SUPREME INDUSTRIES INC
Form 10-Q
August 11, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 27, 2009

or

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

For the transition period from to

Commission File Number: 1-8183

SUPREME INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**75-1670945** (I.R.S. Employer Identification No.)
2581 E. Kercher Rd., P.O. Box 237, Goshen, Indiana (Address of principal executive offices)	**46528** (Zip Code)

Registrant s telephone number, including area code: **(574) 642-3070**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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

Common Stock ($.10 Par Value)	Outstanding at August 3, 2009
Class A	**12,158,823**
Class B	**2,188,490**

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SUPREME INDUSTRIES, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Supreme Industries, Inc. and Subsidiaries

Consolidated Balance Sheets

		June 27, 2009 (Unaudited)		December 27, 2008
ASSETS				
Current assets:				
Cash and cash equivalents	$	61,416	$	932,608
Investments		2,333,496		2,509,848
Accounts receivable, net		20,622,395		25,423,842
Inventories		36,067,546		44,248,516
Other current assets		6,961,407		6,335,740
Total current assets		66,046,260		79,450,554
Property, plant and equipment, at cost		89,705,785		94,128,405
Less, Accumulated depreciation and amortization		45,837,343		48,349,497
Property, plant and equipment, net		43,868,442		45,778,908
Other assets		1,185,730		295,109
Total assets	$	111,100,432	$	125,524,571

See accompanying notes to consolidated financial statements.

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Supreme Industries, Inc. and Subsidiaries

Consolidated Balance Sheets, Concluded

	June 27, 2009 (Unaudited)	December 27, 2008
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 877,335	$ 823,297
Trade accounts payable	11,895,764	8,266,945
Accrued income taxes	582,575	675,200
Other accrued liabilities	7,155,920	9,349,112
Total current liabilities	20,511,594	19,114,554
Long-term debt	19,173,369	32,805,350
Deferred income taxes	2,403,698	2,403,698
Other long-term liabilities	671,689	818,053
Total liabilities	42,760,350	55,141,655
Stockholders equity	68,340,082	70,382,916
Total liabilities and stockholders equity	$ 111,100,432	$ 125,524,571

See accompanying notes to consolidated financial statements.

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Supreme Industries, Inc. and Subsidiaries

Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 27, 2009	Three Months Ended June 28, 2008	Six Months Ended June 27, 2009	Six Months Ended June 28, 2008
Net sales	$ 49,604,631	$ 75,307,068	$ 98,877,171	$ 151,231,424
Cost of sales	45,968,727	67,907,997	92,436,903	136,241,215
Gross profit	3,635,904	7,399,071	6,440,268	14,990,209
Selling, general and administrative expenses	5,382,053	7,041,110	11,182,553	13,989,722
Other income	(378,274)	(264,563)	(678,026)	(509,511)
Operating income (loss)	(1,367,875)	622,524	(4,064,259)	1,509,998
Interest expense	600,171	530,945	1,156,764	1,116,905
Income (loss) before income taxes	(1,968,046)	91,579	(5,221,023)	393,093
Income tax (benefit)	(861,000)	(125,000)	(2,716,000)	(50,000)
Net income (loss)	$ (1,107,046)	$ 216,579	$ (2,505,023)	$ 443,093
Earnings (Loss) Per Share:				
Basic	$ (0.08)	$ 0.02	$ (0.18)	$ 0.03
Diluted	(0.08)	0.02	(0.18)	0.03
Shares used in the computation of earnings (loss) per share:				
Basic	14,185,065	14,080,423	14,165,215	14,028,428
Diluted	14,185,065	14,260,473	14,165,215	14,173,133
Cash dividends per common share	$	$ 0.088	$	$ 0.176

See accompanying notes to consolidated financial statements.

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Supreme Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 27, 2009	Six Months Ended June 28, 2008
Cash flows from operating activities:		
Net income (loss)	$ (2,505,023)	$ 443,093
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,116,500	2,131,425
Amortization of intangibles		24,185
Provision for losses on doubtful receivables	43,035	63,288
Stock-based compensation expense	331,631	291,552
Losses (gains) on sale of property, plant and equipment, net	(231,150)	2,233
Changes in operating assets and liabilities	13,672,266	510,402
Net cash provided by operating activities	13,427,259	3,466,178
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,349,694)	(2,016,157)
Proceeds from sale of property, plant and equipment	479,816	58,402
Purchases of investments	(28,833)	(1,174,858)
Proceeds from sales of investments	173,830	832,670
Decrease in other assets	4,373	4,373
Net cash used in investing activities	(720,508)	(2,295,570)
Cash flows from financing activities:		
Proceeds from revolving line of credit and other long-term debt	35,135,643	61,423,636
Repayments of revolving line of credit and other long-term debt	(48,713,586)	(61,606,292)
Payment of cash dividends		(2,490,943)
Proceeds from exercise of stock options		247,500
Net cash used in financing activities	(13,577,943)	(2,426,099)
Change in cash and cash equivalents	(871,192)	(1,255,491)
Cash and cash equivalents, beginning of period	932,608	1,266,133
Cash and cash equivalents, end of period	$ 61,416	$ 10,642

See accompanying notes to consolidated financial statements.

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SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements

NOTE 1 - BASIS OF PRESENTATION AND OPINION OF MANAGEMENT

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all of the information and financial statement disclosures necessary for a fair presentation of consolidated financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, the information furnished herein includes all adjustments necessary to reflect a fair statement of the interim periods reported. All adjustments are of a normal and recurring nature. The December 27, 2008 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. References to we, us, our, its, Supreme, or the Company refer to Supreme Industries, Inc. and its subsidiaries.

The Company has adopted a 52- or 53-week fiscal year ending the last Saturday in December. The results of operations for the three and six months ended June 27, 2009 and June 28, 2008 are for 13- and 26-week periods, respectively.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162. SFAS No. 168 modifies the hierarchy of Generally Accepted Accounting Principles in the United States (GAAP) to include only two levels of GAAP: authoritative and nonauthoritative. All of the content included in the FASB Accounting Standards CodificationTM (the Codification) will be considered authoritative. SFAS No. 168 is not intended to amend GAAP but codifies previous accounting literature. SFAS No. 168 is effective for our third quarter 2009 consolidated financial statements and will change the referencing of authoritative accounting literature to conform to the Codification.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. The objective of SFAS No. 165 is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 discusses two types of subsequent events: (1) events that provide additional evidence about conditions that existed at the date of the balance sheet, and is recognized in the financial statements and (2) events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date but before financial statements are issued or are available to be issued, and not recognized at the balance sheet date. An entity shall also disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The requirements of SFAS No. 165 are effective for interim and annual financial periods ending after June 15, 2009. The requirements do not have a material impact on the Company s consolidated financial statements. The Company evaluated its June 27, 2009 consolidated financial statements for subsequent events through August 11, 2009, the date the consolidated financial statements were issued.

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SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements, Continued

In April 2009, the FASB issued FASB Staff Position 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-2), to require fair value disclosures of financial instruments for interim reporting periods for publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28-1, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods and is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The provisions of FSP FAS 107-1 and APB 28-1 did not have a material impact on the Company s consolidated financial statements.

NOTE 3 OTHER COMPREHENSIVE INCOME (LOSS)

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

For the three- and six-month periods ended June 27, 2009 and June 28, 2008, total and other comprehensive income (loss) are as follows:

	Three Months Ended		Six Months Ended	
	June 27, 2009	**June 28, 2008**	**June 27, 2009**	**June 28, 2008**
Net income (loss)	$ (1,107,046)	$ 216,579	$ (2,505,023)	$ 443,093
Other comprehensive income (loss)	62,636	217,227	130,558	(117,200)
Total comprehensive income (loss)	$ (1,044,410)	$ 433,806	$ (2,374,465)	$ 325,893

NOTE 4 - INVENTORIES

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

	June 27, 2009	**December 27, 2008**
Raw materials	$ 20,553,167	$ 24,596,110
Work-in-progress	6,982,047	8,204,857
Finished goods	8,532,332	11,447,549
	$ 36,067,546	$ 44,248,516

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SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements, Continued

NOTE 5 FAIR VALUE MEASUREMENT

SFAS No. 157, Fair Value Measurements, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of items:

Investments: The fair values of investments available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

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

NOTE 6 LONG-TERM DEBT

Supreme Corporation, the Company s wholly-owned subsidiary, amended its existing credit facility effective May 12, 2009. The terms of the credit facility are substantially the same as the previous credit facility disclosed in the Annual Report on Form 10-K for the year ended December 27, 2008. The Credit Agreement contains, among other matters, requirements for compliance with certain financial covenants. During the quarter ended June 27, 2009, Supreme Corporation was not in compliance with the earnings-related covenant. However, the Company obtained a waiver from its lender and is in the process of resetting certain existing covenant measurements to provide temporary relief during the ongoing recession. Effective May 12, 2009, the credit facility maturity date was extended to July 31, 2010, and as a result all borrowings under the credit facility at June 27, 2009 are classified as long-term debt.

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SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements, Continued

NOTE 7 - EARNINGS (LOSS) PER SHARE

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

	Three Months Ended		Six Months Ended	
	June 27, 2009	**June 28, 2008**	**June 27, 2009**	**June 28, 2008**
Weighted average number of shares outstanding (used in computation of basic earnings (loss) per share)	14,185,065	14,080,423	14,165,215	14,028,428
Assumed exercise or issuance of shares relating to stock plans		180,050		144,705
Diluted shares outstanding (used in computation of diluted earnings (loss) per share)	14,185,065	14,260,473	14,165,215	14,173,133

As of June 27, 2009, the assumed exercise or issuance of 164,238 shares and 180,928 shares for the three- and six-month periods, respectively, relating to stock plans were not included in the computation of diluted earnings (loss) per share because to do so would have been antidilutive.

All basic and diluted shares outstanding have been adjusted to reflect the two percent (2%) common stock dividend declared on August 11, 2008 and the six percent (6%) common stock dividend declared on November 10, 2008.

NOTE 8 - STOCK-BASED COMPENSATION

The following table summarizes the activity for the unvested restricted stock units and restricted stock for the six months ended June 27, 2009:

	Number of Shares	**Weighted - Average Grant Date Fair Value**
Unvested, December 27, 2008	202,069	$ 4.81
Granted		n/a
Vested	(45,167)	5.04

Unvested, June 27, 2009	156,902	4.74

The total fair value of the shares vested during the six months ended June 27, 2009 was $227,499.

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SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

Notes To Consolidated Financial Statements, Concluded

A summary of the status of the Company s outstanding stock options as of June 27, 2009, and changes during the six months ended June 27, 2009, are as follows:

	Number of Shares		Weighted - Average Exercise Price
Outstanding, December 27, 2008	1,061,975	$	5.65
Granted	196,000		1.56
Exercised			n/a
Forfeited	(11,893)		6.32
Outstanding, June 27, 2009	1,246,082		5.00

As of June 27, 2009, outstanding options had an intrinsic value of $450 and a weighted-average remaining contractual life of 3.96 years.

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SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

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

Overview

Established in 1974 as a truck body manufacturer, Supreme Industries, Inc., through its wholly-owned subsidiary Supreme Corporation, is one of the nation s leading manufacturers of specialized commercial vehicles. Utilizing a nationwide direct sales and distribution network, as well as manufacturing and service facilities in 10 states across the continental United States, Supreme is able to meet the needs of customers across all of North America.

The Company engages principally in the production and sale of customized truck bodies, shuttle buses, and other specialty vehicles. Building on its expertise in providing both cargo and passenger transportation solutions, the Company s specialty offerings include products such as customized armored vehicles, homeland response vehicles, portable storage units, and luxury motor coaches. Through vertical integration and proprietary processes, the Company also is a producer of high quality fiberglass and fiberglass-reinforced components.

The Company and its product offerings are sensitive to various factors which include, but are not limited to, economic conditions, interest rate fluctuations, volatility in the supply chain of vehicle chassis and the availability, or lack thereof, of credit and financing to the Company, our vendors, dealers, or end users. Though we can give no assurance of the success of our efforts, the Company is attempting a variety of strategies to mitigate any chassis supply disruption from the original equipment manufacturers, particularly General Motors which recently emerged from bankruptcy. The Company s business is also affected by the availability and costs of certain raw materials that serve as significant components of its product offerings. The Company s risk factors are disclosed in Item 1A Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 27, 2008 and herein in Item 1A.

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

Results of Operations

Supreme continued to experience the impact of the economic recession particularly in its core truck business and motorhome operations. Management began executing a strategy in 2008 to navigate through these conditions and position the Company to emerge from the current economic environment even stronger. Throughout 2009, management has remained focused on executing this strategy.

During the second quarter of 2009, management continued to reduce costs in an attempt to right-size our operations to match the current market conditions. Despite the continued recession in the commercial vehicle market, we reduced our operating loss by nearly 50% for the second quarter of 2009, when compared to the first quarter of 2009, on relatively comparable sales quarter-over-quarter. A large component of our cost reduction initiatives resulted from a 29%

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headcount reduction year-over-year. The Company continues to review its cost structure and will adjust the scale of operations as economic conditions warrant.

Supreme s bus and armored business has helped to partially offset the decline in the core dry freight truck business. To meet anticipated increased customer demand for our bus segment, the Company has recently expanded its bus capacity on both the East and West coasts to better serve these markets. Sales order backlog for both the bus and armored divisions remains strong and we anticipate positive demand for these product lines for the remainder of the year.

Additionally, the Company s focus on our asset management strategy continues as evidenced by our debt-to-equity ratio which improved by approximately 40% since the beginning of the year, along with an overall long-term debt level decrease of $13.6 million, or 42%.

Net Sales

Net sales for the three months ended June 27, 2009 decreased $25.7 million to $49.6 million compared to $75.3 million for the three months ended June 28, 2008. Net sales for the six months ended June 27, 2009 decreased $52.3 million to $98.9 million compared to $151.2 million for the six months ended June 28, 2008. The decrease in net sales for the three and six months was primarily related to our truck body sales, our largest product group, which declined by $23.9 million and $44.9 million, respectively. Our StarTrans bus division and our motorhome division experienced declines in net sales of $2.6 million and $1.0 million, respectively, for the three months ended June 27, 2009. For the six months ended June 27, 2009, our StarTrans bus division and our motorhome division experienced declines in net sales of $7.4 million and $4.8 million, respectively, when compared to the prior periods. Our vertically-integrated composites division experienced declines in net sales of $1.5 million and $2.5 million for the three and six months ended June 27, 2009, respectively. Partially offsetting these decreases was an increase in net sales by our armored division of $3.4 million and $7.2 million, respectively, for the three and six months.

The following table presents the components of net sales and the changes from period-to-period:

	Three Months Ended				Six Months Ended		
($000 s omitted)	**June 27, 2009**	**June 28, 2008**	**Change**		**June 27, 2009**	**June 28, 2008**	**Change**
Specialized vehicles:							
Trucks	$ 25,095	$ 48,983	$ (23,888)	-48.8%	$ 51,539	$ 96,401	$ (44,862)