the Company entered into an interest rate swap agreement for a portion of the term loan with a notional amount of $5.0 million. The interest rate swap agreement provides for a 3.1% fixed interest rate and matures on December 19, 2017. The Company designated this swap agreement as a cash flow hedge on its variable rate debt and will record the fair value of the swap agreement as an asset or liability on the balance sheet, with changes in fair value recognized in other comprehensive income (loss).

Letter of Credit Facility

Outstanding letters of credit, related to the Company s workers compensation insurance policies, reduce available borrowings under the Credit Agreement and aggregated $3.7 million at September 28, 2013.

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NOTE 6 STOCK-BASED COMPENSATION

The following table summarizes the activity for the unvested restricted stock for the nine months ended September 28, 2013:

	Shares		Weighted - Average Grant Date Fair Value
Unvested, December 29, 2012		$	
Granted	139,581		4.17
Vested	(22,836)		4.01
Unvested, September 28, 2013	116,745		4.19

The total fair value of shares vested during the nine months ended September 28, 2013 was $93,515.

A summary of the status of the Company s outstanding stock options as of September 28, 2013, and changes during the nine months ended September 28, 2013 are as follows:

	Number of Shares		Weighted - Average Exercise Price
Outstanding, December 29, 2012	1,007,798	$	3.74
Granted			
Exercised	(111,995)		1.89
Expired	(272,462)		6.29
Forfeited	(84,015)		4.29
Outstanding, September 28, 2013	539,326		2.78

As of September 28, 2013, outstanding exercisable options had an intrinsic value of $1,595,848 and a weighted-average remaining contractual life of 2.7 years.

Total unrecognized compensation expense related to all share-based awards outstanding at September 28, 2013, was $489,133 and will be recorded over a weighted average contractual life of 2.5 years.

NOTE 7 INCOME TAXES

For the three and nine months ended September 28, 2013, the Company recorded income tax expense of $0.6 million and $2.1 million, respectively, at an effective tax rate of 27.2% and 30.8%, respectively, which differed from the federal statutory rate primarily because of state income tax and federal permanent income tax differences. For the three and nine months ended September 29, 2012, the Company recorded income tax expense of $0.1 million and an income tax benefit of $0.2 million, respectively, resulting from the reversal of a deferred tax valuation allowance due to improved profitability during that period.

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 sought $10 million in damages based on allegations that a truck body manufactured by the Company contained an improperly installed plate or lip, which caused Mr. Gendrolis to trip and become injured. Claims alleged against the Company included negligence, breach of warranty, breach of consumer protection laws, and loss of consortium. In September 2013, the parties mediated and reached a settlement to this litigation. The Company s contribution to the settlement was the remainder of its self-insurance deductible, in the amount of $0.1 million. The remainder of the settlement above was paid by insurance.

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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. King County sought to revoke its acceptance of a fleet of thirty-five buses which had been manufactured by the Company and sold to King County, and alleged breach of contract and breach of implied warranties. As of February 28, 2013, King County claimed its damages were $10.6 million and subsequently moved to add a consumer protection act claim which would have permitted an award of attorney s fees, if successful. On June 14, 2013, the Company and King County entered into a Settlement and Release Agreement under the terms of which the lawsuit would be dismissed and mutual releases granted in exchange for payment of the sum of $4.7 million to King County within ninety days of the date of the agreement and the return of thirty-five buses to the Company. Through separate agreements, the Company settled third-party claims against certain third-party subcontractors who have contributed to the Company $520,000 of the settlement funds, with the Company responsible for the balance which was paid on September 9, 2013. The Company assigned an estimated $1.1 million to the returned product. Including the legal settlement and related costs, the Company recorded a pre-tax charge of $3.6 million for the first nine months of 2013.

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 specialty vehicles and law enforcement vehicles.

The Company s transportation equipment products are used by a wide variety of industrial, commercial, governmental and law enforcement customers. The Company utilizes a nationwide direct sales and distribution network consisting of approximately 1,000 commercial truck dealers, a limited number of truck equipment distributors, and approximately 25 bus distributors. 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 position Supreme with a strategic footprint in the markets it serves.

The Company and its product offerings are affected by various risk factors which include, but are not limited to, economic conditions, interest rate fluctuations, volatility in the supply chain of 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.

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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. All earnings per share and share figures have been adjusted for the 5% stock dividend paid in the second quarter of 2013.

Overview

During the third quarter of 2013, we recorded strong order intake led by significant fleet business and improved retail demand for the Company s truck bodies. Backlog at the end of the quarter increased 36% to $85.6 million, compared with $63.0 million at the end of last year s third quarter. Consolidated net sales for the three and nine months ended September 28, 2013 declined 6.1% and 8.2%, respectively, compared with the prior periods. The revenue decrease was attributable to lower sales volume in the bus and specialty vehicle divisions and fleet sales.

For the first nine months of 2013, the Company continued to maintain its margin disciplines with the gross margin percentage increasing to 17.0% compared with 15.7% last year, despite the lower revenue. The margin percentage improvement was the result of initiatives to enhance manufacturing efficiencies, process improvements and strategic material procurement.

During the second quarter of 2013, Supreme settled its King County, Washington lawsuit which resulted in a year-to-date pre-tax charge of $3.6 million including related legal costs. The legal settlement and related costs for the nine months ended September 28, 2013 totaled $4.7 million, partially offset by $1.1 million of estimated value assigned to the returned product. Due to the inherent risk of litigation and the uncertainty of the outcome, the Company determined that it was in its best interest to bring this matter to resolution and therefore agreed to a settlement.

Net income for the three months ended September 28, 2013 was $1.5 million, or $0.09 per diluted share, compared with net income of $3.6 million, or $0.22 per diluted share for the comparable period last year. Net income for the first nine months ended September 28, 2013 was $4.8 million, or $0.29 per diluted share, compared with $11.4 million, or $0.71 per diluted share, last year.

On a pro forma basis, diluted earnings per share, adjusting for the King County legal settlement costs and normalizing of the 2012 income tax expense resulted in $0.09 per diluted share in the third quarter and $0.44 per diluted share in the first nine months of 2013 compared with $0.17 per diluted share and $0.50 per diluted share, respectively, last year. See Basic and diluted income per share for a more detailed explanation regarding the reconciliation of net income and net income per share to adjusted net income and adjusted net income diluted per share.

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To support future sales volume, reflected in the higher backlog, working capital increased to $42.9 million at September 28, 2013, compared with $38.6 million at December 29, 2012. Higher working capital, combined with the $4.2 million payment for the legal settlement in September 2013, resulted in total debt increasing $1.7 million to $15.8 million at quarter end, versus $14.1 million at December 29, 2012, and $12.3 million at September 29, 2012. Stockholders equity increased to $72.3 million at September 28, 2013, compared with $67.2 million at December 29, 2012. Book value, on a per-share basis, was $4.48 at quarter end versus $4.20 at the end of last year.

During the first nine months of 2013, we continued to focus on improving our gross margin percentage through leveraging inputs and manufacturing efficiencies. As we continue to manage the Company for profitable growth, our key areas of ongoing focus include:

- Segmenting our product flow to allow for improved delivery of complex, high option products utilizing production processes dedicated to lower volume custom trucks. This also enhances our ability to increase the conversion velocity of our higher volume products;

- Improved delivery performance and compression of our overall order to cash lead-times;

- Continuing to focus on our facilities to further drive productivity gains;

- Strategically driving top-line growth;

- 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 specialty products.

As we enter the last quarter of 2013, we are very encouraged by our backlog and recent demand trends in the truck division. We are continuing to implement initiatives targeted to benefit and leverage the strong foundation built to make further improvements in our future financial performance.

Net Sales

Net sales for the three months ended September 28, 2013 decreased $4.4 million, or 6.1%, to $67.3 million as compared with $71.7 million for the three months ended September 29, 2012. Net sales for the nine months ended September 28, 2013 decreased $18.7 million, or 8.2%, to $209.7 million as compared with $228.4 million for the nine months ended September 29, 2012. The following table presents the components of net sales and the changes from period to period:

($000 s omitted)	Three Months Ended Sep 28, 2013	Sep 29, 2012	Change		Nine Months Ended Sep 28, 2013	Sep 29, 2012	Change	
Specialized vehicles:								
Trucks	$ 52,418	$ 54,216	$ (1,798)	(3.3)%	$ 165,626	$ 170,984	$ (5,358)	(3.1)%
Buses	12,355	12,705	(350)	(2.8)	33,360	44,474	(11,114)	(25.0)
Specialty vehicles	2,145	4,050	(1,905)	(47.0)	9,074	10,740	(1,666)	(15.5)
	66,918	70,971	(4,053)	(5.7)	208,060	226,198	(18,138)	(8.0)
Fiberglass products	393	700	(307)	(43.9)	1,679	2,214	(535)	(24.2)
	$ 67,311	$ 71,671	$ (4,360)	(6.1)%	$ 209,739	$ 228,412	$ (18,673)	(8.2)%

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Truck division sales decreased by $1.8 million, or 3.3%, for the three months ended September 28, 2013, and decreased by $5.4 million, or 3.1%, for the nine months ended September 28, 2013. The decreases were due to fewer orders from fleet customers, partially offset by higher retail truck sales during the first nine months of the year.

Bus division sales decreased by $0.4 million, or 2.8%, for the three months ended September 28, 2013, and decreased by $11.1 million, or 25.0%, for the nine months ended September 29, 2013. The decrease was the result of 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 division recently introduced a new bus design to better compete in the markets it serves.

Specialty vehicle division sales decreased by $1.9 million, or 47.0%, for the three months ended September 28, 2013, and decreased by $1.7 million, or 15.5%, for the nine months ended September 28, 2013. The decrease was primarily due to continued lower governmental procurement which directly affects our business with the U.S. Department of State. 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 decreased by $0.9 million, or 7.8%, to $10.7 million for the three months ended September 28, 2013, as compared with $11.6 million for the three months ended September 29, 2012. Gross profit decreased by $0.2 million, or 0.6%, to $35.7 million for the nine months ended September 28, 2013, as compared with $35.9 million for the nine months ended September 29, 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 1.4% and 2.3% for the three and nine months ended September 28, 2013, as compared with the corresponding periods in 2012. The decrease in the material percentage was due to favorable product mix, strategic purchasing of certain materials, and our focus on accepting good margin business. Although raw material commodity prices are stable, the potential for future raw material cost fluctuations remains an ongoing area of concern. 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 0.3% and 0.9% for the three and nine months ended September 28, 2013, as compared with the corresponding periods in 2012. The decrease in the direct labor percentage resulted from recent plant redesigns, process improvements and enhanced manufacturing efficiencies at certain locations. However, in the quarter, the truck division experienced incremental training costs associated with the startup of the second half fleet business.

Overhead   Manufacturing overhead as a percentage of net sales increased by 1.5% and 1.9% for the three and nine months ended September 28, 2013, as compared with the corresponding periods in 2012. The increase was primarily due to the fixed nature of certain overhead expenses that do not fluctuate with sales volume changes.

Delivery Delivery costs as a percentage of net sales increased by 0.4% and remained flat for the three and nine months ended September 28, 2013, respectively, as compared with the corresponding periods in 2012.

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Selling, general and administrative expenses

Selling, general and administrative (G&A) expenses increased by $0.8 million, or 10.5% as a percentage of net sales, to $8.4 million for the three months ended September 28, 2013, as compared with $7.6 million for the three months ended September 29, 2012. Selling and G&A expenses increased by $1.3 million, or 5.4% as a percentage of net sales, to $25.5 million for the nine months ended September 28, 2013, as compared with $24.2 million for the nine months ended September 29, 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:

[redacted]

Selling expenses	$ 2,927	4.3%	$ 2,493	3.5%	$ 434	0.8%	$ 9,176	4.4%	$ 7,690	3.4%	$ 1,486	1.0%
G&A expenses	5,428	8.1	5,077	7.1	352	1.0	16,332	7.8	16,541	7.2	(209)	0.6
Total	$ 8,355	12.4%	$ 7,570	10.6%	$ 786	1.8%	$ 25,508	12.2%	$ 24,231	10.6%	$ 1,277	1.6%

Selling expenses Selling expenses increased $0.4 million and $1.5 million for the three and nine months ended September 28, 2013, as compared to the corresponding periods in 2012. As a percentage of net sales, selling expenses increased 0.8% and 1.0% for the three and nine months ended September 28, 2013, as compared with the corresponding periods in 2012. The increases were the result of a change in the sales commission structure which better correlates to the profit contribution levels and lower marketing program incentives received in 2013 from chassis suppliers.

G&A expenses G&A expenses increased $0.4 million for the three months ended September 28, 2013, and decreased $0.2 million for the nine months ended September 28, 2013, as compared to the corresponding periods in 2012. As a percentage of net sales, G&A expenses increased 1.0% and 0.6% for the three and nine months ended September 28, 2013, as compared with the corresponding periods in 2012. The increase of $0.4 million for the three months ended September 28, 2013 reflects higher costs associated with the implementation of a new inventory management system and strategic headcount additions. The decrease of $0.2 million for the nine months ended September 28, 2013, was primarily due to lower legal fees.

Legal settlement and related costs

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. King County sought to revoke its acceptance of a fleet of thirty-five buses, which had been manufactured by the Company and sold to King County, and alleged breach of contract and breach of implied warranties. As of February 28, 2013, King County claimed its damages were $10.6 million and subsequently moved to add a consumer protection act claim which would have permitted an award of attorney s fees, if successful. On June 14, 2013, the Company and King County entered into a Settlement and Release Agreement under the terms of which the lawsuit would be dismissed and mutual releases granted in exchange for payment of the sum of $4.7 million to King County within ninety days of the date of the agreement and the return of thirty-five buses to the Company. Through separate agreements, the Company settled third-party claims against certain third-party subcontractors who have contributed to the Company $520,000 of the settlement funds, with the Company responsible for the balance which was paid on September 9, 2013. The Company assigned an estimated $1.1 million to the returned product. Including the legal settlement and related costs, the Company recorded a pre-tax charge of $3.6 million for the first nine months of 2013.

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Other income

Other income was $0.1 million and $0.8 million for the three and nine months ended September 28, 2013, compared with $0.2 million and $0.8 million for the three and nine months ended September 29, 2012. Other income consisted of rental income, gain on the sale of assets, and other miscellaneous income received by the Company.

Interest expense

Interest expense was $0.3 million and $0.5 million for the three and nine months ended September 28, 2013, compared with $0.1 million and $0.7 million for the three and nine months ended September 29, 2012. The increase of $0.2 million for the quarter was the result of Original Equipment Manufacturer (OEM) chassis interest support funds for a fleet run in 2012 which was not repeated in 2013 and lower per-unit OEM chassis interest support funds which decreases interest expense. During the first nine months of 2013, net interest expense was down 26% with bank interest expense declining 39% from year-to-date 2012. The decline in bank interest expense resulted from a combination of lower average bank borrowings and an improved pricing structure from a new credit agreement. The effective interest rate on bank borrowings was 2.53% at quarter end, and the Company was in compliance with all provisions of its Credit Agreement.

Income taxes

For the three and nine months ended September 28, 2013, the Company recorded income tax expense of $0.6 million and $2.1 million, respectively, at an effective tax rate of 27.2% and 30.8%, respectively, which differed from the federal statutory rate primarily because of state income tax and federal permanent income tax differences. For the three and nine months ended September 29, 2012, the Company recorded an income tax expense of $0.1 million and an income tax benefit of $0.2 million, respectively, resulting from the reversal of a deferred tax valuation allowance due to the improved profitability.

Net income

Net income for the three months ended September 28, 2013 was $1.5 million, or $0.09 per diluted share, compared with net income of $3.6 million, or $0.22 per diluted share for the comparable period last year. Net income for the first nine months ended September 28, 2013 was $4.8 million, or $0.29 per diluted share, compared with $11.4 million, or $0.71 per diluted share, last year.

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Basic and diluted income per share

The following table presents a reconciliation of net income and net income per share to adjusted net income and adjusted net income per share. These non-GAAP financial measurements relate to an adjustment due to the costs of a legal settlement, which management believes should be adjusted because it was an unusual item, and to show the effect of current tax rates as the prior year tax rates were reduced by the reversal of a deferred tax valuation allowance related to previously unrecognized net operating loss carryforwards that were utilized. Management believes that these non-GAAP financial measures are helpful to show a more accurate comparison of the Company s operating performance year over year.

	Three Months Ended		Nine Months Ended	
	Sep 28, 2013	**Sep 29, 2012**	**Sep 28, 2013**	**Sep 29, 2012**
Net income	$ 1,531,437	$ 3,570,491	$ 4,760,374	$ 11,449,408
Legal settlement and related costs, net of tax		227,392*	2,492,730	315,327*
Adjusted income tax expense**		(1,008,858)		(3,657,018)
Adjusted net income	$ 1,531,437	$ 2,789,025	$ 7,253,104	$ 8,107,717
Per-share Data				
Net Income:				
Basic	$ 0.09	$ 0.22	$ 0.30	$ 0.72
Diluted	0.09	0.22	0.29	0.71
Legal settlement and related costs, net of tax:				
Basic		0.01	0.15	0.02
Diluted		0.01	0.15	0.02
Adjusted income tax expense:**				
Basic		(0.06)		(0.23)
Diluted		(0.06)		(0.23)
Adjusted net income:				
Basic	$ 0.09	$ 0.17	$ 0.45	$ 0.51
Diluted	0.09	0.17	0.44	0.50

** Represents pro forma tax effected legal costs.*

*** 2012 pro forma income tax expense adjusted to 2013 s normalized rates of 30.8%.*

Shares used in the computation of income per share:				
(Adjusted for 5% stock dividend paid on June 3, 2013)				
Basic	16,160,518	15,966,506	16,087,864	15,945,830
Diluted	16,546,113	16,243,852	16,425,542	16,209,108

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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 obligations, and fund capital expenditures.

Operating activities

Cash flows from operating activities represent the net income earned in the reported periods adjusted for non-cash charges and changes in operating assets and liabilities. Net cash provided by operating activities totaled $2.3 million for the nine months ended September 28, 2013, as compared with $7.9 million for the nine months ended September 29, 2012. Net cash provided by operating activities was impacted by a $4.7 million increase in inventories and a $4.4 million increase in accounts receivable, both reflecting increased business activity at the end of September 2013 as compared to the end of December 2012. These were partially offset by a $3.1 million increase in trade accounts payable related primarily to the increase in inventories necessary to support the $17.7 million increase in sales order backlog at September 28, 2013 as compared to the end of December 2012. Additionally, net cash from operating activities was adversely impacted by a net cash payment of $4.2 million for the legal settlement.

Investing activities

Net cash used in investing activities was $3.8 million for the nine months ended September 28, 2013 as compared with $1.0 million for the nine months ended September 29, 2012. During the first nine months of 2013, the Company s capital expenditures totaled $5.0 million and consisted primarily of investments in facilities and equipment. Additionally, during the first quarter of 2013 net cash of $1.2 million was received as a result of the sale of an excess capacity facility in Goshen, Indiana, which was previously included in assets held for sale.

Financing activities

Net cash provided by financing activities was $1.4 million for the first nine months of 2013. During September 2013 the Company utilized its revolving line of credit to finance the legal settlement resulting in a net cash payment of $4.2 million. The legal settlement liability was included in other accrued liabilities at June 29, 2013. Net cash used in financing activities of $3.6 million for the nine months ended September 29, 2012, resulting primarily from payments against the Company s revolving line of credit and other long-term debt.

Capital Resources

Credit Agreement

On December 19, 2012, the Company entered into an Amended and Restated Credit Agreement (the Credit Agreement) with Wells Fargo Bank (the Lender). Under the terms of the Credit Agreement, Lender agrees to provide to the Company a credit facility of up to $45.0 million, consisting of a revolving credit facility, a term loan facility, and a letter of credit facility. The Credit Agreement is for a period of five years ending on December 19, 2017. The Company had unused credit capacity of $25.4 million at September 28, 2013 and was in compliance with all provisions of its credit agreement.

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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 fund capital expenditure requirements. Cash generated from operations, and borrowings available under our credit agreement, are expected to be sufficient to finance the known and 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 receivables 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.

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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.

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 lender(s), 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.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Except as set forth below, 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. In the normal course of business, the Company is exposed to fluctuations in interest rates that can impact the cost of investing, financing, and operating activities. The Company s primary risk exposure results from changes in short-term interest rates. In an effort to manage risk exposures, the Company strives to achieve an acceptable balance between fixed and floating rate debt positions. The Company s Credit Agreement is floating rate debt and bears interest at the bank s prime rate or LIBOR plus certain basis points depending on the pricing option selected and the Company s leverage ratio. On August 9, 2013, the Company entered into an interest rate swap agreement for a portion of its term loan with a notional amount of $5.0 million (See Note 5 - Long-Term Debt). The interest rate swap agreement is a contract to exchange floating rate for fixed rate interest payments over the life of the interest rate swap agreement and is used to measure interest to be paid or received and does not represent the amount of exposure of credit loss. The differential paid or received under the interest rate swap agreement is recognized as an adjustment to interest expense.

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 September 28, 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.

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.

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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. See Note 8 Commitments and Contingencies for a description of certain developments with respect to legal proceedings that occurred during the third quarter of 2013.

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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

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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	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*	2013 Supreme Cash and Equity Bonus Plan dated August 7, 2013.
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 September 28, 2013, filed on November 5, 2013, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Statements of Cash Flows and (iv) the Notes to Consolidated Financial Statements.

*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: November 5, 2013		Mark D. Weber
		President and Chief Executive Officer
	By:	/s/ Matthew W. Long
DATE: November 5, 2013		Matthew W. Long
		Chief Financial Officer

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INDEX TO EXHIBITS

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