

SUPREME INDUSTRIES INC  
Form 10-Q  
May 14, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from to

Commission File No. 1-8183

**SUPREME INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**75-1670945**

(I.R.S. Employer Identification No.)

**2581 E. Kercher Rd., P.O. Box 237, Goshen, Indiana 46528**

(Address of principal executive offices)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

| <b>Common Stock (\$.10 Par Value)</b> | <b>Outstanding at April 26, 2007</b> |                   |
|---------------------------------------|--------------------------------------|-------------------|
| <b>Class A</b>                        |                                      | <b>10,761,994</b> |
| <b>Class B</b>                        |                                      | <b>2,024,133</b>  |

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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

|   | March 31,<br>2007<br>(Unaudited) | December 30,<br>2006  |
|---|----------------------------------|-----------------------|
| <b>Assets</b>                                   |                                  |                       |
| Current assets:                                 |                                  |                       |
| Cash and cash equivalents                       | \$ 110,919                       | \$ 1,307,463          |
| Investments                                     | 2,742,101                        | 1,542,101             |
| Accounts receivable, net                        | 32,502,174                       | 31,116,276            |
| Inventories                                     | 53,052,144                       | 53,506,367            |
| Other current assets                            | 3,779,548                        | 4,222,705             |
| <b>Total current assets</b>                     | <b>92,186,886</b>                | <b>91,694,912</b>     |
| <b>Property, plant and equipment, at cost</b>   | <b>91,011,825</b>                | <b>91,471,500</b>     |
| Less, Accumulated depreciation and amortization | 42,698,267                       | 43,082,017            |
| <b>Property, plant and equipment, net</b>       | <b>48,313,558</b>                | <b>48,389,483</b>     |
| <b>Goodwill and intangible assets, net</b>      | <b>1,408,168</b>                 | <b>1,420,261</b>      |
| <b>Other assets</b>                             | <b>532,187</b>                   | <b>620,064</b>        |
| <b>Total assets</b>                             | <b>\$ 142,440,799</b>            | <b>\$ 142,124,720</b> |

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

|  | March 31,<br>2007<br>(Unaudited) | December 30,<br>2006 |
|--|----------------------------------|----------------------|
| <b>Liabilities and Stockholders Equity</b>       |                                  |                      |
| <b>Current liabilities:</b>                      |                                  |                      |
| Current maturities of long-term debt             | \$ 1,534,193                     | \$ 1,807,425         |
| Trade accounts payable                           | 15,987,159                       | 13,508,441           |
| Accrued income taxes                             | 896,678                          | 495,678              |
| Other accrued liabilities                        | 9,125,611                        | 9,318,050            |
| <b>Total current liabilities</b>                 | 27,543,641                       | 25,129,594           |
| <b>Long-term debt</b>                            | 36,671,100                       | 38,863,229           |
| <b>Deferred income taxes</b>                     | 2,896,216                        | 2,923,216            |
| <b>Total liabilities</b>                         | 67,110,957                       | 66,916,039           |
| <b>Stockholders equity</b>                       | 75,329,842                       | 75,208,681           |
| <b>Total liabilities and stockholders equity</b> | \$ 142,440,799                   | \$ 142,124,720       |

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

**Supreme Industries, Inc. and Subsidiaries**

## Consolidated Statements of Income (Unaudited)

|  | <b>Three Months Ended<br/>March 31,<br/>2007</b> | <b>April 1,<br/>2006</b> |
|--|--|--------------------------|
| Net sales  | \$ 83,891,983                                    | \$ 85,747,138            |
| Cost of sales  | 74,920,597                                       | 76,141,452               |
| Gross profit   | 8,971,386  | 9,605,686                |
| Selling, general and administrative expenses                 | 6,929,747  | 6,858,966                |
| Other expense (income)                                       | (89,977 )  | (107,240 )               |
| Operating income   | 2,131,616  | 2,853,960                |
| Interest expense   | 743,171  | 700,925                  |
| Income before income taxes                                   | 1,388,445  | 2,153,035                |
| Income taxes   | 424,000  | 780,000                  |
| Net income   | \$ 964,445                                       | \$ 1,373,035             |
| <b>Earnings Per Share:</b>                                   |  |                          |
| Basic  | \$ .08   | \$ .11                   |
| Diluted  | .08  | .11                      |
| <b>Shares used in the computation of earnings per share:</b> |  |                          |
| Basic  | 12,726,845                                       | 12,689,654               |
| Diluted  | 12,835,053                                       | 12,919,433               |
| <b>Cash dividends per common share</b>                       | <b>\$ .095</b>                                   | <b>\$ .095</b>           |

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

## Supreme Industries, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows (Unaudited)

|   | Three Months Ended<br>March 31,<br>2007 | April 1,<br>2006    |
|---|---|---------------------|
| <b>Cash flows from operating activities:</b>  |   |                     |
| Net income  | \$ 964,445                              | \$ 1,373,035        |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |   |                     |
| Depreciation and amortization   | 1,075,893                               | 1,076,163           |
| Amortization of intangibles   | 12,093                                  |                     |
| Provision for losses on doubtful receivables  | 42,293                                  | 46,656              |
| Stock-based compensation expense  | 48,668                                  |                     |
| Loss (gain) on disposal of property and equipment   | (70 )                                   | 13,541              |
| Changes in operating assets and liabilities, net of effect of business acquisition in 2006  | 2,156,468                               | (7,353,421 )        |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>4,299,790</b>                        | <b>(4,844,026 )</b> |
| <b>Cash flows from investing activities:</b>  |   |                     |
| Business acquisition  |   | (1,050,000 )        |
| Additions to property, plant and equipment  | (999,968 )                              | (1,343,090 )        |
| Proceeds from disposal of property and equipment  | 70                                      | 4,700               |
| Purchase of short-term investments  | (1,200,000 )                            | (1,185,000 )        |
| Decrease (increase) in other assets   | 13,978                                  | (75,880 )           |
| <b>Net cash used in investing activities</b>  | <b>(2,185,920 )</b>                     | <b>(3,649,270 )</b> |
| <b>Cash flows from financing activities:</b>  |   |                     |
| Proceeds from revolving line of credit and other long-term debt                             | 31,577,297                              | 27,270,784          |
| Repayments of revolving line of credit and other long-term debt                             | (34,042,658 )                           | (18,781,723 )       |
| Payment of cash dividends   | (1,204,866 )                            | (1,205,626 )        |
| Proceeds from exercise of stock options   | 359,813                                 |                     |
| <b>Net cash provided by (used in) financing activities</b>                                  | <b>(3,310,414 )</b>                     | <b>7,283,435</b>    |
| <b>Change in cash and cash equivalents</b>  | <b>(1,196,544 )</b>                     | <b>(1,209,861 )</b> |
| <b>Cash and cash equivalents, beginning of period</b>                                       | <b>1,307,463</b>                        | <b>1,515,532</b>    |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 110,919</b>                       | <b>\$ 305,671</b>   |
| <b>Supplemental disclosure of noncash investing and financing activities:</b>               |   |                     |
| Liabilities assumed in business acquisition   | \$                                      | \$ 163,222          |

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

**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES**

## Notes To Consolidated Financial Statements

**NOTE 1 - BASIS OF PRESENTATION AND OPINION OF MANAGEMENT**

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

The Company has adopted a 52 or 53 week fiscal year ending the last Saturday in December. The results of operations for the three months ended March 31, 2007 and April 1, 2006 are for 13 week periods.

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

**NOTE 2 - OTHER COMPREHENSIVE INCOME (LOSS)**

Other comprehensive income (loss) includes unrealized gains on hedge-activity, net of tax, and unrealized depreciation on available-for-sale securities, net of tax. Other comprehensive income (loss) for the three month periods ended March 31, 2007 and April 1, 2006 was \$(46,899) and \$151,927, respectively. Total comprehensive income combines net income and other comprehensive income (loss). Total comprehensive income for the three month periods ended March 31, 2007 and April 1, 2006 was \$917,546 and \$1,524,962, respectively.

**NOTE 3 - INVENTORIES**

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

|                  | <b>March 31,<br/>2007</b> | <b>December 30,<br/>2006</b> |
|------------------|---------------------------|------------------------------|
| Raw materials    | \$ 29,438,259             | \$ 29,569,267                |
| Work-in-progress | \$ 10,493,038             | \$ 11,199,112                |
| Finished goods   | \$ 13,120,847             | \$ 12,737,988                |
|                  | \$ 53,052,144             | \$ 53,506,367                |



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

**NOTE 4 - EARNINGS PER SHARE**

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

|  | <b>Three Months Ended<br/>March 31,<br/>2007</b> | <b>April 1,<br/>2006</b> |
|--|--|--------------------------|
| Weighted average number of shares outstanding<br>(used in computation of basic earnings per share) | 12,726,845                                       | 12,689,654               |
| Effect of dilutive stock options   | 108,208  | 229,779                  |
| Diluted shares outstanding (used in computation of<br>diluted earnings per share)                  | 12,835,053                                       | 12,919,433               |

**NOTE 5 - STOCK-BASED COMPENSATION**

A summary of the status of the Company's outstanding stock options as of March 31, 2007, and changes during the three month period ended March 31, 2007 are as follows:

|                              | <b>Number of<br/>Shares</b> | <b>Weighted -<br/>Average<br/>Exercise<br/>Price</b> |
|------------------------------|-----------------------------|--|
| Outstanding, January 1, 2007 | 1,228,320                   | \$ 6.12  |
| Granted                      |                             |  |
| Exercised                    | (73,334 )                   | 4.91   |
| Outstanding, March 31, 2007  | 1,154,986                   | 6.19   |

The intrinsic value of the options exercised during the three months ended March 31, 2007 was \$69,141. The intrinsic value of all options outstanding at March 31, 2007 was \$430,975 and outstanding options had a weighted-average remaining contractual life of 2.88 years.

**NOTE 6 - COMMON STOCK**

The Company paid cash dividends, to all Class A and Class B common stockholders, of nine and one-half cents (\$0.095) per share for each of the three month periods ended March 31, 2007 and April 1, 2006.

**NOTE 7 - SUBSEQUENT EVENT**

On May 3, 2007, the Company's Board of Directors declared a nine and one-half cent (\$0.095) per share cash dividend payable on May 24, 2007 to all class A and B common stockholders of record on May 17, 2007.

**NOTE 8 ADOPTION OF NEW ACCOUNTING STANDARD**

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

The Company is subject to U.S. federal income tax as well as various state taxes and is no longer subject to examination by taxing authorities for years before 2003. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. Interest and penalties related to income tax matters are recognized in income tax expense. Interest and penalties accrued for at March 31, 2007 were insignificant.

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

**Results of Operations**

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

***Net Sales***

Net sales for the three months ended March 31, 2007 decreased \$1.8 million, or 2.1%, to \$83.9 million compared to \$85.7 million for the three months ended April 1, 2006. The decrease in net sales was attributable to a reduction of \$3.1 million, or 5.3%, in our core truck sales and a reduction of \$1.1 million, or 33.3%, in armored vehicle sales. These decreases were partially offset by higher net sales in our composites divisions of \$2.3 million, a 101.5% increase from 2006, and \$1.1 million, a 117.1% increase from 2006, in our Silver Crown motorhome division.

Net sales in our StarsTrans bus division remained relatively constant from quarter-to-quarter. The anticipated decrease in core truck sales was the result of an industry-wide reduction in truck sales due to the increased cost of chassis. New and more stringent diesel engine emission standards, which became effective for engines produced beginning January 1, 2007, caused truck buyers to accelerate their purchases into 2006. However, because of our broad and diverse product line, we are hopeful of mitigating the effect of the accelerated truck purchases which occurred during 2006. The reduction in armored vehicle sales for the quarter was primarily attributable to the timing of the placement of orders by our cash-in-transit customers. The backlog for the armored vehicle sales has improved and we now anticipate exceeding our 2006 armored vehicle sales in 2007. The strong increase in sales in the composites divisions was primarily due to increased sales of our fiberglass reinforced plywood ( FRP ) product while the increase in our Silver Crown motorhome division sales was due to the division being a startup operation in 2006. Our total sales backlog was \$81.3 million at March 31, 2007 compared to \$90.9 million at April 1, 2006.

#### *Cost of sales and gross profit*

Gross profit decreased by \$.6 million, or 6.3%, to \$9.0 million (10.7% of net sales) for the three months ended March 31, 2007 compared to \$9.6 million (11.2% of net sales) for the three months ended April 1, 2006. The following table presents the components of cost of sales as a percentage of net sales for the first quarter of 2007 and 2006 and the changes from 2006:

|               | March 31,<br>2007 | April 1,<br>2006 | Percent<br>Change |
|---------------|-------------------|------------------|-------------------|
| Material      | 58.7              | % 56.9           | % 1.8             |
| Direct labor  | 13.5              | 14.1             | -0.6              |
| Overhead      | 14.8              | 15.2             | -0.4              |
| Delivery      | 2.3               | 2.6              | -0.3              |
| Cost of sales | 89.3              | 88.8             | 0.5               |
| Gross profit  | 10.7              | % 11.2           | % -0.5            |

**Material** Material cost as a percentage of net sales for the three months ended March 31, 2007 was 58.7% compared to 56.9% for the corresponding period in 2006. The increase of 1.8% is due to our StarTrans Bus division, our Silver Crown division and our Composites divisions, which have a higher material content and accounted for 28.7% of our net sales in the first quarter of 2007 compared to 21.7% of our net sales in the first quarter of 2006. The Company's core truck division's material percentage decreased .6% from quarter-to-quarter but escalating steel and aluminum raw material costs remain a concern. We continue to closely monitor and manage our major raw material costs through close communication and negotiation with key suppliers, utilizing cost monitoring tools and developing strategies to mitigate cost and availability issues. The Company also continually strives to reduce the cost of its product offerings through the development and use of innovative materials, robotics and other manufacturing process improvements.

**Direct Labor** Direct labor as a percentage of net sales was 13.5% for the three months ended March 31, 2007 compared to 14.1% for the three months ended April 1, 2006. The direct labor improvement of .6% was the result of the efficiencies realized from using our more experienced workforce and contracting fewer temporary employees at our core truck divisions. Additionally, in the first quarter of 2006 we experienced a delay in OEM supplied chassis which caused the Company to temporarily shut down production lines, thereby negatively affecting labor and overhead absorption in the 2006 quarter.

**Overhead** Overhead as a percentage of net sales was 14.8% for the three months ended March 31, 2007 compared to 15.2% for the three months ended April 1, 2007. The improvement of .4% was primarily due to reductions in indirect payroll, small tools purchases, utilities and repairs and maintenance costs for the first quarter of 2007 compared to the first quarter of 2006. However, these improvements were somewhat offset by an increase in group health insurance claims. To combat the increase in group health insurance claims, the Company continues to implement changes to its group health insurance plan in an effort to control future claim costs.

**Delivery** Delivery expense as a percentage of net sales was 2.3% for the three months ended March 31, 2007 compared to 2.6% for the three months ended April 1, 2007.

#### **Selling, general and administrative expenses**

Selling, general and administrative ( G&A ) expenses remained flat at \$6.9 million (8.3% of net sales) for the three months ended March 31, 2007 and (8.0% of net sales) for the three months ended April 1, 2006. The following table presents selling and G&A expenses as a percentage of net sales and the changes from quarter-to-quarter:

|                  | <b>March 31,<br/>2007</b> |   | <b>April 1,<br/>2006</b> |   | <b>Percent<br/>Change</b> |   |
|------------------|---------------------------|---|--------------------------|---|---------------------------|---|
| Selling expenses | 3.1                       | % | 2.8                      | % | 0.3                       | % |
| G&A expenses     | 5.2                       |   | 5.2                      |   |                           |   |
| Total            | 8.3                       | % | 8.0                      | % | 0.3                       | % |

**Selling expenses** Selling expenses increased by \$.2 million, or 8.3%, to \$2.6 million for the three months ended March 31, 2007 from \$2.4 million for the three months ended April 1, 2006. The increased selling expenses related primarily to a reduction in cooperative marketing funds received from chassis manufacturers. These funds, determined solely by programs established by the chassis manufacturers, have historically been used to help offset marketing and promotional expenses. Additionally, to promote its expanding and extensive product lines, the Company also incurred higher show and related expenses in the first quarter of 2007 compared to the first quarter of 2006.

**G&A expenses** General and administrative expenses decreased by \$.1 million, or 2.3% to \$4.3 for the three months ended March 31, 2007 from \$4.4 million for the three months ended April 1, 2006. The decrease in general and administrative expenses was due to a continued focus to reduce expenses in 2007 compared to 2006.

***Other Income***

Other income was relatively constant at \$.1 million for the three months ended March 31, 2007 and April 1, 2006. Other income consists of rental income, gain on sale of assets and other miscellaneous income received by the Company through its various business activities.

***Interest expense***

Interest expense was relatively constant at \$.7 million (.8% of net sales) for the three months ended March 31, 2007 and April 1, 2006, respectively. Bank interest expense increased \$.1 million to \$.6 million for the first quarter of 2007 compared to \$.5 million for the first quarter of 2006. The increase resulted from increased borrowings under the Company's working capital line of credit and higher interest rates. Chassis interest expense was \$.1 million for the first quarter of 2007 compared to \$.2 million for the first quarter of 2006. The decrease was due to reduced consigned chassis inventory levels relating to light-duty chassis. In 2006, we experienced an unanticipated slow down in the light-duty truck market causing a build up of consigned chassis inventory which resulted in increased interest expense.

***Income taxes***

The Company's effective income tax rate was 30.5% for the three months ended March 31, 2007 compared to 36.2% for the three months ended April 1, 2006. The 2006 effective income tax rate was subsequently reduced during the third and fourth quarters of 2006 and was 30.2% for the year ended December 30, 2006. In addition to being in a lower tax bracket, the effective income tax rate was favorably impacted by tax-exempt underwriting income of a wholly-owned small captive insurance subsidiary, by the additional tax deduction allowed manufacturers under the 2004 American Jobs Creation Act and federal and state research and development tax credits.

***Net income and earnings per share***

Net income decreased by \$.4 million, or 29%, to \$1.0 million (1.2% of net sales) for the three months ended March 31, 2007 from \$1.4 million (1.6% of net sales) for the three months ended April 1, 2006.

Basic and diluted earnings per share decreased \$.03 per share, or 27% to \$.08 per share for the three months ended March 31, 2007 from \$.11 per share for the three months ended April 1, 2006.

### **Liquidity and Capital Resources**

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

#### ***Operating activities***

Operating activities provided \$4.3 million for the three months ended March 31, 2007 compared to a use of cash of \$4.8 million for the three months ended April 1, 2006. Working capital decreased \$1.9 million during the three months ended March 31, 2007, principally due to higher levels of trade accounts payable and, to a lesser extent, a decrease in inventories which were somewhat offset by an increase in trade accounts receivable. Net income, adjusted for depreciation and amortization, also provided \$2.1 million and \$2.4 million, respectively, for the first quarter of 2007 and 2006.

#### ***Investing activities***

Investing activities used \$2.2 million for the three months ended March 31, 2007 compared to \$3.6 million for the three months ended April 1, 2006. Capital expenditures totaled \$1.0 million for first quarter of 2007 and consisted principally of replacement equipment. Additionally, the Company had an increase in its short-term investments of \$1.2 million in its captive insurance subsidiary for the three months ended March 31, 2007.

#### ***Financing activities***

Financing activities used \$3.3 million for the three months ended March 31, 2007 compared to cash provided of \$7.3 for the three months ended April 1, 2006. The lower levels of financing activities occurred as a result of a reduction of \$1.9 million in working capital in the first quarter of 2007 compared to a \$7.2 million increase for the first quarter of 2006. The Company also received \$4 million from the exercise of stock options in the first quarter of 2007. The Company's board of directors approved a quarterly cash dividend of nine and one-half cents per share, or \$1.2 million, for the first quarter of 2007 and 2006.

### **Critical Accounting Policies and Estimates**

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

**Revenue Recognition** The Company generally recognizes revenue when the unit is shipped to the customer. Revenue on certain customer requested bill and hold transactions is recognized subsequent to when the customer is notified that the product(s) have been completed according to customer specifications, have passed all of the Company's quality control inspections, and are ready for delivery based on established delivery terms.

**Allowance for Doubtful Accounts** The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required which would affect our future operating results.

**Excess and Obsolete Inventories** The Company must make estimates regarding the future use of raw materials and finished products and provides a provision for obsolete or slow-moving inventories. If actual product life cycles, product demand or market conditions are less favorable than those projected by Management, additional inventory write-downs may be required which would affect future operating results.

**Inventory Relief** For monthly and quarterly financial reporting, cost of sales is recorded and inventories are relieved by the use of gross profit percentage method, standard bills of material, adjusted for scrap and other estimated factors affecting inventory relief. Because of the customized nature of the Company's products, it is difficult to place full reliance on the bills of material for accurate relief of inventories. Although the Company continues to refine the process of creating accurate bills of materials, manual adjustments, which are based on estimates, are necessary in an effort to assure correct relief of inventories for products sold. The estimate calculations consider the customized nature of products, historical inventory relief percentages, scrap variances and other factors which could impact inventory relief. The accuracy of the inventory relief is not known until interim and or annual physical inventories are conducted at each of the Company's plant locations.

Management has dedicated significant in-house resources to refining bills of materials, improving cost accounting functions and instituting new inventory policies and procedures. In addition, Management has implemented more frequent physical inventories.

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

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

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

**Forward-Looking Statements**

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

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

**ITEM 4. CONTROLS AND PROCEDURES.**

a. Evaluation of Disclosure Controls and Procedures.

In connection with the preparation of this Form 10-Q, an evaluation was performed under the supervision and with the participation of the Company's Management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended).



b. **Changes in Internal Control over Financial Reporting.**

There has been no change in the Company's internal control over financial reporting during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company continues to take action to assure compliance with the internal controls, disclosure controls and other requirements of the Sarbanes-Oxley Act of 2002. Management, including the Company's Chief Executive Officer and Chief Financial Officer, cannot guarantee that the internal controls and disclosure controls will prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of a control system have been met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no system of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in any cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

Not applicable.

**ITEM 1A. RISK FACTORS.**

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

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

Not applicable.

**ITEM 3.**                    **DEFAULTS UPON SENIOR SECURITIES.**

Not applicable.

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

Not applicable.

**ITEM 5.**                    **OTHER INFORMATION.**

Not applicable.

**ITEM 6.**                    **EXHIBITS.**

Exhibits:

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUPREME INDUSTRIES, INC.

DATE: May 14, 2007

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

Vice President of Finance and Chief  
Financial Officer

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

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INDEX TO EXHIBITS

| <b>Exhibit<br/>Number</b> | <b>Description of Document</b>  |
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