SUPREME INDUSTRIES INC
Form 10-Q
August 14, 2012
Table of Contents

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 30, 2012

or

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

For the transition period from to

Commission File Number: 1-8183

SUPREME INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Common Stock ($.10 Par Value)	Outstanding at August 3, 2012
Class A	**13,502,409**
Class B	**1,716,937**

Table of Contents

SUPREME INDUSTRIES, INC.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,160	$ 106,833
Investments	930,665	924,016
Accounts receivable, net	26,873,415	22,040,297
Inventories	45,456,056	38,134,862
Deferred income taxes	1,454,661	
Other current assets	7,046,529	8,303,579
Total current assets	81,800,486	69,509,587
Property, plant and equipment, at cost	85,564,176	81,778,886
Less, Accumulated depreciation and amortization	49,509,613	48,248,829
Property, plant and equipment, net	36,054,563	33,530,057
Other assets	1,415,934	1,683,718
Total assets	$ 119,270,983	$ 104,723,362
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 241,070	$ 246,192
Trade accounts payable	19,983,370	21,424,434
Accrued income taxes	837,112	719,611
Other accrued liabilities	13,167,357	11,697,311
Total current liabilities	34,228,909	34,087,548
Long-term debt	20,999,097	15,702,467
Deferred income taxes	1,012,344	
Total liabilities	56,240,350	49,790,015
Stockholders equity	63,030,633	54,933,347
Total liabilities and stockholders equity	$ 119,270,983	$ 104,723,362

See accompanying Notes to Consolidated Financial Statements.

3

Table of Contents

SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2012	**July 2, 2011**	**June 30, 2012**	**July 2, 2011**
Net sales	$ 84,574,041	$ 94,719,547	$ 156,740,862	$ 162,103,686
Cost of sales	71,059,856	86,655,206	132,410,960	147,632,392
Gross profit	13,514,185	8,064,341	24,329,902	14,471,294
Selling, general and administrative expenses	8,239,242	6,909,473	16,787,632	13,907,437
Legal settlement and related costs		1,868,648		2,182,091
Other income	(113,192)	(393,851)	(592,140)	(454,604)
Operating income (loss)	5,388,135	(319,929)	8,134,410	(1,163,630)
Interest expense	315,061	452,712	579,810	732,571
Income (loss) from continuing operations before income taxes	5,073,074	(772,641)	7,554,600	(1,896,201)
Income tax benefit	(324,317)		(324,317)	
Income (loss) from continuing operations	5,397,391	(772,641)	7,878,917	(1,896,201)
Discontinued operations				
Operating loss of discontinued Oregon operations, net of tax		(334,706)		(691,845)
Net income (loss)	$ 5,397,391	$ (1,107,347)	$ 7,878,917	$ (2,588,046)
Other comprehensive income	747	3,163	747	6,611
Total comprehensive income (loss)	$ 5,398,138	$ (1,104,184)	$ 7,879,664	$ (2,581,435)
Basic income (loss) per share:				
Income (loss) from continuing operations	$ 0.36	$ (0.05)	$ 0.52	$ (0.13)
Loss from discontinued operations		(0.02)		(0.05)
Net income (loss) per basic share	$ 0.36	$ (0.07)	$ 0.52	$ (0.18)
Diluted income (loss) per share:				
Income (loss) from continuing operations	$ 0.35	$ (0.05)	$ 0.51	$ (0.13)
Loss from discontinued operations		(0.02)		(0.05)
Net income (loss) per diluted share	$ 0.35	$ (0.07)	$ 0.51	$ (0.18)
Shares used in the computation of income (loss) per share:				
Basic	15,192,169	14,590,397	15,176,659	14,471,570
Diluted	15,466,711	14,590,397	15,440,473	14,471,570

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2012	Six Months Ended July 2, 2011
Cash flows from operating activities:		
Net income (loss)	$ 7,878,917	$ (2,588,046)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	1,581,700	1,911,607
Treasury stock issued for legal settlement		2,184,000
Stock-based compensation expense	143,222	347,528
Gains on sale of property, plant and equipment, net	(298,110)	(275,625)
Changes in operating assets and liabilities	(11,550,338)	(3,647,219)
Net cash from operating activities	(2,244,609)	(2,067,755)
Cash flows from investing activities:		
Additions to property, plant and equipment	(3,986,551)	(888,107)
Proceeds from sale of property, plant and equipment	674,349	418,890
Purchases of investments	(6,649)	
Proceeds from sale of investments		272,739
Decrease (increase) in other assets	129,878	(18,791)
Net cash from investing activities	(3,188,973)	(215,269)
Cash flows from financing activities:		
Proceeds from revolving line of credit and other long-term debt	157,468,915	57,144,275
Repayments of revolving line of credit and other long-term debt	(152,177,407)	(55,743,794)
Proceeds from exercise of stock options	74,401	39,709
Net cash from financing activities	5,365,909	1,440,190
Change in cash and cash equivalents	(67,673)	(842,834)
Cash and cash equivalents, beginning of period	106,833	1,050,047
Cash and cash equivalents, end of period	$ 39,160	$ 207,213

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

SUPREME INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION AND OPINION OF MANAGEMENT

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all of the information and financial statement disclosures necessary for a fair presentation of consolidated financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, the information furnished herein includes all adjustments necessary to reflect a fair statement of the interim periods reported. The December 31, 2011 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, o Company refer to Supreme Industries, Inc. and its subsidiaries.

The Company has adopted a 52- or 53-week fiscal year ending the last Saturday in December. The results of operations for the three months ended June 30, 2012 and July 2, 2011 are for 13-week periods, respectively. The results of operations for the six months ended June 30, 2012 and July 2, 2011 are for 26- and 27-week periods, respectively.

Revised Financial Statements

As a result of its recent implementation of a perpetual inventory system, the Company determined that certain of its previously filed financial statements contained errors related to revenue recognition whereby beginning in the third quarter of 2009 and continuing through the first quarter of 2012 revenue at the Texas armored division plant was inappropriately recognized prior to the product being delivered to a customer due to an irregularity. The Company concluded that the errors were isolated to this one location and were not material. In order to assess materiality with respect to the errors, the Company considered Staff Accounting Bulletin (SAB) 99, Materiality and SAB 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, and determined that the impact of the errors on prior period consolidated financial statements was immaterial. Accordingly, the Company s consolidated balance sheet as of December 31, 2011, and the consolidated statements of operations and cash flows for the three months ended March 31, 2012 and three and six months ended July 2, 2011, were revised and reflect the correction of these immaterial errors. Correction of the errors in the Company s consolidated balance sheet as of December 31, 2011 resulted in an increase in inventories of approximately $2.1 million, a decrease in accounts receivable of approximately $2.1 million, an increase in customer deposits of approximately $0.4 million, and a decrease to retained earnings of approximately $0.4 million. The following table summarizes the impact on the Company s consolidated statements of operations:

	Three Months Ended March 31, 2012		Three Months Ended July 2, 2011		Six Months Ended July 2, 2011	
($000 s omitted)	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
Net sales	$ 72,520	$ 72,164	$ 94,064	$ 94,720	$ 162,464	$ 162,104
Net income (loss)	$ 2,558	$ 2,482	$ (1,196)	$ (1,107)	$ (2,561)	$ (2,588)

Table of Contents

NOTE 2 DISCONTINUED OPERATIONS

Effective December 25, 2010, the Company decided to cease operations at its Woodburn, Oregon manufacturing facility. The Oregon operations were discontinued due to the Company s decision to exit this unprofitable geographic region. The amount of Oregon business expected to be retained is insignificant. The Oregon facility and equipment are classified as held for sale as of June 30, 2012 and December 31, 2011 and are included in other current assets in the accompanying balance sheets.

The 2011 operating results for the Woodburn, Oregon location are classified as discontinued operations as follows:

	Three Months Ended July 2, 2011	Six Months Ended July 2, 2011
Net sales	$ 465,193	$ 3,285,848
Pretax loss from operations	$ (334,706)	$ (691,845)
Net loss	$ (334,706)	$ (691,845)

NOTE 3 INVENTORIES

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

	June 30, 2012	December 31, 2011
Raw materials	$ 28,825,491	$ 22,193,743
Work-in-progress	4,024,149	6,748,162
Finished goods	12,606,416	9,192,957
	$ 45,456,056	$ 38,134,862

NOTE 4 OTHER CURRENT ASSETS

Other current assets include assets held for sale of $4.8 million and $5.2 million at June 30, 2012, and December 31, 2011, respectively.

Table of Contents

NOTE 5   FAIR VALUE MEASUREMENT

Generally accepted accounting principles (GAAP) define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

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

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

The carrying amounts of cash and cash equivalents, accounts receivable, and trade accounts payable approximated fair value as of June 30, 2012, and December 31, 2011, because of the relatively short maturities of these financial instruments. The carrying amount of long-term debt, including current maturities, approximated fair value as of June 30, 2012, and December 31, 2011, based upon terms and conditions available to the Company at those dates in comparison to the terms and conditions of its outstanding long-term debt.

NOTE 6   LONG TERM DEBT

Revolving Line of Credit

On September 14, 2011, the Company entered into a Credit Agreement (the Credit Agreement) with Wells Fargo Capital Finance, LLC (the Lender). As of June 30, 2012, the outstanding balance under the Credit Agreement was approximately $17.0 million and the Company had unused credit capacity of approximately $18.1 million. Interest on outstanding borrowings under the Credit Agreement was based on the Lender s prime rate or LIBOR depending on the pricing option selected and the Company s leverage ratio (as defined in the Credit Agreement) resulting in an effective rate of 3.11% at June 30, 2012.

Other Long Term Debt

During 2011, the Company entered into a capital lease under a sale/leaseback transaction involving its California facility. The outstanding principal amount of the obligation as of June 30, 2012 was $3.5 million with an interest rate of 5.5%. Of this amount $0.1 million and $3.4 million were included in current maturities of long term debt and long term debt, respectively, in the accompanying balance sheet as of June 30, 2012.

Table of Contents

NOTE 7 LOSS PER SHARE

The assumed exercise or issuance of 251,614 and 272,543 shares for the three- and six-month periods ended July 2, 2011, relating to stock plans was not included in the computation of diluted loss per share. Inclusion of these shares in the respective periods would have been antidilutive.

NOTE 8 STOCK-BASED COMPENSATION

The following table summarizes the activity for the outstanding stock options for the six months ended June 30, 2012:

	Number of Shares		Weighted - Average Exercise Price
Outstanding, December 31, 2011	1,156,621	$	3.90
Granted			n/a
Exercised	(44,036)		1.69
Expired	(12,974)		6.15
Forfeited	(76,787)		4.91
Outstanding, June 30, 2012	1,022,824	$	3.89

As of June 30, 2012, outstanding exercisable options had an intrinsic value of $755,118 and a weighted-average remaining contractual life of 3.12 years.

Total unrecognized compensation expense related to all share-based awards outstanding at June 30, 2012, was approximately $161,203 and will be recorded over a weighted average contractual life of 1.16 years.

NOTE 9 INCOME TAXES

At December 31, 2011, the Company had a tax valuation allowance for net deferred tax assets of $4.6 million, the utilization of which was uncertain as of that date. In the second quarter of 2012, the Company determined it was likely the net deferred tax assets would be realized based upon sustained profitability and forecasted future operating results. As a result, the Company reversed $0.4 million of its $0.8 million valuation allowance, with the reversal recorded as a non-cash income tax benefit for the three and six months ended June 30, 2012. The Company expects that the remaining valuation allowance will be utilized during the second half of 2012 consistent with the Company s expected tax position. As the Company has generated taxable income and the release of a portion of the valuation allowance, the Company recorded a tax provision of $0.1 million (effective tax rate of 1.5%) for the three and six months ended June 30, 2012. Net income for the 2011 period excluded a tax provision due to the tax valuation allowance. The tax rate for 2013 and beyond could be significantly higher than 2012.

9

Table of Contents

NOTE 10 COMMITMENTS AND CONTINGENCIES

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

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

NOTE 11 MANAGEMENT CHANGES

On March 30, 2012, Kim Korth resigned as a director and the President and Chief Executive Officer of the Company to return to the vehicle and transportation consulting firm which she owns and of which she is the president. On May 3, 2012, the Company and its wholly-owned subsidiary Supreme Indiana Operations, Inc., and Ms. Korth entered into a Separation Agreement and Release (the Separation Agreement) in connection with Ms. Korth s resignation. Pursuant to the Separation Agreement, assuming Ms. Korth complies with the terms of the Separation Agreement and the portions of her employment agreement dated September 23, 2011 that will remain in effect as set forth in the Separation Agreement, she will be paid (i) nine months salary ($285,000) over a nine-month period and (ii) an annual bonus for 2011 of $75,000. The unpaid amounts have been accrued for and are included in other accrued liabilities in the accompanying balance sheet as of June 30, 2012. In addition, she remains eligible for (i) a pro rata portion of her annual bonus for 2012 based on the annual bonus terms set forth in her employment agreement dated September 23, 2011 and (ii) the benefits upon a change in control pursuant to the Company s ownership transaction incentive plan until March 30, 2013. Ms. Korth and the Company have provided mutual releases to each other and Ms. Korth has agreed to certain confidentiality obligations.

On March 30, 2012, Matthew W. Long, the Company s Chief Financial Officer, Treasurer and Assistant Secretary, assumed the position of interim Chief Executive Officer. The Company is conducting a formal search for a permanent Chief Executive Officer.

Table of Contents

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

Company Overview

Established in 1974 as a truck body manufacturer, Supreme Industries, Inc., through its wholly-owned subsidiary, Supreme Indiana Operations, Inc., is one of the nation s leading manufacturers of specialized vehicles. The Company engages principally in the production and sale of customized truck bodies, buses, and other specialty vehicles. Building on its expertise in providing both cargo and passenger transportation solutions, the Company s specialty vehicle offerings include products such as customized armored vehicles and homeland response vehicles.

The Company utilizes a nationwide direct sales and distribution network consisting of approximately 40 bus distributors, a limited number of truck equipment distributors, and approximately 1,000 commercial truck dealers. The Company s manufacturing and service facilities are located in seven states across the continental United States allowing us to meet the needs of customers across all of North America. Additionally, the Company s favorable customer relations, strong brand-name recognition, extensive product offerings, bailment chassis arrangements, and product innovation, competitively positions Supreme with a strategic footprint in the markets it serves.

The Company and its product offerings are affected by various factors which include, but are not limited to, economic conditions, interest rate fluctuations, volatility in the supply chain of vehicle chassis, and the availability of credit and financing to the Company, our vendors, dealers, or end users. The Company s business is also affected by the availability and costs of certain raw materials that serve as significant components of its product offerings. The Company s risk factors are disclosed in Item 1A Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Table of Contents

Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and related notes (See Note 1   Basis of Presentation and Opinion of Management - Revised Financial Statements) thereto elsewhere in this document and pertains to continuing operations unless otherwise noted.

Overview

Net income from continuing operations for the second quarter of 2012 was $5.4 million, or $0.35 per diluted share, compared with a loss from continuing operations of $0.8 million, or ($0.05) per share, in the second quarter of 2011. Net income from continuing operations for the first half of 2012 was $7.9 million, or $0.51 per diluted share, compared with a loss from continuing operations of $1.9 million, or ($0.13) per share, in the first half of 2011. Despite lower net sales, gross margins improved significantly due to product price increases, stable raw material costs, favorable product mix, and manufacturing labor efficiency improvements. We experienced higher levels of general and administrative expenses due to severance costs and payroll-related costs and benefits and we expect these costs to decrease during the second half of 2012.

Our sales backlog at the end of the second quarter of 2012 totaled $89 million compared with $102 million a year ago. While 13% lower than the prior-year period, we believe our improved pricing discipline has resulted in a more profitable backlog.

During the fourth quarter of 2011, we began a major renovation project at our primary truck production facility in Goshen, Indiana. During the first half of 2012, we invested $2.6 million of an anticipated investment of approximately $7.2 million over the next three years and we were awarded $1.5 million of conditional tax credits, as well as property tax abatements, from state and local authorities as incentives for these investments. These capital investments are intended to substantially increase our efficiencies, improve our employee s work environment, and reduce operating costs.

As we move through 2012, and continue to position the Company for profitable growth, our key areas of focus include:

- Improving the buying experience for our customers by listening to their needs and exceeding their expectations throughout the order fulfillment cycle;

- Improving our materials procurement sourcing nationwide;

- Making strategic investments to ensure that our employees view the Company as a great place to work and are proud to be members of the Supreme team;

- Ongoing product development initiatives, involving both new and existing products;

- Continued refinement and monitoring of recently implemented pricing disciplines;

- Further product line rationalization efforts to improve our gross margins and remain focused on our core truck, bus, and armored products; and

- Investment in and implementation of perpetual inventory systems and processes at all locations.

We continue to aggressively review all aspects of our business to identify additional profit improvement opportunities.

Table of Contents

Net Sales

Net sales for the three months ended June 30, 2012 decreased $10.1 million, or 10.7%, to $84.6 million as compared with $94.7 million for the three months ended July 2, 2011. Net sales for the six months ended June 30, 2012 decreased $5.4 million, or 3.3%, to $156.7 million as compared with $162.1 million for the six months ended July 2, 2011. 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 30, 2012	July 2, 2011	Change		June 30, 2012	July 2, 2011	Change	
Specialized vehicles:								
Trucks	$ 67,587	$ 74,881	$ (7,294)	(9.7)%	$ 116,767	$ 120,842	$ (4,075)	(3.4)%
Buses	13,677	14,117	(440)	(3.1)	31,769	30,210	1,559	5.2
Armored vehicles	2,642	5,104	(2,462)	(48.2)	6,691	9,851	(3,160)	(32.1)