

SUPREME INDUSTRIES INC  
Form DEF 14A  
March 31, 2006

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Schedule 14A - Information Required in Proxy Statement

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

SUPREME INDUSTRIES, INC.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
  - (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:

SUPREME INDUSTRIES, INC.

2581 East Kercher Road

P.O. Box 237

Goshen, IN 46528

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 4, 2006

To Stockholders of

SUPREME INDUSTRIES, INC.:

The annual meeting of stockholders of Supreme Industries, Inc. (the Company ) will be held at the Courtyard by Marriott, 1930 Lincolnway East, Goshen, Indiana on May 4, 2006 at 10:00 a.m. Eastern Standard Time for the following purposes:

1. To elect nine directors to serve until the next annual meeting of stockholders and until their respective successors shall be elected and qualified;
2. To consider and vote upon the proposed Amended and Restated 2004 Stock Option Plan;
3. To ratify the selection of Crowe Chizek and Company LLC as Independent Registered Public Accounting Firm; and
4. To transact such other business as may properly come before the meeting and any adjournment thereof.

Information regarding matters to be acted upon at this meeting is contained in the accompanying Proxy Statement. Only stockholders of record at the close of business on March 24, 2006 are entitled to notice of and to vote at the meeting and any adjournment thereof.

All stockholders are cordially invited to attend the meeting. Whether or not you plan to attend, please complete, sign, and return promptly the enclosed proxy in the accompanying addressed envelope for which postage is prepaid. You may revoke the proxy at any time before the commencement of the meeting.

By Order of the Board of Directors

Goshen, Indiana  
April 3, 2006

William J. Barrett  
Secretary

IT IS IMPORTANT THAT YOUR STOCK BE REPRESENTED AT THE MEETING, REGARDLESS OF THE NUMBER OF SHARES YOU HOLD. PLEASE COMPLETE, SIGN, AND RETURN PROMPTLY THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE, WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE MEETING.

### **SOLICITATION OF PROXIES**

This Proxy Statement and accompanying Proxy are furnished to stockholders in connection with the solicitation of proxies by the Board of Directors of Supreme Industries, Inc. (the Company) for use at the Annual Meeting of Stockholders to be held at the Courtyard by Marriott, 1930 Lincolnway East, Goshen, Indiana, on May 4, 2006 at 10:00 a.m. Eastern Standard Time, or at any adjournment thereof. The Notice of Meeting, the form of Proxy, and this Proxy Statement are being mailed to the Company's stockholders on or about April 3, 2006.

The expense of proxy solicitation will be borne by the Company. Although solicitation is to be made primarily through the mail, the Company's officers and/or employees and those of its transfer agent may solicit proxies by telephone or personal contact, but in such event no additional compensation will be paid by the Company for such solicitation material regarding the meeting to beneficial owners of the Company's Common Stock, and in such event the Company will reimburse them for all accountable costs so incurred.

A copy of the 2005 Annual Report to Stockholders of the Company for its fiscal year ended December 31, 2005, is being mailed with this Proxy Statement to all such stockholders entitled to vote, but does not form any part of the information for solicitation of proxies.

### **RECORD DATE AND VOTING SECURITIES**

The Board of Directors of the Company has fixed the close of business on March 24, 2006, as the record date for determination of stockholders entitled to notice of and to vote at the Annual Meeting. As of the record date, there were 10,585,826 shares of Class A Common Stock and 2,109,133 shares of Class B Common Stock of the Company issued and outstanding. The presence, in person or by proxy, of the holders of a majority of the issued and outstanding shares of Common Stock as of the record date is necessary to constitute a quorum at the Annual Meeting with respect to matters upon which both classes of Common Stock are entitled to vote.

### **ACTION TO BE TAKEN AND VOTE REQUIRED**

Action will be taken at the meeting to elect a Board of Directors, to approve an Amended and Restated 2004 Stock Option Plan (the Stock Option Plan), and to ratify the selection of Crowe Chizek and Company LLC as Independent Registered Public Accounting Firm. The proxy will be voted in accordance with the directions specified thereon, and otherwise in accordance with the judgment of the persons designated as proxies. Any proxy on which no directions are specified will be voted for the election of directors named herein, for the Amended and Restated 2004 Stock Option Plan, and otherwise in accordance with the judgment of the persons designated as proxies. Any person executing the enclosed proxy may nevertheless revoke it at any time prior to the actual voting thereof by filing with the Secretary of the Company either a written instrument expressly revoking it or a duly executed proxy bearing a later date. Furthermore, such person may nevertheless elect to attend the meeting and vote in person, in which event the proxy will be suspended.

The Company's Certificate of Incorporation authorizes two classes of \$.10 par value Common Stock (designated Class A and Class B) as well as one class of \$1.00 par value preferred stock. No shares of the preferred stock are outstanding. In voting on all matters expected to come before the meeting, a shareholder of either Class A or Class B Common Stock will be entitled to one vote, in person or by proxy, for each share held in his or her name on the record date, except that the holders of Class A Common Stock shall be entitled to elect that number (rounded down) of directors equal to the total number of directors to be elected divided by three, i.e., three directors, and the holders of Class B Common Stock shall be entitled to elect the remaining directors. The election of three directors by the holders of the Class A Common Stock requires the affirmative vote of a majority of the shares of Class A Common Stock represented in person or by proxy at a meeting at which a majority of the outstanding Class A shares is present. The approval of the proposed Amended and Restated 2004 Stock Option Plan and the ratification of the selection of auditors requires the affirmative vote of the holders of a majority of the outstanding shares of the Common Stock present, in person or by proxy, at the annual meeting. The Company's Certificate of Incorporation prohibits cumulative voting.

#### **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following tabulation sets forth the names of those persons who are known to management to be the beneficial owners as of March 24, 2006 of more than five percent of the Company's Class A or Class B Common Stock. Such tabulation also sets forth the number of shares of the Company's Class A or Class B Common Stock beneficially owned as of March 24, 2006 by all of the Company's directors and nominees (naming them) and all directors and officers of the Company as a group (without naming them). Persons having direct beneficial ownership of the Company's Common Stock possess the sole voting and dispositive power in regard to such stock. Class B Common Stock is freely convertible on a one-for-one basis into an equal number of shares of Class A Common Stock, and ownership of Class B shares is deemed to be beneficial ownership of Class A shares under Rule 13d-3(d)(1) promulgated under the Securities Exchange Act of 1934. As of March 24, 2006, there were 10,585,826 Class A shares and 2,109,133 Class B shares outstanding.

The following tabulation also includes Class A shares covered by options granted under the Company's 2004, 2001, and 1998 Stock Option Plans, which options are collectively referred to as Stock Options. The Stock Options have no voting or dividend rights.

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Name and Address of Beneficial Owner	Title Class	Amount and Nature of Beneficial Ownership	Percent of Class (1)
Wilco Management Company, Inc. 2360 West Joppa Road, Suite 226 Lutherville, MD 21093	Class A	778,378	7.4%
Wellington Management Company, LLP 75 State Street Boston, MA 02109	Class A	580,900	5.5%
William J. Barrett 636 River Road Fair Haven, NJ 07704	Class A Class B	1,380,435 (2)(3)(6) 625,296 (3)	12.2% 29.6%
Herbert M. Gardner 636 River Road Fair Haven, NJ 07704	Class A Class B	1,021,853 (2)(4)(6) 545,914 (4)	9.1% 25.9%
Thomas Cantwell #1 McGill St., Apt. 1010 Montreal, Quebec, Canada H2Y 4A3	Class A Class B	723,720 (2)(6) 700,946	6.4% 33.2%
Omer G. Kropf 2581 East Kercher Road Goshen, IN 46528	Class A	711,557 (2)	6.7%
Robert W. Wilson 2581 East Kercher Road Goshen, IN 46528	Class A	160,919 (2)	1.5%
Robert J. Campbell 15690 Treasure Cove Bullard, TX 75757	Class A Class B	133,735 (2)(5)(6) 44,044	1.3% 2.1%
H. Douglas Schrock 68143 Clunette Street New Paris, IN 46553	Class A	101,231 (2)	1.0%
Jeffery D. Mowery 2581 East Kercher Road Goshen, IN 46528	Class A	42,500 (2)	*
Arthur M. Borden 575 Madison Avenue, 22nd Floor New York, NY 10022	Class A	25,685 (2)	*
Mark C. Neilson 5230 Fiore Terrace San Diego, CA 92122	Class A	12,500 (2)	*

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All directors and officers as a group of (10) persons	Class A	4,314,135 (2)(3)(4)(5)(6)	33.2	%
	Class B	1,916,200 (3)(4)	90.9	%

\* Less than 1%

(1) The percentage calculations have been made in accordance with Rule 13d-3(d)(1) promulgated under the Securities Exchange Act of 1934. In making these calculations, shares beneficially owned by a person as a result of the ownership of Stock Options, or ownership of Class B Common Stock, were deemed to be currently outstanding solely with respect to the holders of such options or Class B shares.

(2) Includes the number of Class A Shares set forth opposite the persons named in the following table which shares are beneficially owned as a result of the ownership of Stock Options under the Company's 2004, 2001, and 1998 Stock Option Plans.

	Stock Options
William J. Barrett	128,227
Herbert M. Gardner	124,848
Omer G. Kropf	77,000
Robert W. Wilson	74,500
Jeffery D. Mowery	42,500
Thomas Cantwell	17,000
H. Douglas Schrock	17,000
Mark C. Neilson	11,500
Robert J. Campbell	10,580
Arthur M. Borden	6,000
All directors and officers as a group	509,155

(3) Includes 81,686 shares of Class A Common Stock and 9,849 shares of Class B Common Stock owned by Mr. Barrett's wife. Mr. Barrett has disclaimed beneficial ownership of these shares.

(4) Includes 9,663 shares of Class A Common Stock and 56,592 shares of Class B Common Stock owned by Mr. Gardner's wife. Mr. Gardner has disclaimed beneficial ownership of these shares.

(5) Includes 410 shares of Class A Common Stock owned beneficially by Mr. Campbell's wife as custodian for their children. Mr. Campbell has disclaimed beneficial ownership of these shares.

(6) Includes the number of shares of Class A Common Stock which are deemed to be beneficially owned as a result of ownership of shares of Class B Common Stock, which Class B shares are freely convertible on a one-for-one basis into Class A shares.

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Depositories such as The Depository Trust Company (Cede & Company) as of March 24, 2006 held, in the aggregate, more than 5% of the Company's then outstanding Class A voting shares. The Company understands that such depositories hold such shares for the benefit of various participating brokers, banks, and other institutions which are entitled to vote such shares according to the instructions of the beneficial owners thereof. The Company has no reason to believe that any of such beneficial owners hold more than 5% of the Company's outstanding voting securities.



**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

Nine directors are to be elected at the Annual Meeting of Stockholders. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees shown below for the term of one year and until their successors are duly elected and have qualified. The Company's Board of Directors is currently comprised of nine members. Of the persons named below, Messrs. Borden, Neilson and Schrock have been nominated for election by the holders of Class A Common Stock, and the remaining persons have been nominated for election by the holders of Class B Common Stock. The nominees for election by holders of Class A Common Stock were recommended to the Board of Directors by a majority of the independent directors of the Board.

Messrs. Gardner, Barrett, Kropf and Wilson were the executive officers of the Company as of December 31, 2005. Officers are elected annually by the Board of Directors at the Regular Meeting of Directors held immediately following the Annual Meeting of Stockholders.

Although it is not contemplated that any nominee will be unable to serve as a director, in such event the proxies will be voted by the holders thereof for such other person as may be designated by the current Board of Directors. The management of the Company has no reason to believe that any of the nominees will be unable or unwilling to serve if elected to office, and to the knowledge of management, the nominees intend to serve the entire term for which election is sought.

There are no family relationships by blood, marriage, or adoption between any director or executive officer, except Mr. Schrock who is Mr. Barrett's brother-in-law.

Only nine nominees for director are named, even though the Company's bylaws allow a maximum of fifteen, since the proposed size of the board is deemed adequate to meet the requirements of the Board of Directors. The proxies given by the Class A stockholders cannot be voted for more than three persons, and the proxies given by the Class B stockholders cannot be voted for more than six persons. The information set forth below with respect to each of the nominees has been furnished by each respective nominee.

Name, Age, and Business Experience	Executive Officer Since	Positions With Company
Herbert M. Gardner, 66 Executive Vice President of Barrett-Gardner Associates, Inc., an investment banking firm since November 2002 and previously Senior Vice President of Janney Montgomery Scott LLC, investment bankers; Chairman of the Board of the Company since 1979 and President of the Company from June 1992 to February 2006; Director of Rumson-Fair Haven Bank and Trust Company, a New Jersey state independent, commercial bank and trust company; Director of Nu Horizons Electronics Corp., an electronic component distributor; Director of TGC Industries, Inc., a company engaged in the geophysical services industry; and Director of Co-Active Marketing Group, Inc., a marketing and sales promotion company.	1979	Chairman of the Board



Name, Age, and Business Experience	Executive Officer Since	Positions With Company
<p>Robert W. Wilson, 61            President and Chief Operating Officer of the Company since February 2006; Executive Vice President of the Company from December 1992 through February 2006; Treasurer and Chief Financial Officer of the Company from December 1992 through April 2005; Vice President of Finance, Treasurer, and Assistant Secretary of Supreme Corporation, a subsidiary of the Company, from 1998 through April 2005; co-holder of Office of the President of Supreme Corporation from November 2000 through April 2005.</p>	1992	President and Chief Operating Officer
<p>William J. Barrett, 66            President of Barrett-Gardner Associates, Inc., an investment banking firm since November 2002, and previously Senior Vice President of Janney Montgomery Scott LLC, investment bankers; Secretary and Assistant Treasurer of the Company and a Director since 1979 and Executive Vice President (Long Range and Strategic Planning) of the Company since 2004; Chairman of the Board and Director of Rumson-Fair Haven Bank and Trust Company, a New Jersey state independent, commercial bank and trust company; and a Director of TGC Industries, Inc., a company engaged in the geophysical services industry.</p>	1979	Executive Vice President (Long Range and Strategic Planning) and Secretary
<p>Arthur M. Borden, 86            Of Counsel, Katten Muchin Zavis Rosenman, since 2002; Of Counsel, Rosenman &amp; Colin LLP from 1993 to 2002; Partner, Rosenman &amp; Colin LLP from 1987 to 1992; and Director, Scientific Industries, Inc., a manufacturer and distributor of laboratory equipment.</p>	n/a	None
<p>Robert J. Campbell, 74            Retired Chief Executive Officer of TGC Industries, Inc., from March 1996 to December, 1998, a company engaged in the geophysical services industry; Vice Chairman of the Board and Chief Executive Officer of TGC from July 1993 through March 1996; Chairman of the Board and Chief Executive Officer of TGC Industries, Inc., from July 1986 to July 1993; and prior to such time, President and Chief Executive Officer of the Company for more than five years.</p>	n/a	None

Name, Age, and Business Experience	Executive Officer Since	Positions With Company
<p>Dr. Thomas Cantwell, 78 1978 to present, independent investor; September 1987 to present, President of Technical Computer Graphics, Inc., a software/hardware integrator in the computer graphics field; Director of VertigoXMedia, a developer of television broadcast control systems; and Director of Miranda Technologies, a manufacturer of digital video and audio equipment.</p>	n/a	None
<p>Omer G. Kropf, 64 Executive Vice President of the Company from August 1984 through April 2005; President and Chief Executive Officer of Supreme Corporation, a subsidiary of the Company, from January 1984 to November 2000; co-holder of Office of the President of Supreme Corporation from November 2000 through April 2005; and Vice-Chairman and Managing Director of Special Projects of Supreme Corporation since May 2005.</p>	n/a	None
<p>Mark C. Neilson, 47 Partner, Tatum, LLC, a national financial technology and consulting firm, since September 2005; Chief Financial Officer of Towne Air Freight, Inc., an air freight trucking company, from April 2001 to February 2005; Independent business consultant from November 1998 to March 2001; Chief Financial Officer of Therm-O-Lite, Inc., a manufacturer of interior insulated windows, since January 2000; and Chief Financial Officer and Director of Shelter Components Corporation, a supplier to the recreational vehicle industry, from March 1986 to October 1998.</p>	n/a	None
<p>H. Douglas Schrock, 57 President of Smoker Craft, Inc., a pleasure boat manufacturer, since 1978; President of Earthway Products, Inc.; and President of Starcraft Marine, LLC.</p>	n/a	None

**The Board of Directors recommends a vote FOR Proposal No. 1.**

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than 10 percent of Common Stock, to file with the Securities and Exchange Commission (SEC) certain reports of beneficial ownership of Common Stock. Based solely on copies of such reports furnished to the Company and written representations that no other reports were required, the Company believes that all applicable Section 16(a) filing requirements were complied with by its director, officers, and 10 percent stockholders during the last fiscal year.

## COMMITTEES AND MEETINGS OF THE BOARD OF DIRECTORS; INDEPENDENT DIRECTORS

The Board of Directors has an Executive Committee comprised of Dr. Cantwell and Messrs. Gardner, Barrett, and Kropf, an Audit Committee comprised of Dr. Cantwell and Messrs. Neilson, Campbell and Borden, and a Stock Option Committee comprised of Dr. Cantwell and Messrs. Gardner and Barrett.

The Executive Committee, which met four times during the year ended December 31, 2005, is charged by the Company's bylaws with the responsibility of exercising such authority of the Board of Directors as is specifically delegated to it by the Board, subject to certain limitations contained in the bylaws.

The Audit Committee met four times during the year ended December 31, 2005. The purpose and functions of the Audit Committee are to appoint or terminate the independent auditors; evaluate and determine compensation of the independent auditors; review the scope of the audit proposed by the independent auditors; review year-end financial statements prior to issuance; consult with the independent auditors on matters relating to internal financial controls and procedures; and make appropriate reports and recommendations to the Board of Directors.

The Stock Option Committee met twice during the year. The Committee is responsible for awarding Stock Options to key employees or individuals who provide substantial advice or other assistance to the Company so that they will apply their best efforts for the benefit of the Company.

The Company does not have a Compensation Committee.

The Company does not have a standing Nominating Committee, and nominations for director are made by the Company's independent directors. The Board of Directors believes that, considering the size of the Company and the Board of Directors, nominating decisions can be made effectively on a case-by-case basis, and there is no need for the added formality of a Nominating Committee. In carrying out the functions of a Nominating Committee, the Board of Directors does not rely on a Nominating Committee Charter. Acting in the capacity of a Nominating Committee, the Board of Directors has not adopted any policy with regard to the consideration of director candidates recommended by security holders for the reason that such a policy is deemed unnecessary since, at no time in the history of the Company, has any such recommendation ever been received from any of the Company's security holders.

During the year ended December 31, 2005, the Board of Directors held four regularly scheduled meetings. All of the Directors listed herein attended 75% or more of the total meetings of the Board and of the committees on which they serve.

The Board of Directors has determined that the following five directors have no material relationship with the Company that would interfere with the exercise of independent judgment and are independent within the meaning of the American Stock Exchange (AMEX) director independence standards: Arthur M. Borden, Robert J. Campbell, Dr. Thomas Cantwell, Mark C. Neilson, and H. Douglas Schrock.

## SUPREME'S AUDIT COMMITTEE AND AUDIT COMMITTEE REPORT

The responsibilities of the Audit Committee, which are set forth in the Audit Committee Charter adopted by the Board of Directors, include providing oversight to the Company's financial reporting process through periodic meetings with the Company's Independent Registered Public Accounting Firm ( independent auditors ) and management to review accounting, auditing, internal controls, and financial reporting matters. The members of the Audit Committee are independent as defined in Section 121(A) of the listing standards of the American Stock Exchange and Rule 10A-3 (b)(1) under the Securities Exchange Act of 1934 (the 1934 Act ). All members of the Audit Committee are financially literate and are able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement. The Board of Directors has determined that

Mr. Neilson qualifies as an Audit Committee Financial Expert as defined in Section 229.401(h) of the 1934 Act, and his experience and background are described on page 8. The management of the Company is responsible for the preparation and integrity of the financial reporting information and related systems of internal controls. The Audit Committee, in carrying out its role, relies on the Company's senior management, including senior financial management, and its independent auditors. The Audit Committee has the authority and available funding to engage any independent legal counsel and any accounting or other expert advisors as necessary to carry out its duties.

We have reviewed and discussed with senior management the Company's audited financial statements included in the 2005 Annual Report to Stockholders. Management has confirmed to us that such financial statements (i) have been prepared with integrity and objectivity and are the responsibility of management and, (ii) have been prepared in conformity with accounting principles generally accepted in the United States of America.

We have discussed with Crowe Chizek and Company LLC, the Company's Independent Registered Public Accounting Firm, the matters required to be discussed by Statement of Auditing Standards (SAS) No. 61, Communications with Audit Committees. SAS No. 61 requires the Company's independent auditors to provide us with additional information regarding the scope and results of their audit of the Company's financial statements, including with respect to (i) their responsibility under auditing standards of the Public Company Accounting Oversight Board (United States), (ii) significant accounting policies, (iii) management's judgments and estimates, (iv) any significant audit adjustments, (v) any disagreements with management, and (vi) any difficulties encountered in performing the audit.

We have received from Crowe Chizek and Company LLC a letter providing the disclosures required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, with respect to any relationships between Crowe Chizek and Company LLC and the Company that in their professional judgment may reasonably be thought to bear on their independence. Crowe Chizek and Company LLC has discussed its independence with us and has confirmed in such letter that, in its professional judgment, it is independent of the Company within the meaning of the federal securities laws.

Based on the review and discussions described above with respect to the Company's audited financial statements included in the Company's 2005 Annual Report to Stockholders, we have recommended to the Board of Directors that such financial statements be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

As specified in the Audit Committee Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with accounting principles generally accepted in the United States of America. That is the responsibility of management and the Company's independent auditors. In giving our recommendation to the Board of Directors, we have relied on (i) management's representation that such financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles, and (ii) the report of the Company's independent auditors with respect to such financial statements.

**The Audit Committee:**

Mark C. Neilson (Chair)

Arthur M. Borden

Robert J. Campbell

Thomas Cantwell

**Principal Accounting Fees and Services**

The accounting firm of Crowe Chizek and Company LLC ( Crowe Chizek ) served as the Independent Registered Public Accounting Firm for the Company for the fiscal year ended December 31, 2005. Crowe Chizek has served as auditors for the Company since October 9, 2001.



*Audit Fees.* The aggregate fees billed for professional services rendered by Crowe Chizek for the audit of our annual financial statements and reviews of the financial statements included in our quarterly reports on Form 10-Q were \$156,155 for fiscal 2005 and \$132,450 for fiscal 2004.

*Audit-Related Fees.* The aggregate fees billed for professional services by Crowe Chizek for assurance and related services reasonably related to the audit and review services described under *Audit Fees* above were \$8,100 for fiscal 2005 and \$6,930 for fiscal 2004. The amounts shown for 2005 and 2004 consist of fees for benefit plan audits.

*Tax Fees.* The aggregate fees billed for professional services by Crowe Chizek for tax compliance, tax advice, and tax planning services were \$143,645 for fiscal 2005 and \$251,660 for fiscal 2004.

The tax fees are summarized as follows:

	2005	2004
Tax fees - preparation and compliance (1)	\$ 67,100	\$ 91,850
Tax fees - other (2)	48,700	130,500
Project fees (3)	26,500	24,085
Out-of-pocket expenses	1,345	5,225
	\$ 143,645	\$ 251,660

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(1) Preparation of corporate federal and state tax returns, assistance with accounting method changes, and assistance with ongoing state tax audits. The fees for 2004 also included fees related to research and development tax credit studies and preparation of amended federal and state tax returns to claim tax credits.

(2) Tax research, consultation, technical services, and assistance with the implementation of a captive insurance program, including working with the project team consisting of management, attorneys, actuaries, and insurance brokers (this project commenced in 2004 and was completed in 2005).

(3) Various tax projects approved by the Audit Committee, none of which exceeded \$8,800 in billing in 2005 and \$3,300 in 2004.

*All Other Fees.* The aggregate fees billed for professional services by Crowe Chizek for services other than those described above were \$7,600 for fiscal 2005 and \$2,500 for fiscal 2004. Services included providing assistance related to future compliance with the provisions of the Sarbanes-Oxley Act of 2002 in 2005 and 2004.

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The Audit Committee has the sole authority to authorize all audit and non-audit services to be provided by the independent audit firm engaged to conduct the annual audit of the Company's consolidated financial statements. In addition, the Audit Committee has adopted pre-approval policies and procedures that are detailed as to each particular service to be provided by the independent auditors, and such policies and procedures do not permit the Audit Committee to delegate its responsibilities under the Securities Exchange Act of 1934, as amended, to management. The Audit Committee pre-approved fees for all audit and non-audit services provided by the independent audit firm during the fiscal year ended December 31, 2005, as required by the Sarbanes-Oxley Act of 2002.

The Audit Committee has considered whether the providing of non-audit services has been compatible with maintaining the independent auditor's independence and has advised the Company that, in its opinion, the activities performed by Crowe Chizek on the Company's behalf were compatible with maintaining the independence of such auditors.

**Code of Ethics**

The Company has adopted a Code of Ethics that applies to the Company's Officers and Directors, including the Company's principal executive officer and principal financial and accounting officer. The code has been posted in the Shareholder Information section of the Company's website, [www.supremeind.com](http://www.supremeind.com).

**EXECUTIVE COMPENSATION**

The following table sets forth the compensation paid or accrued by the Company and its subsidiaries for services rendered during the last three fiscal years to the Company's chief executive officer and each of the most highly compensated executive officers of the Company whose cash compensation exceeds \$100,000.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation Salary \$	Bonus \$	Long Term Compensation	All Other Compensation (4)
Herbert M. Gardner (1) Chairman of the Board	2005	\$ 106,979	\$ 61,000	\$	\$ 39,552
	2004	108,000	69,500		
	2003	108,000	59,000		
Robert W. Wilson (2) President and Chief Operating Officer	2005	183,654	93,150		50,196
	2004	150,000	124,200		11,845
	2003	147,923	92,683		6,105
William J. Barrett (1) Executive Vice President (Long Range and Strategic Planning) and Secretary	2005	108,000	61,000		36,027
	2004	108,000	69,500		
	2003	108,000	59,000		
Jeffery D. Mowery Treasurer, Chief Financial Officer and Assistant Secretary	2005	93,885	16,000		10,431
	2004	80,469	20,000		2,194
	2003	79,523	8,800		1,855
Omer G. Kropf (3) Vice Chairman - Supreme Corporation	2005	173,333	93,150		8,444
	2004	240,000	124,200		15,805
	2003	240,000	92,683		15,708

(1) On January 1, 1993, the Company entered into three-year consulting agreements commencing on January 1, 1993 with Mr. Gardner and Mr. Barrett for financial and advisory consulting services. On September 22, 1994, the Board of Directors approved amendments to the agreements so that on December 31st of each year the agreements would be automatically extended for an additional year. On May 1, 2003 the Company replaced the then existing consulting agreements with new Employment Contracts for Mr. Gardner and Mr. Barrett. Primarily for the purpose of insuring that both such Contracts are in compliance with newly enacted Section 409A of the Internal Revenue Code of 1986, as amended, both such Employment Contracts were amended and restated with effective dates of January 1, 2005. Commencing on the first day of the Contracts,

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and each day thereafter, the terms of the Contracts are automatically extended for one additional day so that a constant three (3) year term is always in effect. The terms of the Employment Contracts provide for Mr. Gardner and Mr. Barrett to receive a minimum base salary of \$108,000 per year, plus a cash incentive performance fee in the amount of \$36,000 if the pre-tax earnings of the Company exceed \$2,000,000, plus an amount equal to 0.6% of the amount by which such pre-tax earnings exceed \$2,000,000.

(2) On January 1, 1998, the Company's wholly-owned subsidiary, Supreme Corporation, entered into a three-year Employment Contract with Mr. Wilson through December 31, 2000. On July 1, 2000, an Amendment Number One extended the Contract through December 31, 2003. On July 1, 2003 Supreme Corporation entered into a new three-year Employment Contract with Mr. Wilson through June 30, 2006. Primarily for the purpose of insuring compliance with newly enacted Section 409A of the Internal Revenue Code of 1986, as amended, the Employment Contract with Mr. Wilson was amended and restated to be effective January 1, 2006. The Employment Contract provides for Mr. Wilson to have the title of President and Chief Executive Officer, a term of three (3) years ending on April 30, 2008, and a minimum base salary of \$200,000 per year (subject to increase by the determination of the Board of Directors) plus a bonus subject to approval by the Board of Directors based upon the Company's pre-tax operating performance. In addition, on May 2, 2005 the Company's Stock Option Committee granted Mr. Wilson an incentive stock option to purchase 25,000 shares of the Company's Class A Common Stock with the exercise price being current market value.

(3) On May 1, 1998, the Company's wholly-owned subsidiary, Supreme Corporation, entered into a four-year Employment Contract with Mr. Kropf through April 30, 2002. On May 1, 2002, Supreme Corporation entered into a new three-year Employment Contract with Mr. Kropf through April 30, 2005. The Board of Directors of the Company and Mr. Kropf have agreed that, effective May 1, 2005, Mr. Kropf will no longer be Executive Vice President of the Company. Supreme Corporation has entered into an Employment Contract with Mr. Kropf dated to be effective May 1, 2005, employing Mr. Kropf as Vice Chairman and Managing Director of Special Projects. This Contract is for a term of three years and provides for a minimum base salary of \$140,000 for the first year and \$120,000 for the second and third years.

(4) Includes the Company's matching contribution to its Section 401(k) Retirement Plan and payment of premiums for disability and life insurance coverage for the named executives.

### **Director Compensation**

Outside directors (other than Dr. Cantwell) are paid \$1,500 per board meeting attended and an additional \$6,000 annually. Members of the Audit Committee are paid \$1,500 per meeting. In his capacity as a member of the Executive Committee, Dr. Cantwell is paid a minimum of \$24,000 cash annually. Each Director is reimbursed for out-of-pocket expenses incurred in attending Board or Committee meetings. At a telephone meeting of the Board of Directors held on May 2, 2005, the Board approved a \$5,000 annual cash payment to the Chairman of the Audit Committee and the annual payment of 2,000 shares of the Company's Class A Common Stock to each outside director with one-third to vest immediately, one-third to vest after the first year, and the remaining one-third to vest after the second year (with full vesting of the entire amount in the event the recipient is age sixty-five or older).

### **Aggregate Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values**

The following table sets forth certain information regarding the year-end value of options held by the Company's executive officers during the fiscal year ended December 31, 2005. There are no stock appreciation rights outstanding.

Name	Shares Acquired on Exercise	Value Realized at Exercise	Number of Unexercised Options at the Year-End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options At the Year-End (1) Exercisable/Unexercisable
Herbert M. Gardner	61,875	\$ 218,254	124,848	\$ 260,902
Robert W. Wilson	58,798	110,353	74,500	166,655

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William J. Barrett	61,875	194,865	128,227	200,819
Jeffery D. Mowery			42,500	98,960
Omer G. Kropf	79,503	151,874	77,000	226,765

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(1) The value of outstanding options is based on the December 31, 2005 closing stock price which was \$7.74.

**The Board Of Directors Report On Executive Compensation**

The Company's compensation policy and annual compensation applicable to the Company's executive officers are the responsibility of the Board of Directors. Executive officers of the Company who are also members of the Board, including the chief executive officer, do not participate in setting their own compensation. The Board of Directors reviews the individual performance of each executive officer and the financial performance of the Company. The Board also takes into account salary levels, bonus plans, stock incentive plans, and other compensation packages made available to executive officers of companies of similar size and nature. The Board of Directors considers the Company's compensation policy in light of Section 162(m) of the Internal Revenue Code of 1986 and related regulations regarding the deductibility of compensation. No executive has received compensation which is non-deductible under such Section; however, the Board of Directors may determine to pay compensation which is non-deductible in certain circumstances. In accordance with the above compensation policy, the Board of Directors, upon the recommendation of a majority of the independent directors of the Board, has established certain compensation arrangements as set forth below.

The Board has approved Employment Contracts between the Company and Mr. Herbert M. Gardner, Chairman of the Board of the Company, and Mr. William J. Barrett, Executive Vice President (Long Range and Strategic Planning) and Secretary of the Company. These Amended and Restated Employment Contracts became effective January 1, 2005, and are automatically extended for one additional day so that a constant three (3) year term is always in effect. In consideration of services to be provided to the Company, the Employment Contracts provide for Messrs. Gardner and Barrett to each receive (in addition to certain fringe benefits): (1) annual base compensation of \$108,000 (which monthly payments are to be offset by all other fees paid to Messrs. Gardner and Barrett, respectively, for serving as members of the Board of Directors and any committee of the Company and its subsidiaries); and (2) if the pre-tax earnings of the Company exceed \$2,000,000, an incentive bonus of \$36,000, plus an amount equal to 0.6% of the amount by which such pre-tax earnings exceed \$2,000,000.

The Company's wholly-owned subsidiary, Supreme Corporation, entered into an Employment Contract with Mr. Robert W. Wilson employing Mr. Wilson as Vice President of Finance, Treasurer, and Assistant Secretary of Supreme Corporation (Mr. Wilson is also Executive Vice President, Treasurer, and Chief Financial Officer of the Company). The Employment Contract was for a term of three years beginning January 1, 1998 and ending December 31, 2000. On July 1, 2000 an Amendment Number One extended the Contract through December 31, 2003. On July 1, 2003 Supreme Corporation and Mr. Wilson entered into a new Employment Contract through June 30, 2006. In consideration of his services rendered as Executive Vice President, Treasurer, and Chief Financial Officer of Supreme Corporation, the Employment Contract provided that Supreme Corporation would pay to Mr. Wilson (in addition to certain fringe benefits) a minimum base salary of \$150,000 per year (subject to increase by the determination of the Board of Directors) plus a pre-tax incentive bonus if earned under Supreme Corporation's Bonus Payment Plan described in the preceding paragraph. Supreme Corporation and Mr. Wilson have entered into an Amended and Restated Employment Contract, effective January 1, 2006, naming Mr. Wilson as President and Chief Executive Officer of Supreme Corporation and providing for a term of three years with a minimum base salary of \$200,000 per year (subject to increase by the determination of the Board of Directors) plus a pre-tax incentive bonus if earned under Supreme Corporation's Bonus Payment Plan described in the preceding paragraph. In addition, on May 2, 2005 the Company's Stock Option Committee granted to Mr. Wilson an incentive stock option to purchase 25,000 shares of the Company's Class A Common Stock at an exercise price equal to current market price.

The Company's wholly-owned subsidiary, Supreme Corporation, entered into an Employment Contract with Mr. Omer G. Kropf employing Mr. Kropf as President of Supreme Corporation. The Employment Contract was for a term of four years beginning on May 1, 1998, and ending on April 30, 2002. On May 1, 2002 Supreme Corporation entered into a new Employment Contract with Mr. Kropf having a term ending April 30, 2005. In consideration of his services rendered as President of Supreme Corporation, this Employment Contract provided that Supreme Corporation would pay to Mr. Kropf (in addition to certain fringe benefits) a minimum base salary of \$240,000 per year plus a pre-tax incentive bonus if earned under Supreme Corporation's Bonus Payment Plan. Under this Plan, an amount equal to ten percent (10%) of Supreme Corporation's pre-tax profits was (subject to Board approval) placed into a bonus pool which was then allocated among, and distributed to, Supreme Corporation's key executives. The allocation of such bonus pool was approved by the Board of Directors based upon an analysis of the contributions of key executives to the Company's financial performance and a consideration of Management's recommendation as to an appropriate allocation to reward such contributions. The Board of Directors and Mr. Kropf have agreed that, effective May 1, 2005, Mr. Kropf will no longer have an officer position with the Company. Supreme Corporation has entered into an Employment Contract dated to be effective May 1, 2005, employing Mr. Kropf as Vice Chairman and Managing Director of Special Projects. This Contract is for a term of three years and

provides for a minimum base salary of \$140,000 for the first year and \$120,000 for the second and third years.



The Board of Directors

William J. Barrett  
Arthur M. Borden  
Robert J. Campbell

Thomas Cantwell  
Herbert M. Gardner  
Omer G. Kropf

Mark C. Neilson  
H. Douglas Schrock  
Robert W. Wilson

**PROPOSAL NO. 2**

**APPROVAL OF**

**AMENDED AND RESTATED 2004 STOCK OPTION PLAN**

Upon recommendation of the Stock Option Committee of the Board of Directors of the Company, the Board of Directors of the Company has adopted, subject to stockholder approval, the Amended and Restated 2004 Stock Option Plan of Supreme Industries, Inc. (hereinafter called the **Amended Plan** ). The Amended Plan is intended to enable the Company to remain competitive and innovative in its ability to attract, motivate, reward, and retain the services of key employees, key consultants, and outside directors. The Amended Plan provides for the granting of stock options, common stock, and restricted stock. The Amended Plan is expected to provide flexibility to the Company's compensation methods in order to adapt the compensation of key employees, key consultants, and outside directors to a changing business environment (after giving due consideration to competitive conditions and the impact of federal tax laws). The following is a brief description of the Amended Plan. A copy of the Amended Plan is attached as **Exhibit A** to this proxy statement, and the following description is qualified in its entirety by reference to the Amended Plan.

The Amended Plan amends and restates the 2004 Stock Option Plan of Supreme Industries, Inc. (the **2004 Plan** ), under which, as amended, awards of options, common stock, and restricted stock may be made to employees, consultants, and outside directors.

As of March 24, 2006, 1,358,034 shares of common stock were authorized for issuance, in the aggregate, under the Company's 1998 Stock Option Plan, 2001 Stock Option Plan, and 2004 Plan, of which 921,823 have been issued or are issuable upon the exercise of outstanding stock options, leaving 436,211 shares currently available for future issuance under the Plans. If the Amended Plan is approved by the stockholders, the current number of shares of common stock authorized for issuance under the Amended Plan will increase from 600,000 to 850,000 shares, which will cause the total aggregate number of authorized shares under all of the Company's plans to increase to 1,608,034 shares of common stock.

It is the judgment of the Board of Directors of the Company that the Amended Plan is in the best interest of the Company and its stockholders.

## **Description of the Amended Plan**

### *Effective Date and Expiration*

The Amended Plan became effective on February 7, 2006, subject to and conditioned upon stockholder approval of the Amended Plan, and will terminate on January 23, 2014. No award may be made under the Amended Plan after its expiration date, but awards made prior thereto may extend beyond that date.

### *Share Authorization*

Subject to certain adjustments, the number of the Company's shares of common stock that may be issued pursuant to awards under the Amended Plan is 850,000 shares. Shares are counted only to the extent they are actually issued. If shares are issued and reacquired by the Company, such shares are available for issuance under the Amended Plan. Shares tendered in payment of the purchase price of an award, to satisfy tax withholding obligations, and shares covered by an award that is settled in cash are available for awards under the Amended Plan.

A maximum of 40,000 shares may be granted in any one year in the form of any award to any one participant, of which a maximum of (i) 30,000 shares may be granted to a participant in the form of stock options, and (ii) 40,000 shares may be granted to a participant in the form of restricted stock or common stock.

### *Administration*

The Amended Plan will be administered by a Committee of the Board of Directors (the "Committee"). Currently, the Committee is comprised of three directors. The Committee may delegate its duties to a subcommittee as provided in the Amended Plan. The Committee will determine the persons to whom awards are to be made, determine the type, size, and terms of awards, interpret the Amended Plan, establish and revise rules and regulations relating to the Amended Plan, and make any other determinations that it believes necessary for the administration of the Amended Plan.

### *Eligibility*

Employees (including any employee who is also a director or an officer), consultants, and outside directors of the Company or its subsidiaries whose judgment, initiative, and efforts contributed to, or may be expected to contribute to, the successful performance of the Company are eligible to participate in the Amended Plan. As of March 24, 2006, the Company had approximately twenty-five employees and five outside directors who would be eligible under the Amended Plan.

*Stock Options*

The Committee may grant either incentive stock options qualifying under Section 422 of the Internal Revenue Code of 1986, as amended (the **Code** ) or non-qualified stock options. Recipients of stock options may pay the option exercise price in (i) cash, check, bank draft, or money order payable to the order of the Company, (ii) by delivering to the Company shares of common stock already owned by the participant having a fair market value equal to the aggregate option exercise price and that the participant has not acquired from the Company within six months prior to the exercise date, (iii) by delivering to the Company or its designated agent an executed irrevocable option exercise form together with irrevocable instructions from the participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of common stock purchased upon the exercise of the option or to pledge such shares to the broker as collateral for a loan from the broker and to deliver to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and (iv) by any other form of valid consideration that is acceptable to the Committee in its sole discretion.

Stock options will be exercisable as set forth in the option agreements pursuant to which they are issued, but in no event will stock options be exercisable after the expiration of ten (10) years from the date of grant. Options are not transferable other than by will or the laws of descent and distribution, except that the Committee may permit further transferability of a non-qualified stock option and, unless otherwise provided in the option agreement, a non-qualified stock option may be transferred to: one or more members of the immediate family of the participant; a trust for the benefit of one or more members of the immediate family of the participant; a partnership, the sole partners of which are the participant, members of the immediate family of the participant, and one or more family trusts; or a foundation in which the participant controls the management of the assets.

#### *Restricted Stock and Common Stock*

Restricted stock consists of shares that are transferred or sold by the Company to a participant, but are subject to substantial risk of forfeiture and to restrictions on their sale or other transfer by the participant. Common Stock consists of shares that are transferred or sold by the Company to a participant without restriction and not subject to a substantial risk of forfeiture. The Committee determines the eligible participants to whom, and the time or times at which, grants of restricted stock and/or common stock will be made, the number of shares to be granted, the price to be paid, if any, the time or times within which the shares covered by such grants will be subject to forfeiture, the time or times at which the restrictions will terminate, and all other terms and conditions of the grants. Restrictions or conditions could include, but are not limited to, and grants can be made subject to the attainment of performance goals (as described below), continuous service with the Company, the passage of time, or other restrictions or conditions.

#### *Performance Goals*

Awards of restricted stock or common stock under the Amended Plan may be made subject to the attainment of performance goals within the meaning of Section 162(m) of the Code that consist of one or more or any combination of the following criteria: sales; ratio of debt to debt plus equity; net borrowing, credit quality or debt ratings; profit before tax; economic profit; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; gross margin; earnings per share (whether on a pre-tax, after-tax, operational or other basis); operating earnings; capital expenditures; expenses or expense levels; economic value added; ratio of operating earnings to capital spending or any other operating ratios; free cash flow; net profit; net sales; net asset value per share; the accomplishment of mergers, acquisitions, dispositions, public offerings or similar extraordinary business transactions; sales growth; price of the Company's Common Stock; return on assets, equity or stockholders' equity; market share; inventory levels, inventory turn or shrinkage; or total return to stockholders ( **Performance Criteria** ). Any Performance Criteria may be used to measure the performance of the Company as a whole or any business unit of the Company and may be measured relative to a peer group or index. Any Performance Criteria may include or exclude (i) extraordinary, unusual, and/or non-recurring items of gain or loss, (ii) gains or losses on the disposition of a business, (iii) changes in tax or accounting regulations or laws, or (iv) the effect of a merger or acquisition, as identified in the Company's quarterly and annual earnings releases. In all other respects, Performance Criteria shall be calculated in accordance with the Company's financial statements, under generally accepted accounting principles, or under a methodology established by the Committee prior to the issuance of an Award which is consistently applied and identified in the audited financial statements, including footnotes, or the Management Discussion and Analysis section of the Company's Annual Report on Form 10-K. However, the Committee may not in any event increase the amount of compensation payable to an individual upon the attainment of a Performance Goal.

#### *Adjustments Upon Changes in Capitalization*

The number of shares of common stock subject to an award may be adjusted by the Committee, in the manner it deems equitable, in the event that the Committee determines that any dividend or other distribution, recapitalization, stock split, reverse stock split, rights offering, reorganization, merger, consolidation, split-up, split-off, combination, subdivision, repurchase or exchange of the shares of common stock or

other securities, issuance of warrants or other

rights to purchase shares of common stock, or other similar corporate transaction or event affects the shares of common stock such that the Committee determines that an adjustment is appropriate to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the Amended Plan.

#### *Change in Control*

In the event that the Company undergoes a Change in Control, any portion of any award outstanding at the time of the Change in Control that has not previously vested will automatically vest. A definition of Change in Control has been specifically included in the Amended Plan, which can be found in the full text of the Plan attached hereto as **Exhibit A**.

#### *Amendment or Discontinuance of the Plan*

The Board of Directors of the Company may, at any time and from time to time, without the consent of the participants, alter, amend, revise, suspend, or discontinue the Amended Plan; provided, however, that (i) no amendment that requires stockholder approval in order for the Amended Plan and any awards under the Amended Plan to continue to comply with Sections 162(m), 421, and 422 of the Code or any applicable requirements of any securities exchange or inter-dealer quotation system on which the Company's stock is listed or traded, shall be effective unless such amendment is approved by the requisite vote of the Company's stockholders entitled to vote on the amendment; and (ii) unless required by law, no action by the Board of Directors of the Company regarding amendment or discontinuance of the Amended Plan may adversely affect any rights of any participants or obligations of the Company to any participants with respect to any outstanding award under the Amended Plan without the consent of the affected participant.

#### *Plan Benefits*

Future benefits under the Amended Plan are not currently determinable.

#### **Federal Income Tax Consequences**

The following is a brief summary of certain federal income tax consequences relating to the transactions described under the Amended Plan as set forth below. This summary does not purport to address all aspects of federal income taxation and does not describe state, local, or foreign tax consequences. This discussion is based upon provisions of the Code and the treasury regulations issued thereunder (the **Treasury Regulations**), and judicial and administrative interpretations under the Code and Treasury Regulations, all as in effect as of the date hereof, and all of which are subject to change (possibly on a retroactive basis) or different interpretation.

#### *New Law Affecting Deferred Compensation*

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In 2004, a new Section 409A was added to the Code to regulate all types of deferred compensation. If the requirements of Section 409A of the Code are not satisfied, deferred compensation and earnings thereon will be subject to tax as it vests, plus an interest charge at the underpayment rate plus 1% and a 20% penalty tax. Certain stock options and certain types of restricted stock are subject to Section 409A of the Code.

### *Incentive Stock Options*

A participant will not recognize income at the time an incentive option is granted. When a participant exercises an incentive option, a participant also generally will not be required to recognize income (either as ordinary income or capital gain). However, to the extent that the fair market value (determined as of the date of grant) of the shares of common stock with respect to which the participant's incentive options are exercisable for the first time during any

year exceeds \$100,000, the incentive options for the shares of common stock over \$100,000 will be treated as nonqualified options, and not incentive options, for federal tax purposes, and the participant will recognize income as if the incentive options were nonqualified options.

In addition to the foregoing, if the fair market value of the shares of common stock received upon exercise of an incentive option exceeds the exercise price, then the excess may be deemed a tax preference adjustment for purposes of the federal alternative minimum tax calculation. The federal alternative minimum tax may produce significant tax repercussions depending upon the participant's particular tax status.

The tax treatment of any shares of common stock acquired by exercise of an incentive option will depend upon whether the participant disposes of his or her shares prior to two years after the date the incentive option was granted or one year after the shares of common stock were transferred to the participant (referred to as the Holding Period). If a participant disposes of shares of common stock acquired by exercise of an incentive option after the expiration of the Holding Period, any amount received in excess of the participant's tax basis for such shares will be treated as short-term or long-term capital gain, depending upon how long the participant has held the shares of common stock. If the amount received is less than the participant's tax basis for such shares, the loss will be treated as short-term or long-term capital loss, depending upon how long the participant has held the shares.

If the participant disposes of shares of common stock acquired by exercise of an incentive option prior to the expiration of the Holding Period, the disposition will be considered a disqualifying disposition. If the amount received for the shares of common stock is greater than the fair market value of the shares of common stock on the exercise date, then the difference between the incentive option's exercise price and the fair market value of the shares of common stock at the time of exercise will be treated as ordinary income for the tax year in which the disqualifying disposition occurs. The participant's basis in the shares of common stock will be increased by an amount equal to the amount treated as ordinary income due to such disqualifying disposition. In addition, the amount received in such disqualifying disposition over the participant's increased basis in the shares of common stock will be treated as capital gain. However, if the price received for shares of common stock acquired by exercise of an incentive option is less than the fair market value of the shares of common stock on the exercise date and the disposition is a transaction in which the participant sustains a loss which otherwise would be recognizable under the Code, then the amount of ordinary income that the participant will recognize is the excess, if any, of the amount realized on the disqualifying disposition over the basis of the shares of common stock.

#### *Non-qualified Stock Options*

A participant generally will not recognize income at the time a non-qualified option is granted. When a participant exercises a non-qualified option, the difference between the option price and any higher market value of the shares of common stock on the date of exercise will be treated as compensation taxable as ordinary income to the participant. The participant's tax basis for shares of common stock acquired under a non-qualified option will be equal to the option price paid for such shares of common stock, plus any amounts included in the participant's income as compensation. When a participant disposes of shares of common stock acquired by exercise of a non-qualified option, any amount received in excess of the participant's tax basis for such shares will be treated as short-term or long-term capital gain, depending upon how long the participant has held the shares of common stock. If the amount received is less than the participant's tax basis for such shares, the loss will be treated as short-term or long-term capital loss, depending upon how long the participant has held the shares.

#### *Special rule if option price is paid for in shares of common stock*



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If a participant pays the exercise price of a non-qualified option with previously-owned shares of common stock and the transaction is not a disqualifying disposition of shares of common stock previously acquired under an incentive option, the shares of common stock received equal to the number of shares of common stock surrendered are treated as having been received in a tax-free exchange. The participant's tax basis and holding period for these shares of common stock received will be equal to the participant's tax basis and holding period for

the shares of common stock surrendered. The shares of common stock received in excess of the number of shares of common stock surrendered will be treated as compensation taxable as ordinary income to the participant to the extent of their fair market value. The participant's tax basis in these shares of common stock will be equal to their fair market value on the date of exercise, and the participant's holding period for such shares will begin on the date of exercise.

If the use of previously acquired shares of common stock to pay the exercise price of a non-qualified option constitutes a disqualifying disposition of shares of common stock previously acquired under an incentive option, the participant will have ordinary income as a result of the disqualifying disposition in an amount equal to the excess of the fair market value of the shares of common stock surrendered, determined at the time such shares of common stock were originally acquired on exercise of the incentive option, over the aggregate option price paid for such shares of common stock. As discussed above, a disqualifying disposition of shares of common stock previously acquired under an incentive option occurs when the participant disposes of such shares before the end of the Holding Period. The other tax results from paying the exercise price with previously-owned shares are as described above, except that the participant's tax basis in the shares of common stock that are treated as having been received in a tax-free exchange will be increased by the amount of ordinary income recognized by the participant as a result of the disqualifying disposition.

#### *Restricted Stock and Common Stock*

A participant who receives restricted stock or shares of common stock generally will recognize as ordinary income the excess, if any, of the fair market value of the shares granted as restricted stock or common stock at such time as the shares are no longer subject to forfeiture or restrictions, over the amount paid, if any, by the participant for such shares. However, a participant who receives restricted stock may make an election under Section 83(b) of the Code within 30 days of the date of transfer of the shares of common stock to recognize ordinary income on the date of transfer of the shares of common stock equal to the excess of the fair market value of such shares (determined without regard to the restrictions on such shares of common stock) over the purchase price, if any, of such shares. If a participant does not make an election under Section 83(b) of the Code, then the participant will recognize as ordinary income any dividends received with respect to shares of common stock. At the time of sale of such shares, any gain or loss realized by the participant will be treated as either short-term or long-term capital gain (or loss) depending on the holding period. For purposes of determining any gain or loss realized, the participant's tax basis will be the amount previously taxable as ordinary income.

#### **Federal Tax Withholding**

Any ordinary income realized by a participant upon the exercise of an award under the Amended Plan is subject to withholding of federal, state, and local income tax and to withholding of the participant's share of tax under the Federal Insurance Contribution Act ( **FICA** ) and the Federal Unemployment Tax Act ( **FUTA** ).

To satisfy federal income tax withholding requirements, we will have the right to require that, as a condition to delivery of any certificate for shares of common stock, the participant remit to the Company an amount sufficient to satisfy the withholding requirements. Alternatively, we may withhold a portion of the shares of common stock (valued at fair market value) that otherwise would be issued to the participant to satisfy all or part of the withholding tax obligations.

Withholding does not represent an increase in the participant's total income tax obligation since it is fully credited toward his or her tax liability for the year. Additionally, withholding does not affect the participant's tax basis in the shares of common stock. Compensation income realized, and tax withheld, will be reflected on Forms W-2 supplied by the Company to employees by January 31 of the succeeding year.

Deferred compensation that is subject to Section 409A of the Code will be subject to certain federal income tax withholding and reporting requirements. However, pursuant to IRS Notice 2005-94, the IRS has suspended these withholding and reporting requirements until further IRS guidance is issued.

## **Tax Consequences to the Company**

To the extent that a participant recognizes ordinary income in the circumstances described above, we will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an excess parachute payment within the meaning of Section 280G of the Code, and is not disallowed by the \$1 million limitation on certain executive compensation under Section 162(m) of the Code.

## **Million Dollar Deduction Limit and Other Tax Matters**

The Company may not deduct compensation of more than \$1,000,000 that is paid to an individual who, on the last day of the taxable year, is either the Company's chief executive officer or is among one of the four other most highly-compensated officers for that taxable year as reported in the Company's proxy statement. The limitation on deductions does not apply to certain types of compensation, including qualified performance-based compensation. The Company does not anticipate that the total compensation paid to any individual employee of the Company, including stock options and restricted stock, will be more than \$1,000,000 in any taxable year.

If an individual's rights under the plan are accelerated as a result of a change in control and the individual is a disqualified individual under Section 280G of the Code, the value of any such accelerated rights received by such individual may be included in determining whether or not such individual has received an excess parachute payment under Section 280G of the Code, which could result in (i) the imposition of a 20% Federal excise tax (in addition to Federal income tax) payable by the individual on the value of such accelerated rights, and (ii) the loss by the Company of a compensation deduction.

**The Board of Directors recommends a vote FOR Proposal No. 2.**

## **Stock Option Plans**

### ***2004 Stock Option Plan***

On January 23, 2004, the Company's Board of Directors approved and adopted, subject to stockholder approval, the Company's 2004 Stock Option Plan. The Plan was approved by the Company's stockholders at the Annual Meeting held on April 29, 2004. The following paragraphs summarize certain provisions of the 2004 Stock Option Plan and are qualified in their entirety by reference thereto.

The 2004 Stock Option Plan provides for the granting of options (collectively, the 2004 Options) to purchase shares of the Company's Class A Common Stock to certain key employees of the Company and/or its affiliates, and certain individuals who are not employees of the Company or its affiliates but who from time to time provide substantial advice or other assistance or services to the Company and/or its affiliates. The 2004 Stock Option Plan authorizes the granting of options to acquire up to 600,000 shares of Class A Common Stock, subject to certain adjustments described below, to be outstanding at any time. Subject to such limitations, there is no limit on the absolute number of awards that may be granted during the life of the 2004 Stock Option Plan. At the present time, there are approximately 40 employees of the Company, including

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officers and directors of the Company, who, in management's opinion, would be considered eligible to receive grants under the 2004 Stock Option Plan, although fewer employees may actually receive grants. At December 31, 2005, there were 320,000 options outstanding under this Plan, of which 320,000 were exercisable.

Authority to administer the 2004 Stock Option Plan has been delegated to a committee (the Committee) of the Board of Directors. Except as expressly provided by the 2004 Stock Option Plan, the Committee has authority, in its discretion, to award 2004 Options and to determine the terms and conditions (which need not be identical) of such

2004 Options, including the persons to whom, and the time or times at which, 2004 Options will be awarded, the number of 2004 Options to be awarded to each such person, the exercise price of any such 2004 Options, and the form, terms and provisions of any agreement pursuant to which such 2004 Options will be awarded. The 2004 Stock Option Plan also provides that the Committee may be authorized by the Board of Directors to make cash awards as specified by the Board of Directors to the holder of a 2004 Option ( Holder ) in connection with the exercise thereof. Subject to the limitation set forth below, the exercise price of the shares of stock covered by each 2004 Option will be determined by the Committee on the date of award.

Unless a Holder's option agreement provides otherwise, the following provisions will apply to exercises by the Holder of his or her option: No options may be exercised during the first twelve months following the date of grant. During the second year following the date of grant, options covering up to one-third of the shares covered thereby may be exercised, and during the third year options covering up to two-thirds of such shares may be exercised. Thereafter, and until the options expire, the optionee may exercise options covering all of the shares. Persons over sixty-five on the date of grant may exercise options covering up to one-half of the shares during the first year and thereafter may exercise all optioned shares. Subject to the limitations just described, options may be exercised as to all or any part of the shares covered thereby on one or more occasions, but, as a general rule, options cannot be exercised as to less than one hundred shares at any one time.

The exercise price of the shares of stock covered by each incentive stock option ( ISO ), within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Code ), will not be less than the fair market value of stock on the date of award of such ISO, except that an ISO may not be awarded to any person who owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, unless the exercise price is at least one hundred ten percent (110%) of the fair market value of the stock at the time the ISO is awarded, and the ISO is not exercisable after the expiration of five years from the date it is awarded.

The exercise price of the shares of Class A Common Stock covered by each 2004 Option that is not an ISO ( NSO ) will not be less than the fair market value of the stock on the date of award of such NSO.

Payment for Class A Common Stock issued upon the exercise of a 2004 Option may be made in cash or, with the consent of the Committee, in whole shares of Class A Common Stock owned by the holder of the 2004 Option for at least six months prior to the date of exercise or, with the consent of the Committee, partly in cash and partly in such shares of Class A Common Stock. If payment is made, in whole or in part, with previously owned shares of Class A Common Stock, the Committee may issue to such Holder a new 2004 Option for a number of shares equal to the number of shares delivered by such Holder to pay the exercise price of the previous 2004 Option. The new 2004 Option will have an exercise price equal to not less than one hundred percent (100%) of the fair market value of the Class A Common Stock on the date of the exercise of such previous 2004 Option. A new 2004 Option so issued will not be exercisable until the later of the date specified in an individual option agreement or six months after the date of grant.

In addition, the 2004 Stock Option Plan allows for the cashless exercise of options via the Sale Method. Under the Sale Method, with the consent of the Committee, payment in full of the exercise price of the option may be made through the Company's receipt of a copy of instructions to a broker directing such broker to sell the stock for which the option is being exercised, to remit to the Company an amount equal to the aggregate exercise price of such option, with the balance being remitted to the holder.

The duration of each 2004 Option will be for such period as the Committee determines at the time of award, but not for more than ten years from the date of the award (or not more than five years from the date of award if the Holder owns stock representing more than 10% of the total combined voting power of all classes of stock) in the case of an ISO, and in either case may be exercised in whole or in part at any time or only after a period of time or in installments, as determined by the Committee at the time of award, except that after the date of award, the Committee may accelerate the time or times at which a 2004 Option may be exercised.



In the event of any change in the number of outstanding shares of Class A Common Stock effected without receipt of consideration therefor by the Company, by reason of a stock dividend, or split, combination, exchange of shares or other recapitalization, merger, or otherwise, in which the Company is the surviving corporation, the aggregate number and class of reserved shares, the number and the class of shares subject to each outstanding 2004 Option, and the exercise price of each outstanding 2004 Option shall be automatically adjusted accurately and equitably to reflect the effect thereon of such change. Unless a Holder's option agreement provides otherwise, a dissolution or liquidation of the Company, certain mergers or consolidations in which the Company is not the surviving corporation, or certain transactions in which another corporation becomes the owner of fifty percent (50%) or more of the total combined voting power of all classes of stock of the Company, shall cause such Holder's 2004 Options then outstanding to terminate, but such Holder shall have the right, immediately prior to such transaction, to exercise such 2004 Options without regard to the determination as to the periods and installments of exercisability made pursuant to such holder's option agreement if (and only if) such options have not at that time expired or been terminated.

The 2004 Stock Option Plan, as amended, will terminate on January 22, 2014 or on such earlier date as the Board of Directors may determine. Any stock options outstanding at the termination date will remain outstanding until they have been exercised, terminated, or have expired.

The 2004 Stock Option Plan may be terminated, modified, or amended by the Board of Directors at any time without further stockholder approval, except that stockholder approval is required for any amendment that: (a) changes the number of shares of Class A Common Stock subject to the 2004 Stock Option Plan, (b) changes the designation of the class of employees eligible to receive 2004 Options, (c) decreases the price at which ISO's may be granted, (d) removes the administration of the 2004 Stock Option Plan from the Committee, or (e) without the consent of the affected Holder, causes the ISO's granted under the 2004 Stock Option Plan and outstanding at such time that satisfied the requirements of Section 422 of the Code to no longer satisfy such requirements.

### *2001 Stock Option Plan*

On January 31, 2001, the Company's Board of Directors approved and adopted, subject to stockholder approval, the Company's 2001 Stock Option Plan. The Plan was approved by the Company's stockholders at the Annual Meeting held on May 2, 2001. The following paragraphs summarize certain provisions of the 2001 Stock Option Plan and are qualified in their entirety by reference thereto.

The 2001 Stock Option Plan provides for the granting of options (collectively, the 2001 Options) to purchase shares of the Company's Class A Common Stock to certain key employees of the Company and/or its affiliates, and certain individuals who are not employees of the Company or its affiliates but who from time to time provide substantial advice or other assistance or services to the Company and/or its affiliates. The 2001 Stock Option Plan authorizes the granting of options to acquire up to 825,000 shares of Class A Common Stock, subject to certain adjustments described below, to be outstanding at any time. Subject to such limitations, there is no limit on the absolute number of awards that may be granted during the life of the 2001 Stock Option Plan. At the present time, there are approximately 40 employees of the Company, including officers and directors of the Company, who, in management's opinion, would be considered eligible to receive grants under the 2001 Stock Option Plan, although fewer employees may actually receive grants. At December 31, 2005, there were 526,168 options outstanding under this plan, of which 526,168 were exercisable.

Authority to administer the 2001 Stock Option Plan has been delegated to a committee (the Committee) of the Board of Directors. Except as expressly provided by the 2001 Stock Option Plan, the Committee has authority, in its discretion, to award 2001 Options and to determine the terms and conditions (which need not be identical) of such 2001 Options, including the persons to whom, and the time or times at which, 2001 Options will be awarded, the number of 2001 Options to be awarded to each such person, the exercise price of any such 2001 Options, and the





form, terms and provisions of any agreement pursuant to which such 2001 Options will be awarded. The 2001 Stock Option Plan also provides that the Committee may be authorized by the Board of Directors to make cash awards as specified by the Board of Directors to the holder of a 2001 Option ( Holder ) in connection with the exercise thereof. Subject to the limitation set forth below, the exercise price of the shares of stock covered by each 2001 Option will be determined by the Committee on the date of award.

Unless a Holder's option agreement provides otherwise, the following provisions will apply to exercises by the Holder of his or her option: No options may be exercised during the first twelve months following the date of grant. During the second year following the date of grant, options covering up to one-third of the shares covered thereby may be exercised, and during the third year options covering up to two-thirds of such shares may be exercised. Thereafter, and until the options expire, the optionee may exercise options covering all of the shares. Persons over sixty-five on the date of grant may exercise options covering up to one-half of the shares during the first year and thereafter may exercise all optioned shares. Subject to the limitations just described, options may be exercised as to all or any part of the shares covered thereby on one or more occasions, but, as a general rule, options cannot be exercised as to less than one hundred shares at any one time.

The exercise price of the shares of stock covered by each incentive stock option ( ISO ), within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Code ), will not be less than the fair market value of stock on the date of award of such ISO, except that an ISO may not be awarded to any person who owns

stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, unless the exercise price is at least one hundred ten percent (110%) of the fair market value of the stock at the time the ISO is awarded, and the ISO is not exercisable after the expiration of five years from the date it is awarded.

The exercise price of the shares of Class A Common Stock covered by each 2001 Option that is not an ISO ( NSO ) will not be less than fifty percent (50%) of the fair market value of the stock on the date of award of such NSO.

Payment for Class A Common Stock issued upon the exercise of a 2001 Option may be made in cash or, with the consent of the Committee, in whole shares of Class A Common Stock owned by the holder of the 2001 Option for at least six months prior to the date of exercise or, with the consent of the Committee, partly in cash and partly in such shares of Class A Common Stock. If payment is made, in whole or in part, with previously owned shares of Class A Common Stock, the Committee may issue to such Holder a new 2001 Option for a number of shares equal to the number of shares delivered by such Holder to pay the exercise price of the previous 2001 Option. The new 2001 Option will have an exercise price equal to not less than one hundred percent (100%) of the fair market value of the Class A Common Stock on the date of the exercise of such previous 2001 Option. A new 2001 Option so issued will not be exercisable until the later of the date specified in an individual option agreement or six months after the date of grant.

In addition, the 2001 Stock Option Plan allows for the cashless exercise of options via the Sale Method. Under the Sale Method, with the consent of the Committee, payment in full of the exercise price of the option may be made through the Company's receipt of a copy of instructions to a broker directing such broker to sell the stock for which the option is being exercised, to remit to the Company an amount equal to the aggregate exercise price of such option, with the balance being remitted to the holder.

The duration of each 2001 Option will be for such period as the Committee determines at the time of award, but not for more than ten years from the date of the award (or not more than five years from the date of award if the Holder owns stock representing more than 10% of the total combined voting power of all classes of stock) in the case of an ISO, and in either case may be exercised in whole or in part at any time or only after a period of time or in installments, as determined by the Committee at the time of award, except that after the date of award, the Committee

may accelerate the time or times at which a 2001 Option may be exercised.

In the event of any change in the number of outstanding shares of Class A Common Stock effected without receipt of consideration therefor by the Company, by reason of a stock dividend, or split, combination, exchange of shares or other recapitalization, merger, or otherwise, in which the Company is the surviving corporation, the aggregate number and class of reserved shares, the number and the class of shares subject to each outstanding 2001 Option, and the exercise price of each outstanding 2001 Option shall be automatically adjusted accurately and equitably to reflect the effect thereon of such change. Unless a Holder's option agreement provides otherwise, a dissolution or liquidation of the Company, certain mergers or consolidations in which the Company is not the surviving corporation, or certain transactions in which another corporation becomes the owner of fifty percent (50%) or more of the total combined voting power of all classes of stock of the Company, shall cause such Holder's 2001 Options then outstanding to terminate, but such Holder shall have the right, immediately prior to such transaction, to exercise such 2001 Options without regard to the determination as to the periods and installments of exercisability made pursuant to such holder's option agreement if (and only if) such options have not at that time expired or been terminated.

The 2001 Stock Option Plan, as amended, will terminate on January 30, 2011 or on such earlier date as the Board of Directors may determine. Any stock options outstanding at the termination date will remain outstanding until they have been exercised, terminated, or have expired.

The 2001 Stock Option Plan may be terminated, modified, or amended by the Board of Directors at any time without further stockholder approval, except that stockholder approval is required for any amendment that: (a) changes the number of shares of Class A Common Stock subject to the 2001 Stock Option Plan, (b) changes the designation of the class of employees eligible to receive 2001 Options, (c) decreases the price at which ISO's may be granted, (d) removes the administration of the 2001 Stock Option Plan from the Committee, or (e) without the consent of the affected Holder, causes the ISO's granted under the 2001 Stock Option Plan and outstanding at such time that satisfied the requirements of Section 422 of the Code to no longer satisfy such requirements.

#### *1998 Stock Option Plan*

On October 29, 1998, the Company's Board of Directors approved and adopted, subject to stockholder approval, the Company's 1998 Stock Option Plan. The plan was approved by stockholders at the annual meeting held on April 29, 1999. The following paragraphs summarize certain provisions of the 1998 Stock Option Plan and are qualified in their entirety by reference thereto.

The 1998 Stock Option Plan provides for the granting of options (collectively, the 1998 Options) to purchase shares of the Company's Class A Common Stock to certain key employees of the Company and/or its affiliates, and certain individuals who are not employees of the Company or its affiliates but who from time to time provide substantial advice or other assistance or services to the Company and/or its affiliates. The 1998 Stock Option Plan authorizes the granting of options to acquire up to 869,087 shares of Class A Common Stock, subject to certain adjustments described below, to be outstanding at any time. Subject to such limitations, there is no limit on the absolute number of awards that may be granted during the life of the 1998 Stock Option Plan. At the present time, there are approximately 40 employees of the Company, including officers and directors of the Company, who, in management's opinion, would be considered eligible to receive grants under the 1998 Stock Option Plan, although fewer employees may actually receive grants. At December 31, 2005, there were 75,655 options outstanding under this plan, of which 75,655 were exercisable.

Authority to administer the 1998 Stock Option Plan has been delegated to a committee (the Committee) of the Board of Directors. Except as expressly provided by the 1998 Stock Option Plan, the Committee has the authority, in its discretion, to award 1998 Options and to determine the terms and conditions (which need not be identical) of such 1998 Options, including the persons to whom, and the time or times at which, 1998 Options will be awarded,



the number of 1998 Options to be awarded to each such person, the exercise price of any such 1998 Options, and the form, terms and provisions of any agreement pursuant to which such 1998 Options will be awarded. The 1998 Stock Option Plan also provides that the Committee may be authorized by the Board of Directors to make cash awards as specified by the Board of Directors to the holder of a 1998 Option ( Holder ) in connection with the exercise thereof. Subject to the limitations set forth below, the exercise price of the shares of stock covered by each 1998 Option will be determined by the Committee on the date of award.

Unless a Holder's option agreement provides otherwise, the following provisions will apply to exercises by the Holder of his or her option: No options may be exercised during the first twelve months following the date of grant. During the second year following the date of grant, options covering up to one-third of the shares covered thereby may be exercised, and during the third year options covering up to two-thirds of such shares may be exercised. Thereafter, and until the options expire, the optionee may exercise options covering all of the shares. Persons over sixty-five on the date of grant may exercise options covering up to one-half of the shares during the first year and thereafter may exercise all optioned shares. Subject to the limitations just described, options may be exercised as to all or any part of the shares covered thereby on one or more occasions, but, as a general rule, options cannot be exercised as to less than one hundred shares at any one time.

The exercise price of the shares of stock covered by each incentive stock option ( ISO ), within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the Code ), will not be less than the fair market value of stock on the date of award of such ISO, except that an ISO may not be awarded to any person who owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, unless the exercise price is at least one hundred ten percent (110%) of the fair market value of the stock at the time the ISO is awarded, and the ISO is not exercisable after the expiration of five years from the date it is awarded.

The exercise price of the shares of Class A Common Stock covered by each 1998 Option that is not an ISO ( NSO ) will not be less than fifty percent (50%) of the fair market value of the stock on the date of award of such NSO.

Payment for Class A Common Stock issued upon the exercise of a 1998 Option may be made in cash or, with the consent of the Committee, in whole shares of Class A Common Stock owned by the holder of the 1998 Option for at least six months prior to the date of exercise or, with the consent of the Committee, partly in cash and partly in such shares of Class A Common Stock. If payment is made, in whole or in part, with previously owned shares of Class A Common Stock, the Committee may issue to such Holder a new 1998 Option for a number of shares equal to the number of shares delivered by such Holder to pay the exercise price of the previous 1998 Option. The new 1998 Option shall have an exercise price equal to not less than one hundred percent (100%) of the fair market value of the Class A Common Stock on the date of the exercise of such previous 1998 Option. A new 1998 Option so issued will not be exercisable until the later of the date specified in an individual option agreement or six months after the date of grant.

In addition, the 1998 Stock Option Plan originally provided for two methods for the cashless exercise of options, the Sale Method and the Net Method. The Board of Directors of the Company amended the 1998 Stock Option Plan on November 11, 1999 to delete the Net Method of cashless exercise (no options were ever exercised using the net method). Under the Sale Method, with the consent of the Committee, payment in full of the exercise price of the option may be made through the Company's receipt of a copy of instructions to a broker directing such broker to sell the stock for which the option is being exercised, to remit to the Company an amount equal to the aggregate exercise price of such option, with the balance being remitted to the Holder.

The duration of each 1998 Option will be for such period as the Committee determines at the time of award, but not for more than ten years from the date of the award (or not more than five years from the date of award if the Holder owns stock representing more than 10% of the total combined voting power of all classes of stock) in the case of an



ISO, and in either case may be exercised in whole or in part at any time or only after a period of time or in installments, as determined by the Committee at the time of award, except that after the date of award, the Committee may accelerate the time or times at which a 1998 Option may be exercised.

In the event of any change in the number of outstanding shares of Class A Common Stock effected without receipt of consideration therefor by the Company, by reason of a stock dividend, or split, combination, exchange of shares or other recapitalization, merger, or otherwise, in which the Company is the surviving corporation, the aggregate number and class of reserved shares, the number and the class of shares subject to each outstanding 1998 Option, and the exercise price of each outstanding 1998 Option shall be automatically adjusted accurately and equitably to reflect the effect thereon of such change. Unless a Holder's option agreement provides otherwise, a dissolution or liquidation of the Company, certain mergers or consolidations in which the Company is not the surviving corporation, or certain transactions in which another corporation becomes the owner of fifty percent (50%) or more of the total combined voting power of all classes of stock of the Company, shall cause such Holder's 1998 Options then outstanding to terminate, but such Holder shall have the right, immediately prior to such transaction, to exercise such 1998 Options without regard to the determination as to the periods and installments of exercisability made pursuant to such Holder's option agreement if (and only if) such options have not at that time expired or been terminated.

The 1998 Stock Option Plan, as amended, will terminate on October 29, 2008, or on such earlier date as the Board of Directors may determine. Any stock options outstanding at the termination date will remain outstanding until they have been exercised, terminated, or have expired.

The 1998 Stock Option Plan may be terminated, modified, or amended by the Board of Directors at any time without further stockholder approval, except that stockholder approval is required for any amendment that: (a) changes the number of shares of Class A Common Stock subject to the 1998 Stock Option Plan, (b) changes the designation of the class of employees eligible to receive 1998 Options, (c) decreases the price at which ISO's may be granted, (d) removes the administration of the 1998 Stock Option Plan from the Committee, or (e) without the consent of the affected Holder, causes the ISO's granted under the 1998 Stock Option Plan and outstanding at such time that satisfied the requirements of Section 422 of the Code to no longer satisfy such requirements.

### **Equity Compensation Plan Information**

The table below sets forth information as of the end of the Company's 2005 fiscal year for: (i) all compensation plans previously approved by our stockholders; and (ii) all compensation plans not previously approved by our stockholders:

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants, and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</b>
Equity compensation plans approved by security holders	921,823	\$ 5.67	436,211

Equity compensation plans approved by our stockholders include the 1998 Stock Option Plan, the 2001 Stock Option Plan, and the 2004 Stock Option Plan.





**401 (k) Retirement Plan**

The Company has a Section 401(k) Retirement Plan (the Retirement Plan ) which offers employees tax advantages pursuant to Section 401(k) of the Internal Revenue Code. During the year ended December 27, 2003, all of the employees of the Company and one of its subsidiaries (collectively, the Employer ) were eligible to participate in the Retirement Plan if they had reached the age of 21 and had been employed by the Employer for at least one full calendar year. Under the terms of the Retirement Plan, a participant may elect to contribute to the Plan up to 15% of his or her compensation. Through February of 1994, the Company contributed ten cents on each dollar of the first 6% of compensation contributed by participants. On February 4, 1994, the Board of Directors approved an increase to fifteen cents on each dollar of the first 6% of compensation contributed by participants effective March 1, 1994. On August 29, 1997, the Board of Directors approved an increase to twenty-five cents on each dollar of the first 6% of compensation contributed by participants effective December 1, 1997. On February 11, 1999 the Board of Directors approved an increase to thirty cents on each dollar of the first 7% of compensation contributed by participants effective March 1, 1999. Payments are made by the Company and the Participants, the latter by means of a payroll deduction program. Within specified limits, a participant has the right to direct his or her savings into certain kinds of investments. The total aggregate amounts of the Company's contributions for Messrs. Wilson, Mowery, and Kropf were \$4,200, \$2,308, and \$4,200, respectively, and for all executive officers as a group was \$10,708.

**Stock Price Performance**

The following Stock Performance Graph shows the changes over the past five year period in the value of \$100 invested in: (1) the Company's Class A Common Stock; (2) the American Stock Exchange Sector Index-Industrial; and (3) the American Stock Exchange Composite Index. The year-end values of each investment are based on share price appreciation and the reinvestment of dividends. The stock price performance shown below is not necessarily indicative of future performance.

	12/31/00	12/31/01	12/28/02	12/27/03	12/25/04	12/31/05	
Supreme Industries, Inc. (STS)	\$ 100	\$ 149	\$ 148	\$ 235	\$ 249	\$ 303	Assumes \$100 invested on December 31, 2000 in Supreme Industries, Inc. Stock, the AMEX Sector

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AMEX Sector Index - Industrial (XID)	\$	100	\$	110	\$	119	\$	175	\$	224	\$	276	Index - Industrial and the AMEX Composite Index.
AMEX Composite Index (XAX)	\$	100	\$	94	\$	92	\$	131	\$	160	\$	196	