SUPREME INDUSTRIES INC
Form 10-K
February 27, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 28, 2013

OR

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

COMMISSION FILE NUMBER: 1-8183

SUPREME INDUSTRIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation)	**75-1670945** (I.R.S. Employer Identification Number)
2581 E. Kercher Road	
Goshen, Indiana	**46528**

(Address of principal executive office) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class:	**Name of each exchange on which registered:**
Class A Common Stock ($.10 Par Value)	NYSE MKT

Securities registered pursuant to Section 12(g) of the Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 by Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter, based on the last closing sale price of $5.00 per share for the common stock on the NYSE MKT on such date, was approximately $63,396,873.

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

Class	**Outstanding at February 25, 2014**
Class A Common Stock ($.10 Par Value)	14,537,255 shares
Class B Common Stock ($.10 Par Value)	1,771,949 shares

Documents incorporated by reference

Listed below are documents, parts of which are incorporated herein by reference, and the part of this report into which the document is incorporated:

Portions of the Proxy Statement for the 2014 Annual Meeting of Stockholders Part III

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PART I

ITEM 1. BUSINESS.

History

Supreme Industries, Inc., a Delaware corporation (the Company, Supreme or we), is one of the nation s leading manufacturers of specialized vehicles including truck bodies, buses, and armored and specialty vehicles. The Company was originally incorporated in 1979.

In January of 1984, Supreme Corporation, the Company s wholly-owned operating subsidiary, was formed to acquire a company engaged in the business of manufacturing, selling, and repairing specialized truck bodies, buses, and related equipment.

During 2012, several legal entity restructuring transactions occurred as a result of which Supreme Corporation, a Texas corporation, became the Company s principal subsidiary. As part of these restructuring transactions, several operating and real estate entities became wholly-owned subsidiaries of Supreme Corporation. This corporate restructuring was undertaken to provide the Company a more effective structure for purposes of efficient management and measurement of business operations.

General Description of the Company s Business

The Company has two operating segments specialized vehicles and fiberglass products. The fiberglass products segment does not meet the quantitative thresholds for separate disclosure. See segment information in Note 1 - Nature of Operations and Accounting Policies of the Notes to Consolidated Financial Statements (Item 8).

Supreme competes in two core areas of the specialty vehicle market, truck bodies and buses. Supreme manufactures a truck body or bus body that is attached to a truck chassis. The truck chassis, which consists of an engine, drivetrain, a frame with wheels, and in some cases a cab, is manufactured by third parties who are major automotive or truck companies. Such companies typically do not build specialized truck bodies. Supreme is the only major manufacturer that produces both truck and bus bodies. Some examples of specialized vehicles that are not manufactured by Supreme are dump bodies, utility bodies, and garbage packers.

Supreme offers a wide range of truck products with prices that range from $4,000 to more than $100,000. Supreme s truck bodies are offered in aluminum, fiberglass reinforced plywood (FRP), FiberPanel, or SignaturePlate. Most of our products are attached to light-duty truck chassis and medium-duty chassis. Supreme integrates a wide range of options into its truck bodies including liftgates, cargo-handling equipment, customized doors, special bumpers, ladder racks, and refrigeration equipment. Supreme is primarily a build-to-order operation with very limited production occurring in anticipation of pending orders.

The following table shows net sales contributed by each of the Company s product categories:

	2013	2012	2011
Specialized vehicles:			
Trucks	$ 225,778,360	$ 211,971,626	$ 218,927,753
Buses	42,395,350	55,025,147	60,640,186
Specialty vehicles	11,929,635	16,180,244	18,505,470
	280,103,345	283,177,017	298,073,409
Fiberglass products	2,169,954	2,963,095	2,287,280
	$ 282,273,299	$ 286,140,112	$ 300,360,689

The following is a brief summary of Supreme s products:

Signature Van bodies. Supreme s Signature Van bodies range from 10 to 28 feet in length with exterior walls assembled from one of several material options including pre-painted aluminum, FRP panels, FiberPanels, or SignaturePlate. Additional features include molded composite front and side corners, LED marker lights, sealed wiring harnesses, hardwood or pine flooring, and various door configurations to accommodate end-user loading and unloading requirements. This product is adaptable for a diverse range of uses in dry-freight transportation.

Iner-City® cutaway van bodies. An ideal route truck for a variety of commercial applications, the Iner-City bodies are manufactured on cutaway chassis which allow access from the cab to the cargo area. Borrowing many design elements from Supreme s larger van body, the Iner-City is shorter in length (10 to 18 feet) than a typical van body.

Spartan service bodies. Built on the cutaway chassis out of durable FRP, the Spartan Service Body is a virtual workshop on wheels. In lengths from 10 to 14 feet, the Spartan s selection of compartments, shelves, doors, and pre-designed options provides job-site protection from the weather while offering a secure lockable workspace.

Spartan cargo vans. Built on a cutaway chassis and constructed of FRP, the Spartan Cargo Van provides the smooth maneuverability of a commercial van with the full-height and spacious cargo area of a truck body. In lengths of 10 to 14 feet and available with a variety of pre-designed options, the Spartan Cargo Van is a bridge product for those moving up from a traditional cargo van into the truck body category.

Kold King® insulated van bodies. Kold King insulated bodies, in lengths of up to 28 feet, provide versatility and dependability for temperature controlled applications. Flexible for either hand-load or pallet-load requirements, they are ideal for multi-stop distribution of both fresh and frozen products.

Stake bodies. Stake bodies are flatbeds with various configurations of removable sides. The stake body is utilized for a broad range of agricultural and construction industries transportation needs.

Armored SUVs. Supreme s armored SUV products offer the same outside appearance and interior as a stock model SUV, but with armored protection against hostile fire. These protective vehicles are used both abroad by governmental agencies and for various domestic applications.

Armored trucks and specialty vehicles. Supreme is one of the largest makers of cash-in-transit vehicles as well as SWAT rapid deployment vehicles, prisoner transport vehicles, and a variety of other security vehicles.

Shuttle buses. Shuttle buses (Senator and Candidate) have seating capacities for 12 to 29 people and are offered with a variety of seating arrangements and with options such as wheelchair lifts, custom interiors, and special exterior paint schemes. The shuttle bus line features an aerodynamic exterior design and is intended for use by hotels, nursing homes, car leasing companies, and airport-related users.

Mid-size buses. Supreme s mid-size buses (President and Ambassador) are offered in lengths of up to 31 feet with capacities of up to 35 passengers. This product serves the public transit and tour markets as well as end users such as universities and various sport franchises.

Trolleys. Supreme s trolley line is similar in size to the mid-size bus line but resembles a San Francisco trolley car. Supreme is a leading manufacturer of this product which is marketed to resort areas, theme parks, and cities desiring unique transportation vehicles.

Kold King®, Iner-City®, Spartan, and Fuel Shark are trade names used by Supreme in its marketing of truck bodies and buses. Kold King® and Iner-City® are trademarks registered in the U.S. Patent and Trademark Office.

Manufacturing

Supreme s manufacturing facilities are located in Goshen and Ligonier, Indiana; Griffin, Georgia; Cleburne, Texas; Moreno Valley, California; and Jonestown, Pennsylvania.

Supreme builds specialized vehicle bodies and installs other equipment on truck chassis, most of which are provided by converter pool agreements or are owned by dealers or end-users. These truck bodies are built on an assembly line from engineered structural components such as floors, roofs, and wall panels. These components are manufactured from Supreme s proprietary designs and are installed on the truck chassis. Supreme then installs optional equipment and applies any special finishes that the customer has specified. Throughout the manufacturing and installation process, Supreme conducts quality control procedures to ensure that the products meet its customers specifications. Supreme s products are generally produced to firm orders and are designed and engineered by Supreme. Order levels will vary depending upon price, competition, prevailing economic conditions, and other factors.

The Company manufactures its own fiberglass reinforced plywood and has extensive metal bending capabilities. These component manufacturing facilities are located in Goshen and Ligonier, Indiana.

Supreme provides limited warranties against construction defects in its products. These warranties generally provide for the replacement or repair of defective parts or workmanship for periods of up to five years following the date of retail sale.

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We purchase raw materials and component parts from a variety of sources. Although we generally do not enter into long-term supply contracts, management believes that we have good relationships with our primary suppliers. In recent years prices have fluctuated significantly, but we have experienced no material adverse problems in obtaining adequate supplies of raw materials and component parts to meet the requirements of our production schedules. Management believes that the materials used in the production of our products are available at competitive prices from an adequate number of alternative suppliers. Accordingly, management does not believe that the loss of a single supplier would have a material adverse effect on our business.

Marketing

Supreme sells its products to commercial dealers/distributors, fleet leasing companies, or directly to end-users. Products purchased by a dealer from Supreme are sold by the dealer/distributor to its own customers.

Supreme s dealer/distributor network consists of more than 1,000 commercial dealers, a limited number of truck equipment distributors, and approximately 25 bus distributors. Management believes that this large network, coupled with Supreme s geographically-dispersed plant and distribution sites, gives Supreme a marketing advantage over its competitors. Supreme generally delivers its products within 4 to 8 weeks after the receipt of orders.

Approximately 80 employees are engaged in direct sales. Supreme engages in direct marketing to target markets and participates in industry and vocational trade shows.

Trademarks

The Company owns and maintains trademarks that are used in marketing specialized products manufactured by Supreme. Management believes that these trademarks have significant customer goodwill. For this reason, management anticipates renewing each trademark discussed above for an additional ten-year period prior to such trademark s expiration.

Working Capital

The Company utilizes its revolving line of credit to finance its accounts receivable and inventories. The Company believes that its days sales outstanding and its days inventories on hand are within normal industry levels. The Company had working capital of $37.6 million and $38.6 million at December 28, 2013, and December 29, 2012, respectively.

Major Customers

No single customer or group of customers, accounted for 10% or greater of the Company s consolidated net sales for the fiscal years ended in 2013 and 2012. During 2011, one of our customers (Penske) accounted for approximately 20% of consolidated net sales. The Company s export sales are minimal.

Competitive Conditions

The highly competitive nature of the specialized vehicle industry presents a number of challenges. With only a few national competitors, the Company often competes with smaller, regional companies. As a result of this broad competition, the Company is often faced with competitive pricing pressures. Other competitive factors include quality of product, lead times, geographic proximity to customers, and the ability to manufacture a product customized to customer specifications.

During favorable business cycles, the industry tends to see an increase in smaller, regional competitors, and then a similar decrease during times of challenging economic pressures. With its national presence and diverse product offerings, the Company believes that it is well positioned to meet the competitive challenges presented.

Governmental Regulation

The Company s operations are subject to a variety of federal, state, and local environmental and health and safety statutes and regulations including those related to emissions to the air, discharges to water, treatment, storage, and disposal of water, and remediation of contaminated sites. Additionally, the Company s products are subject to a variety of federal, state, and local safety statutes and regulations. From time to time, the Company has received notices of noncompliance with respect to our operations and products. These notices have typically been resolved by investigating the alleged noncompliance and correcting any noncompliant conditions.

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Cyclicality and Seasonality of Business

The Company s business can be cyclical due to the normal replacement cycle particularly of its truck products (historically approximately seven years) being subject to customers delaying purchases due to adverse changes in economic conditions and other long range factors that can affect the transportation industry. Seasonality arises due to the Company typically participating in bids for large fleet contracts. If successful, the fleet orders generally require shipment of the truck bodies in the first and second quarters. Additionally, our business depends on various factors that are particularly sensitive to general economic conditions and business cycles including: corporate profitability; interest rates; fuel costs; changes in government regulations (i.e. fuel standards); customer preferences; industrial, commercial, and consumer spending patterns; and availability of truck chassis.

Employees

As of December 28, 2013 and December 29, 2012, the Company employed approximately 1,700 and 1,500 employees, respectively, none of whom are represented by a collective bargaining unit. The Company considers its relations with its employees to be favorable.

Backlog

The Company s backlog of firm orders was $84.7 million at December 28, 2013 compared to $67.9 million at December 29, 2012, all of which was reasonably expected to be filled within the applicable year.

ITEM 1A. RISK FACTORS

Any investment in our Common Stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information included in this Form 10-K before purchasing our Common Stock. Although the risks described below are the risks that we believe are material, they are not the only risks relating to our business and our Common Stock. Additional risks and uncertainties, including those that are not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition, or results of operations. If any of the events described below occur, our business and financial results could be materially and adversely affected. The market price of our Common Stock could decline due to any of these risks, perhaps significantly, and you could lose all or part of your investment.

A lack of credit and/or limited financing availability to the Company, its vendors, dealers, or end users could adversely affect our business.

The Company s liquidity and financial condition could be materially and adversely affected if, under its current bank credit agreement, the Company s ability to borrow money from its existing lender to finance its operations is reduced or eliminated. Similar adverse effects may also result if the Company realizes lessened credit availability from trade creditors. Additionally, many of our customers require the availability of financing to facilitate the purchase of our products. As a result, a continuing period of reduced credit availability in the marketplace could have adverse effects on the Company s business.

Increases in the price and demand for raw materials could lower our margins and profitability.

Supreme generally does not have long-term raw material contracts and is dependent upon suppliers of steel, aluminum, wood products, and fiberglass materials, among others, for its manufacturing operations. Consequently, our ability to produce and deliver our products could be affected by disruptions encountered by our raw material suppliers or freight carriers. Additionally, competitive market conditions may prevent the Company from implementing price increases to offset raw material cost increases. As a result the Company s gross margin could be adversely affected.

Volatility in the supply of vehicle chassis and other vehicle components could adversely affect our business.

With the exception of some bus and armored products, the Company generally does not purchase vehicle chassis for its inventory. The Company accepts shipments of vehicle chassis owned by dealers or end-users for the purpose of installing and/or manufacturing its specialized truck bodies and buses on such chassis. Historically, General Motors Corp. (GM) and Ford Motor Company (Ford) have been the primary suppliers of chassis. In the event of a disruption in supply from one major supplier, the Company would attempt to use another major supplier, but there can be no assurance that this attempt would be successful. Nevertheless, in the event of chassis supply disruptions, there could be unforeseen consequences that may have a significant adverse effect on the Company s business operations.

The Company also faces risk relative to finance and storage charges for maintaining excess consigned chassis inventory from GM and Ford. Under these consigned inventory agreements, if a chassis is not delivered to a customer within a specified time frame, the Company is required to pay finance or storage charges on such chassis.

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We compete in the highly competitive specialized vehicle industry which may impact our financial results.

The competitive nature of the specialized vehicle industry creates a number of challenges for the Company. Important factors include product pricing, quality of product, lead times, geographic proximity to customers, and the ability to manufacture a product customized to customer specifications. Specialized vehicles are produced by a number of smaller, regional companies which create product pricing pressures that could adversely impact the Company s profits. Chassis manufacturers have not generally shown an interest in manufacturing specialized vehicles, including truck bodies and buses, because such manufacturers highly-automated assembly line operations do not lend themselves to the efficient production of a wide variety of highly-specialized vehicles with various options and equipment.

We have potential exposure to environmental and health and safety liabilities which may increase costs and lower profitability.

Our operations are subject to a variety of federal, state, and local environmental and health and safety statutes and regulations, including those relating to emissions to the air, discharges to water, treatment, storage, and disposal of waste, and remediation of contaminated sites. In certain cases, these requirements may limit the productive capacity of our operations.

Certain laws, including the Federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, have imposed strict and, under certain circumstances, joint and several liability for costs to remediate contaminated sites upon designated responsible parties including site owners or operators and persons who dispose of wastes at, or transport wastes to, such sites.

From time to time, we have received notices of noncompliance with respect to our operations. These notices have typically been resolved by investigating the alleged noncompliance and correcting any non-compliant conditions. New environmental requirements, more aggressive enforcement of existing ones, or discovery of presently unknown conditions could require material expenditures or result in liabilities which could limit expansion or otherwise have a material adverse effect on our business, financial condition, and operating cash flows.

A product defect claim in excess of our insurance coverage, or for which we have no insurance, or an inability to acquire or maintain insurance at commercially reasonable rates, could have a materially adverse effect upon our business.

We face an inherent risk of exposure to product liability, product recall, and other product defect related claims, if the use of our current or formerly manufactured products result, or are alleged to result, in personal injury and/or property damage, or if a significant number of our products must be recalled, or if a product defect results in the Company having to refund the purchase price of a substantial number of vehicles. If we manufacture a defective product, we may experience material losses and we may incur significant costs to defend product defect claims. We could also incur damages and significant costs in correcting any defects, lost sales, and suffer damage to our reputation. We may not have insurance coverage for certain types of claims or our insurance coverage may not be adequate for liabilities we could incur and may not continue to be available on terms acceptable to us.

Our manufacturer s warranties expose us to potentially significant claims.

We are subject to product warranty claims in the ordinary course of our business. If we manufacture poor quality products or receive defective materials, we may incur unforeseen costs in excess of what we have reserved in our financial statements. These costs could have a material adverse effect on our business and operating cash flows.

We depend on the services of our key executives. Any loss of our key executives could have a material adverse effect on our operations.

Our ability to compete successfully and implement our business strategy depends on the efforts of our senior management personnel. The loss of the services of any one or more of these individuals could have a material adverse effect on our business. We do not maintain key-man life insurance policies on any of our executives. If we were unable to attract qualified personnel to our management, our existing management resources could become strained, which may harm our business and our ability to implement our strategies.

Our relatively low trading volumes may limit our stockholders abilities to buy or sell their shares.

Our Class A Common Stock has experienced, and may continue to experience, price volatility and low trading volumes. Overall market conditions, and other risk factors described herein, may cause the market price of our Class A Common Stock to fall. Our high and low sales prices for the twelve month period ended December 28, 2013 were $7.12 and $3.10, respectively. Our Class A

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Common Stock is listed on the NYSE MKT exchange under the symbol STS. However, daily trading volumes for our Class A Common Stock are, and may continue to be, relatively small compared to many other publicly-traded securities. For example, during the twelve month period ended December 28, 2013, our daily trading volume has been as low as 900 shares. It may be difficult for you to buy or sell shares in the public market at any given time at prevailing prices, and the price of our Class A Common Stock may, therefore, be volatile.

Our officers and directors own a large percentage of our common stock. They may vote their shares in ways with which you disagree.

As of February 25, 2014, our officers and directors as a group beneficially owned 23.7% of our Class A Common Stock and 90.7% of our Class B Common Stock. As a result, they will continue to be able to exercise significant influence, and in most cases, control, over matters requiring stockholder approval, including the election of directors, changes to our charter documents, and significant corporate transactions. This concentration of ownership makes it unlikely that any other holder or group of holders of our Class A Common Stock will be able to affect the way we are managed or the direction of our business.

Our split classes of stock may make it more difficult or expensive for a third party to acquire the Company which may adversely affect our stock price.

Our outstanding Common Stock is split into two classes. The Class A Common Stock is listed on the NYSE MKT exchange, and the holders thereof are entitled to elect two members of the Company s Board of Directors. The majority (90.7%) of the Class B Common Stock is owned or controlled by the Company s officers and directors and is entitled to elect the remaining six members of the Company s Board of Directors. The continuing ability of the holders of our Class B Common Stock to elect a majority of the members of the Company s Board of Directors will make it difficult for another company to acquire us and for Class A stockholders to receive any related take-over premium (unless the controlling group approves the sale).

The shuttle bus industry is highly competitive.

The shuttle bus industry is highly competitive; we routinely face competition from multiple companies for state and municipal bid contracts, as well as retail sales. The recent competitive environment in the bus industry has resulted in increased discounting, which effectively lowers unit sales prices. Sustained or increasing competitive pressures could have a material adverse effect on our results of operations. There can be no assurance that we will be able to reduce the cost of our products to remain competitive or that existing or new competitors will not develop products that are superior to ours or that achieve better consumer acceptance, thereby adversely affecting our market share, sales volume, and profit margins.

Our internal controls provide only reasonable assurance that objectives are met. Failure of one or more of these controls could adversely affect the Company.

While the Company believes that its control systems are effective, there are inherent limitations in all control systems, and misstatements due to error or fraud may occur and not be detected. The Company continues to take action to comply with the internal controls, disclosure controls,

and other requirements of the Sarbanes-Oxley Act of 2002. Management, including our Chief Executive Officer and Chief Financial Officer, cannot guarantee that our internal controls and disclosure controls will prevent all possible errors or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are 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 have been 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 a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Ability to sell idle facilities.

We currently own facilities which have been idle for a period of time and are currently being marketed for sale (see Item 2. *Properties*). Although management has exercised its best judgment to reflect accurate current market values of these properties in the Company s financial statements, there cannot be, due to current adverse market conditions, any assurance that these properties can be sold for these values anytime in the near future.

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(See other risk factors listed in Item 7 under the caption: Forward-Looking Statements).

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Set forth below is a brief summary of the properties which are owned or leased by the Company.

	Square Footage	**Owned or Leased**	**Operating Segment**
Manufacturing of Products			
Goshen, Indiana	521,816	Owned	Specialized Vehicles
Jonestown, Pennsylvania	424,416	Owned	Specialized Vehicles
Griffin, Georgia	191,779	Owned	Specialized Vehicles
Cleburne, Texas	177,035	Owned	Specialized Vehicles
Moreno Valley, California	103,200	Owned	Specialized Vehicles
Moreno Valley, California	13,758	Leased	Specialized Vehicles
	1,432,004		
Manufacturing of Component Parts			
Ligonier, Indiana	52,142	Owned	Fiberglass Products
	52,142		
Distribution			
Harrisville, Rhode Island	20,000	Owned	Specialized Vehicles
Colorado Springs, Colorado	950	Leased	Specialized Vehicles
	20,950		
Properties Held for Sale			
Wilson, North Carolina	113,694	Owned	Not Applicable
White Pigeon, Michigan	74,802	Owned	Not Applicable
St. Louis, Missouri	4,800	Owned	Not Applicable
Goshen, Indiana (land)		Owned	Not Applicable
	193,296		
Corporate Office Building			
Goshen, Indiana	26,000	Owned	Not Applicable
Total square footage	1,724,392		

In an effort to manage its capacity utilization and control its assets, the Company had previously ceased operations at a number of facilities during and prior to 2011. The North Carolina and Michigan properties were classified as property, plant, and equipment as of December 28, 2013. The North Carolina property is being aggressively marketed for sale and the Michigan property is being leased to an unrelated business. The Missouri and Indiana properties were classified as assets held for sale as of December 28, 2013 and are being aggressively marketed for sale. The facilities owned or leased by the Company are well maintained, in good condition, and adequate for their intended purposes.

ITEM 3. LEGAL PROCEEDINGS.

The Company is subject to various investigations, claims, and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may be resolved unfavorably to the Company. The Company establishes accruals for matters that are probable and reasonably estimable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company s Class A Common Stock is traded on the NYSE MKT exchange (ticker symbol STS). The number of record holders of the Class A Common Stock as of February 25, 2014 was approximately 233. Due to the number of shares held in nominee or street name, it is likely that there are substantially more than 233 beneficial owners of the Company s Class A Common Stock.

The Company s Class A Common Stock closed at a price of $6.64 per share on the NYSE MKT exchange on February 25, 2014 on which date there were 14,537,255 shares of Class A Common Stock outstanding. High and low sales prices of the Class A Common Stock for the two-year periods ended December 28, 2013 and December 29, 2012 were:

	2013		2012	
	High	**Low**	**High**	**Low**
1st Quarter	$ 4.86	$ 3.10	$ 3.25	$ 2.42
2nd Quarter	5.26	4.25	4.57	3.01
3rd Quarter	6.59	4.76	4.66	3.65
4th Quarter	7.12	5.47	4.00	3.22

All of the 1,771,949 outstanding shares of the Company s Class B Common Stock were held by a total of 13 persons as of February 25, 2014. There is no established trading market for the Class B Common Stock. The Class B Common Stock is freely convertible on a one-for-one basis into an equal number of shares of Class A Common Stock, and ownership of the Class B Common Stock is deemed to be beneficial ownership of the Class A Common Stock under Rule 13d-3(d) (1) promulgated under the Securities Exchange Act of 1934.

Pursuant to the terms of the Class B Common Stock, on August 9, 2013, Elizabeth R. Gardner converted 30,834 shares of Class B Common Stock into 30,834 shares of Class A Common Stock. The shares of Class A Common Stock were issued pursuant to Rule 3(a)(9) of the Securities Act of 1933, as amended.

On May 8, 2013, the Company s Board of Directors declared a five percent (5%) stock dividend on its outstanding Class A and Class B Common Stock. Stockholders of record on May 20, 2013 received a stock dividend for each share owned on that date, paid on June 3, 2013. The Company did not declare or pay any cash dividends during the years ended December 28, 2013 or December 29, 2012 and did not pay any stock dividends during the year ended December 29, 2012. Future dividend payments will necessarily be subject to business conditions, the Company s financial position, and requirements for working capital, property, plant and equipment expenditures, and other corporate purposes.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data has been derived from our consolidated financial statements. The data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and notes thereto.

All per share data has been adjusted to reflect the five percent (5%) common stock dividend declared and paid during 2013.

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	For Fiscal Years Ended				
	2013	2012	2011	2010	2009
Consolidated Statement of Continuing Operations Data: (in millions, except per share amounts)					
Net sales	$ 282.3	$ 286.1	$ 300.4	$ 221.2	$ 183.9
Income (loss) from continuing operations	6.4	11.8	1.7	(8.8)	(6.0)
Income (loss) from continuing operations per share:					
Basic earnings (loss) per share	0.40	0.74	0.11	(0.59)	(0.41)
Diluted earnings (loss) per share	0.39	0.73	0.11	(0.59)	(0.41)
Consolidated Balance Sheet Data:					
(in millions)					
Working capital (a)	$ 37.6	$ 38.6	$ 35.4	$ 19.1	$ 22.4
Total assets	113.5	105.1	104.7	101.1	109.2
Total debt	9.7	14.1	15.9	26.6	27.3
Stockholders equity	74.1	67.2	54.9	51.5	62.3

(a) During the third quarter of 2009, the Company reclassified its revolving line of credit from long-term to current ($25.6 million at December 26, 2009). During the third quarter of 2011, the Company reclassified its revolving line of credit from current to long-term ($11.7 million at December 31, 2011).

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Company Overview

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

Supreme s dealer/distributor network consists of more than 1,000 commercial dealers, a limited number of truck equipment distributors, and approximately 25 bus distributors. The Company s manufacturing and service facilities are located in seven states across the continental United States allowing us to meet the needs of customers across all of North America. Additionally, the Company s favorable customer relations, strong brand 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 risk factors which include, but are not limited to, economic conditions, interest rate fluctuations, volatility in the supply chain of chassis, and the availability of credit and financing to the Company, our vendors, dealers, or end users. The Company s business is also affected by the availability and costs of certain raw materials that serve as significant components of its product offerings. The Company s risk factors are disclosed in Item 1A Risk Factors of this document.

Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and related notes thereto (see Note 1 Nature of Operations and Accounting Policies) located in Item 8 of this document, and pertain to continuing operations unless otherwise noted. All earnings per share and share figures have been adjusted for the 5% stock dividend distributed in the second quarter of 2013.

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Overview

Consolidated net sales for the twelve-month period ended December 28, 2013 decreased 1.4%, to $282.3 million, from $286.1 million last year, due to lower bus and specialty vehicle sales offset by increased truck body volume. For the twelve months ended December 28, 2013, gross profit increased to $46.8 million, from last year s $43.5 million. Gross margin, as a percentage of sales, increased to 16.6%, compared with 15.2% in 2012, despite margin pressure in the bus product line. The margin growth reflects improved product mix, pricing disciplines and margin-expansion initiatives including process improvements, manufacturing efficiencies and strategic purchasing.

Selling, general and administrative expenses increased year over year as a percent of sales to 12.1% from 11.1%, mainly due to higher commissions on more profitable sales and other employee costs, such as healthcare, wage increases and selective headcount additions.

Income tax expense of $2.9 million was recorded in the year ended December 28, 2013 due to the Company s return to normalized tax rates. In 2012, the Company recorded an income tax benefit of $0.3 million that included the reversal of a deferred tax valuation allowance due to the Company s improved profitability.

Reported net income for the twelve months ended December 28, 2013 was $6.4 million, or $0.39 per diluted share, compared with $11.8 million, or $0.73 per diluted share in 2012.

On December 31, 2013, the Company announced its intention to divest its shuttle bus business. The progressively competitive environment in the bus industry has led to intensified price cutting, making it more difficult to sustain profitability. Shuttle bus products represented less than 13% of the Company s consolidated 2013 sales, but have had a material adverse effect on reported financial results. Although the Company made this announcement on December 31, 2013, the technical requirements for discontinued operations accounting were not met with the result that the Company did not present the shuttle bus business as discontinued operations for all years presented.

In the second quarter of 2013, the bus division settled its King County, Washington, lawsuit which resulted in a year-to-date pre-tax charge of $3.6 million including related legal costs. The legal settlement and related costs for the year totaled $4.7 million, partially offset by $1.1 million of estimated value assigned to the returned product. See Basic and diluted income per share for a more detailed explanation regarding the reconciliation of net income and net income per share to adjusted net income and adjusted net income per share.

On a pro forma basis, adjusting for the impact of the shuttle bus business (including costs associated with the King County lawsuit) and normalizing the 2012 income tax expense, diluted earnings per share for 2013 improved to $0.68 per share compared to $0.53 for 2012.

The decision to divest the shuttle bus business is expected to help us improve stockholder value by reallocating resources where they are expected to earn a higher return. Supreme s core business of manufacturing and selling customized truck bodies has recently undergone successful facilities and manufacturing process upgrades, resulting in better operating efficiencies and expanding margins for these products.

Because of improved truck demand, sales backlog at the end of 2013 increased 24.7% to $84.7 million, compared with $67.9 million at the end of 2012.

Working capital was $37.6 million at December 28, 2013, compared to $38.6 million at the end of 2012. During 2013, Supreme invested $6.2 million in facilities and equipment to enhance manufacturing efficiencies. Total debt declined more than 30% to $9.7 million at year end, compared with $14.1 million last year. Stockholders equity increased 10.3% to $74.1 million at December 28, 2013, compared with $67.2 million at December 29, 2012. Book value per-share grew to $4.59 at year end versus $4.20 at the end of 2012. Net cash provided by operating activities in 2013 was $13.5 million, compared with $12.4 million in 2012.

The pending divestiture of the shuttle bus business represents a continued transition towards an organizational focus on profitable growth. As we enter 2014, we are encouraged by the opportunities we see in the work truck and specialty vehicle product lines, where customers value high-quality products and dependable delivery performance. Supreme will celebrate its 40th anniversary during 2014, which is a direct result of our dedicated employees and loyal customers.

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Comparison of 2013 with 2012

Net sales

Net sales for the year ended December 28, 2013 decreased $3.8 million, or 1.4%, to $282.3 million as compared with $286.1 million for the year ended December 29, 2012. The following table presents the components of net sales and the changes from 2012 to 2013:

($000 s omitted)	**2013**	**2012**	**Change**	
Specialized vehicles:				
Trucks	$ 225,778	$ 211,972	$ 13,806	6.5%
Buses	42,395	55,025	(12,630)	(23.0)
Specialty vehicles	11,930	16,180	(4,250)	(26.3)
	280,103	283,177	(3,074)	(1.1)
Fiberglass products	2,170	2,963	(793)	(26.8)
	$ 282,273	$ 286,140	$ (3,867)	(1.4)%

Truck division sales increased by $13.8 million, or 6.5%, for the 2013 year primarily due to improved retail demand and additional fleet orders in certain product categories. As we move into 2014, we are encouraged by the increased truck backlog and by our improved flexibility in our manufacturing processes resulting in efficiency improvements, higher-quality products, and improved on-time delivery.

Bus division sales decreased $12.6 million, or 23.0%, as the bus market continued to feel the effects of tightened municipal and state budgets that caused intense competition leading to increased discounting and reduced margins.

Specialty vehicle division sales for 2013 decreased $4.3 million, or 26.3%, compared with 2012. The decrease was the result of minimal sales of specialty vehicles and continued weakness in U.S. Department of State business. To improve our overall consolidated performance, we are reworking our product flow of complex, high option content products, utilizing production processes designed for lower volume customer trucks. A portion of these units will be produced at the specialty vehicle division as the process is designed for lower volume customized products. Using existing products and capabilities as a foundation, we continue to look for opportunities to expand product offerings and our customer base for these specialty products.

The Fiberglass division sells fiberglass reinforced plywood to Supreme for use in the production of certain of its truck bodies and to third parties. The decrease of $0.8 million, or 26.8%, was due to lower sales to third parties in 2013.

Cost of sales and gross profit

Gross profit increased by $3.3 million, or 7.5%, to $46.8 million for the year ended December 28, 2013 as compared with $43.5 million for the year ended December 29, 2012. The following presents the components of cost of sales and the changes from 2012 to 2013:

Material Material cost as a percentage of net sales decreased by 1.8% for the year ended December 28, 2013 as compared with 2012. The decrease in the material percentage was due in part to favorable product mix, strategic purchasing of certain materials, and our focus on pricing disciplines in our sales efforts. The Company closely monitors major commodities to identify raw material cost escalations and attempts to pass through cost increases as markets will allow by having material adjustment clauses in most key customer contracts.

Direct Labor Direct labor as a percentage of net sales decreased by 0.7% for the year ended December 28, 2013 as compared with 2012 due to improved efficiencies achieved at certain locations resulting from the use of real time metrics on labor utilization and manufacturing redesign initiatives for more efficient production flow.

Overhead Manufacturing overhead as a percentage of net sales increased by 1.2% for the year ended December 28, 2013 as compared with 2012 due partially to the fixed nature of certain overhead expenses that do not fluctuate with sales volume changes. Additionally, for the year ended December 28, 2013, the dollars spent on overhead increased approximately $3.0 million when compared with 2012 with increases in costs associated with improvements to the physical inventory process and accuracy of our inventory accounting systems and increased group health costs.

Delivery Delivery as a percentage of net sales decreased by 0.1% for the year ended December 28, 2013 as compared with 2012.

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Selling, general and administrative expenses

Selling, general and administrative (G&A) expenses increased by $2.6 million, or 8%, to $34.2 million for the year ended December 28, 2013 as compared with $31.6 million for the year ended December 29, 2012. The following table presents selling and G&A expenses as a percentage of net sales and the changes from 2012 to 2013:

($000 s omitted)		**2013**			**2012**			**Change**	
Selling expenses	$	11,957	4.2%	$	10,499	3.6%	$	1,458	0.6%
G&A expenses		22,210	7.9		21,103	7.4		1,107	0.5
Total	$	34,167	12.1%	$	31,602	11.0%	$	2,565	1.1%

Selling expenses Selling expenses for 2013 increased $1.5 million as compared with 2012. As a percentage of net sales, selling expenses increased 0.6% for the year ended December 28, 2013 as compared with 2012. The increase was the result of an increase in sales commissions on more profitable sales and lower marketing program incentives received in 2013 from chassis suppliers.

G&A expenses G&A expenses for 2013 increased $1.1 million as compared with 2012. As a percentage of net sales, G&A expenses increased 0.5% for the year ended December 28, 2013 as compared with 2012. The increase was the result of higher costs associated with the implementation of a new inventory management system and strategic headcount additions.

Legal settlement and related costs

In October of 2011, the Company was named a defendant in a personal injury suit (Paul Gendrolis and Katherine Gendrolis v. Saxon Fleet Sales, Kolstad Company, and Supreme Industries, Inc.) which was filed in the United States District Court, District of Massachusetts. The complaint sought $10 million in damages based on allegations that a truck body manufactured by the Company contained an improperly installed plate or lip, which caused Mr. Gendrolis to trip and become injured. Claims alleged against the Company included negligence, breach of warranty, breach of consumer protection laws, and loss of consortium. In September 2013, the parties mediated and reached a settlement to this litigation. The Company s contribution to the settlement was the remainder of its self-insurance deductible in the amount of $0.1 million. The remainder of the settlement above was paid by insurance.

In February of 2012, the Company was named a defendant in a claim that a fleet of buses manufactured by the Company was defective (King County v. Supreme Corporation) which was filed in Superior Court in King County, Washington. King County sought to revoke its acceptance of a fleet of 35 buses, which had been manufactured by the Company and sold to King County, and alleged breach of contract and breach of implied warranties. As of February 28, 2013, King County claimed its damages were $10.6 million and subsequently moved to add a consumer protection act claim which would have permitted an award of attorney s fees, if successful. On June 14, 2013, the Company and King County entered into a Settlement and Release Agreement under the terms of which the lawsuit would be dismissed and mutual releases granted in exchange for payment of the sum of $4.7 million to King County within 90 days of the date of the agreement and the return of 35 buses to the Company. Through separate agreements, the Company settled third-party claims against certain third-party subcontractors who have contributed to the Company $520,000 of the settlement funds, with the Company responsible for the balance which was paid on September 9, 2013. The Company assigned an estimated $1.1 million to the returned product. Including the legal settlement and related costs, the Company recorded a pre-tax charge of $3.6 million in 2013.

Other income

For the year ended December 28, 2013, other income was $0.9 million, or 0.3% of net sales, as compared with other income of $1.2 million, or 0.4% of net sales, for the year ended December 29, 2012. Other income consisted of rental income, gain on the sale of assets, and other miscellaneous income received by the Company. During the first quarters of 2013 and 2012, the Company realized a gain of $0.4 million and $0.3 million, respectively, on the sale of real estate.

Interest expense

Interest expense was $0.6 million, or 0.2% of net sales, for the year ended December 28, 2013, compared with $1.0 million, or 0.3% of net sales, for the year ended December 29, 2012. The decline in interest expense resulted from a combination of lower average bank borrowings and the termination of a capital lease obligation through the exercise of a purchase option eliminating the interest expense associated with the lease payments. The effective interest rate on bank borrowings was 2.47% at 2013 year end, and the Company was in compliance with all provisions of its Credit Agreement.

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Income taxes

For the year ended December 28, 2013, the Company recorded income tax expense of $2.9 million at an effective tax rate of 30.8% which differed from the federal statutory rate primarily because of state income tax and federal permanent income tax differences. For the year ended December 29, 2012, the Company recorded an income tax benefit of $0.3 million for an effective tax rate of -2.7% resulting primarily from the reversal of a deferred tax valuation allowance due to the Company s improved profitability. During 2012, the Company generated taxable income sufficient to realize the benefit of all its federal net operating loss carryforwards and a portion of its state net operating loss carryforwards.

Net income

Net income for year ended December 28, 2013 was $6.4 million, or $0.39 per diluted share, compared with net income of $11.8 million, or $0.73 per diluted share for the comparable period last year. On a pro forma basis, adjusting for the impact of the shuttle bus business (including costs associated with the King County lawsuit) and normalizing the 2012 income tax expense, the earnings for 2013 result in $0.68 per diluted share compared with $0.53 per diluted share for 2012.

Basic and diluted income per share

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

		December 28, 2013		December 29, 2012
Net Income, as reported	$	6,425,876	$	11,832,985
Normalized taxes (2012 adjusted to 2013 effective tax rate, net of tax benefit reported in 2012)				3,859,211
Tax adjusted net income before shuttle bus operations		6,425,876		7,973,774
Shuttle bus operations (including legal costs):				
Reported legal settlement and related costs		3,600,161		616,744
Shuttle bus loss from operations, net of legal above		4,236,270		334,587
Total shuttle bus operations		7,836,431		951,331
Tax effect (shuttle bus rates-39.1% for 2013, 39.4% for 2012 periods)		3,064,045		374,824
Total adjustment, net of tax		4,772,386		576,507
Adjusted net income	$	11,198,262	$	8,550,281

Per Share Data:

Net Income (as reported, not calculated on this schedule)				
Basic	$	0.40	$	0.74
Diluted		0.39		0.73
Adjusted income tax expense				
Basic				(0.24)
Diluted				(0.24)
Shuttle bus operations				
Basic		0.30		0.04
Diluted		0.29		0.04
Adjusted net income				
Basic	$	0.70	$	0.54
Diluted		0.68		0.53
Shares used for per share calculations:				
(Adjusted for 5% stock dividend paid on June 3, 2013)				
Basic		16,113,136		15,954,564
Diluted		16,487,804		16,212,508

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Comparison of 2012 with 2011

Net Sales

Net sales for the year ended December 29, 2012 decreased $14.2 million, or 4.7%, to $286.1 million as compared with $300.4 million for the year ended December 31, 2011. The following table presents the components of net sales and the changes from 2011 to 2012:

($000 s omitted)		2012		2011		Change	
Specialized vehicles:							
Trucks	$	211,972	$	218,928	$	(6,956)	(3.2)%
Buses		55,025		60,640		(5,615)	(9.3)
Specialty vehicles		16,180		18,506		(2,326)	(12.6)
		283,177		298,074		(14,897)	(5.0)
Fiberglass products		2,963		2,287		676	29.6
	$	286,140	$	300,361	$	(14,221)	(4.7)%

Truck division sales decreased by $7.0 million, or 3.2%, for the year due primarily to fewer orders from certain large national fleet customers and our decision to decline sales that do not meet our target margins.

Bus division sales decreased $5.6 million, or 9.3%, as the core market continued to feel the effects of tightened municipal and state budgets that caused intense competition which led to increased discounting and reduced margins.

Armored division sales decreased $2.3 million, or 12.6%, as a result of lower government procurements which included our business with the U.S. Department of State to produce armored SUVs for embassies abroad.

The Fiberglass division sells fiberglass reinforced plywood to Supreme for use in the production of certain of its truck bodies and to third parties. The 2012 increase of $0.7 million, or 29.6%, was due to higher sales to third parties in 2012.

Cost of sales and gross profit

Gross profit increased by $11.0 million, or 34%, to $43.5 million for the year ended December 29, 2012 as compared with $32.5 million for the year ended December 31, 2011. The following presents the components of cost of sales and the changes from 2011 to 2012:

Material Material cost as a percentage of net sales decreased by 3.9% for the year ended December 29, 2012 as compared with 2011. The decrease in the material percentage was due in part to a favorable product mix and our focus on improved product pricing.

Direct Labor Direct labor as a percentage of net sales decreased by 0.8% for the year ended December 29, 2012 as compared with 2011 due to improved efficiencies achieved at certain locations resulting from the use of real time metrics on labor utilization and manufacturing redesign initiatives for more efficient production flow.

Overhead Manufacturing overhead as a percentage of net sales increased by 0.5% for the year ended December 29, 2012 as compared with 2011 due to the fixed nature of certain overhead expenses that do not fluctuate with sales volume changes. For the year ended December 29, 2012, the dollars spent on overhead decreased approximately $0.5 million when compared with 2011 due to reductions in warranty, workers compensation claims, and group health claims.

Delivery Delivery as a percentage of net sales decreased by 0.2% for the year ended December 29, 2012 as compared with 2011.

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Selling, general and administrative expenses

Selling, general and administrative (G&A) expenses increased by $3.9 million, or 14%, to $31.6 million for the year ended December 29, 2012 as compared with $27.7 million for the year ended December 31, 2011. The following table presents selling and G&A expenses as a percentage of net sales and the changes from 2011 to 2012:

($000 s omitted)		2012			2011			Change	
Selling expenses	$	10,499	3.6%	$	9,484	3.2%	$	1,015	0.4%
G&A expenses		21,103	7.4		18,170	6.0		2,933	1.4
Total	$	31,602	11.0%	$	27,654	9.2%	$	3,948	1.8%

Selling expenses Selling expenses increased $1.0 million from 2011 to 2012. As a percentage of net sales, selling expenses increased 0.4% for the year ended December 29, 2012 as compared with 2011 which was primarily attributable to a change in the sales commission structure which was more closely aligned with profit contribution versus gross sales volume.

G&A expenses G&A expenses increased $2.9 million from 2011 to 2012. As a percentage of net sales, G&A expenses increased 1.4% for the year ended December 29, 2012 as compared with 2011. The increase was the result of several factors including strategic additions to the senior management team, profit-based incentive compensation plans, and severance expenses related to exiting management personnel in early 2012 as well as expenses associated with the implementation of a perpetual inventory management system.

Legal settlement and related costs

On January 21, 2009, The Armored Group (TAG) filed a complaint against the Company alleging breach of oral contract, unjust enrichment, and other claims. Due to the inherent nature of litigation, and the uncertainty surrounding the ultimate outcome of this case, on May 25, 2011, the Company and TAG signed a Civil Settlement Agreement under the terms of which this lawsuit was dismissed, and the Company agreed to pay $3.3 million including $1.1 million in cash and $2.2 million in stock. The legal settlement and related costs amounted to $2.2 million for the year ended December 31, 2011. There were no associated costs for the year ended December 29, 2012. Legal costs of $0.6 million for the year ended December 29, 2012 were related to the King County claim previously discussed.

Other income

For the year ended December 29, 2012, other income was $1.2 million, or 0.4% of net sales, as compared with other income of $0.9 million, or 0.3% of net sales, for the year ended December 31, 2011. Other income consisted of rental income, gain on the sale of assets, and other miscellaneous income received by the Company. During the first quarter of 2012, the Company realized a gain of approximately $0.3 million on the sale of real estate.

Interest expense

Interest expense was $1.0 million, or 0.3% of net sales, for the year ended December 29, 2012 as compared with $2.2 million, or 0.7% of net sales, for the year ended December 31, 2011. The decline in interest expense resulted from a combination of lower average bank borrowings and lower (performance-based) borrowing rates during the periods. Additionally, interest expense in 2011 included approximately $0.8 million of charges resulting from the write off of capitalized bank fees related to the Company s previous bank credit agreement. The effective interest rate on bank borrowings was 2.7% at December 29, 2012.

Income taxes

At December 31, 2011, the Company maintained a valuation allowance against its net deferred tax assets of $4.6 million due to uncertainty of the utilization of such assets. At December 31, 2011, the Company had net operating loss carryforwards totaling $6.5 million for federal tax purposes and approximately $22 million for state tax purposes. Additionally, the Company had research and experiment credits totaling $0.3 million for federal tax purposes and $0.5 million for state tax purposes. During 2012, the Company generated taxable income sufficient to realize the benefit of all its federal net operating loss carryforwards and a portion of its state net operating loss carryforwards. Given the income generated in 2012, the valuation allowances were reversed which resulted in a nominal effective tax rate. The Company s effective tax rate for the year ending December 29, 2012 was -2.7%, substantially lower than statutory rates. For the year ended December 31, 2011, the income tax benefit of $0.4 million resulted primarily from expiring state statutes related to uncertain tax positions.

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Income (loss) from continuing operations

Net income from continuing operations increased by $10.1 million to $11.8 million, or 4.1% of net sales, for the year ended December 29, 2012 from $1.7 million, or 0.6% of net sales, for the year ended December 31, 2011.

Discontinued operations

In December of 2010, the Company decided to discontinue its Oregon operations. Discontinued operations include the operating results as well as impairment charges for related buildings and equipment. Accordingly, the Company has reclassified the prior period results as discontinued operations. The Oregon operations were ceased in the first quarter of 2011 due to the Company s decision to exit this unprofitable geographic region. The after-tax loss from the discontinued operations related to our Oregon operations was $0.9 million in 2011.

Basic and diluted income (loss) per share

The following table presents basic and diluted income (loss) per share and the changes from 2011 to 2012:

	2012	2011	Change
Basic income (loss) per share:			
Income from continuing operations	$ 0.74	$ 0.11	$ 0.63
Loss from discontinued operations		(0.06)	0.06
Net income per basic share	$ 0.74	$ 0.05	$ 0.69
Diluted income (loss) per share:			
Income from continuing operations	$ 0.73	$ 0.11	$ 0.62
Loss from discontinued operations		(0.06)	0.06
Net income per diluted share	$ 0.73	$ 0.05	$ 0.68

Liquidity and Capital Resources

Cash Flows

The Company s primary sources of liquidity have been cash flows from operating activities and borrowings under its credit agreements. Principal uses of cash have been to support working capital needs, meet debt service requirements, and fund capital expenditures.

Operating activities

Cash flows from operations represent the net income earned in the reported periods adjusted for non-cash charges and changes in operating assets and liabilities. Net cash from operating activities totaled $13.5 million for the year ended December 28, 2013 as compared with $12.4 million for the year ended December 29, 2012. Changes in operating assets and liabilities were favorably impacted by a $4.0 million increase in trade accounts payable. This was partially offset by a $2.9 million increase in accounts receivable caused by increased sales in December of 2013 as compared to December of 2012. Additionally, net cash from operating activities was adversely impacted by a net cash payment of $4.2 million for a legal settlement.

Net cash from operating activities totaled $12.4 million for the year ended December 29, 2012 as compared with $14.5 million for the year ended December 31, 2011. Net cash from operating activities was favorably impacted by a $5.8 million decrease in inventories and a $3.2 million decrease in accounts receivable, primarily due to decreased business activity at the end of December of 2012 as compared to the same period in the prior year. This was offset by a $9.5 million decrease in trade accounts payable resulting from a decrease in inventories.

Investing activities

Cash used by investing activities was $5.0 million for the year ended December 28, 2013 as compared with $10.9 million for the year ended December 29, 2012. During 2013, the Company s capital expenditures totaled $6.2 million and included facilities and equipment to enhance manufacturing efficiencies. Investing activities provided cash of $1.3 million in 2013 as a result of net proceeds from the sale of a facility in Goshen, Indiana which was previously included in assets held for sale.

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Cash used by investing activities was $10.9 million for the year ended December 29, 2012 as compared with $1.9 million for the year ended December 31, 2011. During 2012, the Company s capital expenditures totaled $13.2 million including $5.4 million used to exercise purchase options for leased facilities in Indiana and Georgia and $0.7 million used to exercise the purchase option for a leased facility in California which was previously accounted for as a financing (capital lease) transaction. Investing activities provided cash of $4.2 million in 2012 as a result of net proceeds from the sale of facilities in Woodburn, Oregon; Apopka, Florida; Streetsboro, Ohio; and Ligonier, Indiana which were previously included in assets held for sale. Additionally, the Company s wholly-owned captive insurance subsidiary purchased short-term investments of $2.0 million during 2012.

Financing activities

Financing activities used $4.7 million of cash for the year ended December 28, 2013 as compared with cash used of $1.6 million for the year ended December 29, 2012. Net long-term debt payments consisted of net borrowings from the Company s revolving line of credit of $4.4 million.

Financing activities used $1.6 million of cash for the year ended December 29, 2012 as compared with cash used of $13.5 million for the year ended December 31, 2011. Net long-term debt payments consisted of net borrowings from the Company s revolving line of credit of $2.4 million which were offset by the $3.0 million net payoff of a capital lease obligation under a sale and leaseback transaction and the $0.7 million early payoff of obligations under industrial revenue bonds.

Capital Resources

On September 14, 2011, the Company entered into a Credit Agreement (the 2011 Credit Agreement) with Wells Fargo (the Lender). The 2011 Credit Agreement provided a revolving line of credit of up to $45.0 million, subject to a monthly borrowing base calculation. The term of this revolving line of credit was for a period ending on September 14, 2015. Interest on outstanding borrowings under the 2011 Credit Agreement was based on the Lender s prime rate, or LIBOR, depending on the pricing option selected and the Company s leverage ratio which resulted in an effective rate of 3.04% at December 31, 2011.

On December 19, 2012, the Company entered into an Amended and Restated Credit Agreement (the 2012 Credit Agreement) with the Lender. A portion of the amounts received under the 2012 Credit Agreement was used to repay in full all of the obligations of the Company and certain of the guarantors owing to the Lender under the 2011 Credit Agreement. Under the terms of the 2012 Credit Agreement, the Lender agreed to provide to the Company a credit facility of up to $45.0 million consisting of a revolving credit facility, a term loan facility, and a letter of credit facility. The 2012 Credit Agreement is for a period of five years ending on December 19, 2017. The Company had unused credit capacity of $31.3 million at December 28, 2013. Interest on outstanding borrowings under the 2012 Credit Agreement is based on the Lender s prime rate or LIBOR depending on the pricing option selected and the Company s leverage ratio (as defined in the 2012 Credit Agreement) resulting in an effective interest rate of 2.47% at December 28, 2013. Pursuant to the 2012 Credit Agreement, the financial covenants include a consolidated total leverage ratio, a consolidated fixed charge coverage ratio, and a limitation on annual capital expenditures. As of December 28, 2013 and December 29, 2012, the Company was in compliance with all three financial covenants.

A portion of the amounts received in conjunction with the 2012 Credit Agreement were used to terminate a lease by exercising an option on December 19, 2012 to purchase certain real estate and improvements located in the State of California. The outstanding principal amount of the obligation as of December 31, 2011 was $3.5 million at an interest rate of 5.5%.

A portion of the amounts received in conjunction with the 2012 Credit Agreement were used to terminate leases by exercising options on December 19, 2012 to purchase certain real estate and improvements located in the States of Indiana and Georgia which a subsidiary of the Company had previously leased under two separate lease agreements.

Revolving Credit Facility

The revolving credit facility provides for borrowings of up to $35.0 million. The Company s cash management system and revolving credit facility are designed to maintain zero cash balances and, accordingly, checks outstanding in excess of bank balances are classified as borrowings under the revolving credit facility. There were no checks outstanding in excess of bank balances and no additional borrowings against the revolving credit facility at December 28, 2013. The revolving credit facility also requires a quarterly commitment fee ranging from 0.20% to 0.50% per annum depending on the Company s financial ratios and based upon the average daily unused portion.

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Term Loan Facility

The term loan facility provides for borrowings of up to $10.0 million. Effective April 29, 2013, the Company and the Lender entered into a $10.0 million term loan. The term loan is secured by real estate and improvements and is payable in quarterly installments of $166,667 commencing on June 28, 2013, plus interest at the Lender s prime rate or LIBOR (as defined in the 2012 Credit Agreement), through maturity on December 19, 2017. As of December 28, 2013, the outstanding balance under the term loan facility was $9.7 million.

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

Letter of Credit Facility

Outstanding letters of credit, related to the Company s workers compensation insurance policies, reduce available borrowings under the 2012 Credit Agreement and aggregated $3.7 million at December 28, 2013.

Summary of Liquidity and Capital Resources

The Company s primary capital needs are for working capital demands, to meet its debt service obligations, and to finance capital expenditure requirements. Cash generated from operations, and borrowings available under our 2012 Credit Agreement, are expected to be sufficient to finance the known and/or foreseeable liquidity and capital needs of the Company for at least the next 12 months based on our current cash flow budgets and forecasts of our liquidity needs.

Contractual Obligations

The Company s fixed, noncancelable obligations as of December 28, 2013 were as follows:

		Payments due by period			
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Debt (a)	$ 9,666,666	$ 666,668	$ 1,500,003	$ 7,499,995	$
Interest payments on debt (b)	839,511	242,942	444,512	152,057	
Operating leases (c)	147,189	107,851	39,338		

Total	$	10,653,366	$	1,017,461	$	1,983,853	$	7,652,052	$

(a) Amounts are included on the Consolidated Balance Sheets. See Note 6 of the Notes to Consolidated Financial Statements for additional information regarding debt and related matters.

(b) Scheduled interest payments reflect expense related to debt obligations and are calculated based on interest rates in effect at December 28, 2013: fixed rate obligations under an interest rate swap 3.10%, and LIBOR based obligations 2.07%.

(c) See Note 10 of the Notes to Consolidated Financial Statements for additional information regarding property leases.

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, 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. In management s opinion,

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the Company s critical accounting policies include revenue recognition, allowance for doubtful accounts, excess and obsolete inventories, inventory relief, fair value of assets held for sale, accrued insurance, and accrued warranty.

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

Allowance for Doubtful Accounts - The Company maintains an allowance for doubtful accounts which is determined by management based on the Company s historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables against the allowance when all attempts to collect the receivable have failed.

Excess and Obsolete Inventories - The Company must make estimates regarding the future use of raw materials and finished products and provide for obsolete or slow-moving inventories. Periodically, management reviews inventories and adjusts the excess and obsolete reserves based on product life cycles, product demand, and/or market conditions.

Inventory Relief - For monthly and quarterly financial reporting, cost of sales is recorded and inventories are relieved by the use of standard bills of material adjusted for scrap and other estimated factors affecting inventory relief. Because of our large and diverse product line and the customized nature of each order, it is difficult to place full reliance on the bills of material for accurate relief of inventories. Although the Company continues to refine the process of creating accurate bills of materials, manual adjustments (which are based on estimates) are necessary in an effort to assure correct relief of inventories for products sold. The calculations to estimate costs not captured in the bill of materials take into account the customized nature of products, historical inventory relief percentages, scrap variances, and other factors which could impact inventory cost relief.

The accuracy of the inventory relief is not fully known until physical inventories are conducted at each of the Company s locations. We conduct semi-annual physical inventories at a majority of locations and schedule them in a manner that provides coverage in each of our calendar quarters. As of December 28, 2013, the Company reported inventories of $32.5 million, 89% of which was subject to a physical inventory during the fourth quarter. We have invested significant resources in our continuing effort to improve the physical inventory process and accuracy of our inventory accounting system.

Fair Value of Assets Held for Sale - The Company evaluates the carrying value of property held for sale whenever events or changes in circumstances indicate that a property s carrying amount may not be recoverable. Such circumstances could include, but are not limited to: (1) a significant decrease in the market value of an asset, or (2) a significant adverse change in the extent or manner in which an asset is used. The Company measures the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying value of the asset exceeds its fair value. The Company estimates the fair value of its properties held for sale based on appraisals and other current market data.

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

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

Forward-Looking Statements

This report contains forward-looking statements, other than historical facts, which reflect the view of management with respect to future events. When used in this report, words such as believe, expect, anticipate, estimate, intend, and similar expressions, as they relate to the Company plans or operations, identify forward-looking statements. Such forward-looking statements are based on assumptions made by, and information currently available to, management. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that the expectations reflected in such forward-looking statements are reasonable, and it can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from such expectations include, without limitation, an economic

slowdown in the specialized vehicle industry, restrictions on financing imposed by the Company s primary lender or major chassis suppliers, limitations on the availability of chassis on which the Company s product is dependent, availability of raw materials, raw material cost increases, severe interest rate increases, and the successful divestiture of the shuttle bus business. 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

In the normal course of business, the Company is exposed to fluctuations in interest rates that can impact the cost of investing, financing, and operating activities. The Company s primary risk exposure results from changes in short-term interest rates. In an effort to manage risk exposures, the Company strives to achieve an acceptable balance between fixed and floating rate debt positions. The Company s Credit Agreement is floating rate debt and bears interest at the bank s prime rate or LIBOR plus certain basis points depending on the pricing option selected and the Company s leverage ratio. On August 9, 2013, the Company entered into an interest rate swap agreement for a portion of its term loan with a notional amount of $5.0 million (See Note 6 - Long-Term Debt). The interest rate swap agreement is a contract to exchange floating rate for fixed rate interest payments over the life of the interest rate swap agreement and is used to measure interest to be paid or received and does not represent the amount of exposure of credit loss. The differential paid or received under the interest rate swap agreement is recognized as an adjustment to interest expense.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Supreme Industries, Inc.

We have audited the accompanying consolidated balance sheets of Supreme Industries, Inc. and subsidiaries as of December 28, 2013 and December 29, 2012, and the related consolidated statements of comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 28, 2013. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule, Schedule II Valuation and Qualifying Accounts. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Supreme Industries, Inc. and subsidiaries as of December 28, 2013 and December 29, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Crowe Horwath LLP

Oak Brook, Illinois
February 27, 2014

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Supreme Industries, Inc. and Subsidiaries

Consolidated Balance Sheets

December 28, 2013 and December 29, 2012

		2013		2012
ASSETS				
Current assets:				
Cash and cash equivalents	$	3,894,277	$	59,056
Investments		2,865,287		2,887,172
Accounts receivable, net of allowance for doubtful accounts of $52,000 in 2013 and $100,000 in 2012		21,623,319		18,781,735
Refundable income taxes		1,008,688		526,817
Inventories		32,496,255		32,308,931
Deferred income taxes		1,844,648		2,298,181
Assets held for sale		545,635		2,149,760
Other current assets		1,645,248		1,995,634
Total current assets		65,923,357		61,007,286
Property, plant and equipment, net		46,387,839		42,937,988
Other assets		1,219,655		1,142,809
Total assets	$	113,530,851	$	105,088,083
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current maturities of long-term debt	$	666,668	$	16,934
Trade accounts payable		15,888,955		11,936,544
Accrued wages and benefits		3,789,416		2,642,433
Accrued self-insurance		2,593,711		2,430,674
Customer deposits		1,428,590		1,428,997
Accrued warranty		1,432,000		1,609,000
Accrued income taxes		708,256		519,611
Other accrued liabilities		1,835,860		1,779,215
Total current liabilities		28,343,456		22,363,408
Long-term debt		8,999,998		14,089,063
Deferred income taxes		2,078,366		1,472,730
Other long-term liabilities		28,864		
Total liabilities		39,450,684		37,925,201
Commitments and contingencies (Note 10)				
Stockholders equity:				
Preferred Stock, $1 par value; authorized 1,000,000 shares, none issued				
Class A Common Stock, $.10 par value; authorized 20,000,000 shares, issued 16,263,322 shares in 2013 and 15,417,656 in 2012		1,626,332		1,541,766
Class B Common Stock, convertible into Class A Common Stock on a one-for-one basis, $.10 par value; authorized 5,000,000 shares, issued 1,771,949 shares in 2013 and 1,716,937 in 2012		177,195		171,694
Additional paid-in capital		72,719,592		68,953,487
Retained earnings		15,268,209		12,154,745
Treasury stock, Class A Common Stock, at cost, 1,893,446 shares in 2013 and 2012		(15,668,055)		(15,668,055)
Accumulated other comprehensive income (loss)		(43,106)		9,245
Total stockholders equity		74,080,167		67,162,882
Total liabilities and stockholders equity	$	113,530,851	$	105,088,083

See accompanying notes to consolidated financial statements.

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Supreme Industries, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

for the years ended December 28, 2013, December 29, 2012, and December 31, 2011

	2013	2012	2011