

SUPREME INDUSTRIES INC
Form 10-Q
August 04, 2017
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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 July 1, 2017

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 Number: 1-8183

SUPREME INDUSTRIES, INC.

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(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., Goshen, Indiana 46528

(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

| | | | |
|---------------------------|--------------------------|---|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | (Do not check if a smaller reporting company) | |
| Smaller reporting company | <input type="checkbox"/> | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

| Common Stock (\$.10 Par Value) | Outstanding at July 26, 2017 |
|---------------------------------------|-------------------------------------|
| Class A | 15,503,763 |
| Class B | 1,656,467 |

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SUPREME INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | July 1, 2017 | December 31, 2016 |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 24,827,651 | \$ 35,222,620 |
| Investments | 4,152,226 | 3,003,002 |
| Accounts receivable, net | 33,445,865 | 20,106,253 |
| Inventories | 30,691,847 | 24,245,322 |
| Other current assets | 4,931,456 | 5,644,154 |
| Total current assets | 98,049,045 | 88,221,351 |
| Property, plant and equipment, net | 41,481,422 | 45,747,933 |
| Total assets | \$ 139,530,467 | \$ 133,969,284 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 7,014,229 | \$ 7,195,105 |
| Trade accounts payable | 10,936,923 | 6,803,769 |
| Other accrued liabilities | 10,685,014 | 16,057,283 |
| Total current liabilities | 28,636,166 | 30,056,157 |
| Deferred income taxes | 2,010,954 | 2,181,778 |
| Total liabilities | 30,647,120 | 32,237,935 |
| Stockholders equity | 108,883,347 | 101,731,349 |
| Total liabilities and stockholders equity | \$ 139,530,467 | \$ 133,969,284 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME (UNAUDITED)

| | Three Months Ended | | Six Months Ended | |
|--|---------------------|---------------------|---------------------|----------------------|
| | July 1, 2017 | June 25, 2016 | July 1, 2017 | June 25, 2016 |
| Net sales | \$ 95,465,787 | \$ 92,871,671 | \$ 164,140,486 | \$ 162,321,574 |
| Cost of sales | 76,362,685 | 70,459,366 | 132,041,607 | 124,748,612 |
| Gross profit | 19,103,102 | 22,412,305 | 32,098,879 | 37,572,962 |
| Selling, general and administrative expenses | 10,075,201 | 9,957,880 | 20,126,673 | 19,372,831 |
| Other (income) expense | 59,265 | (20,940) | (10,215) | (57,416) |
| Operating income | 8,968,636 | 12,475,365 | 11,982,421 | 18,257,547 |
| Interest (income) expense | 233,482 | (36,701) | 478,885 | 146,128 |
| Income before income taxes | 8,735,154 | 12,512,066 | 11,503,536 | 18,111,419 |
| Income tax expense | 2,433,274 | 4,215,894 | 3,338,671 | 6,055,894 |
| Net income | 6,301,880 | 8,296,172 | 8,164,865 | 12,055,525 |
| Other comprehensive income, net of tax | 10,522 | 34,778 | 31,790 | 66,868 |
| Comprehensive income | \$ 6,312,402 | \$ 8,330,950 | \$ 8,196,655 | \$ 12,122,393 |
| Income per share: | | | | |
| Basic | \$ 0.37 | \$ 0.49 | \$ 0.48 | \$ 0.71 |
| Diluted | 0.37 | 0.48 | 0.48 | 0.70 |
| Shares used in the computation of income per share: | | | | |
| Basic | 17,155,898 | 16,945,141 | 17,127,502 | 16,891,693 |
| Diluted | 17,157,871 | 17,222,811 | 17,129,475 | 17,185,031 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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SUPREME INDUSTRIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | Six Months Ended | |
|--|----------------------|---------------------|
| | July 1, 2017 | June 25, 2016 |
| Cash flows from operating activities: | | |
| Net income | \$ 8,164,865 | \$ 12,055,525 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 1,678,306 | 1,735,341 |
| Deferred income taxes | (170,823) | (199,994) |
| Stock-based compensation expense | 640,917 | 473,220 |
| Loss on sale of property, plant and equipment, net | 151,559 | 27,347 |
| Changes in operating assets and liabilities | (15,205,030) | (15,545,046) |
| Net cash used in operating activities | (4,740,206) | (1,453,607) |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (1,622,234) | (1,332,440) |
| Proceeds from sale of property, plant and equipment | 4,231,340 | 300 |
| Purchases of investments | (1,120,828) | (40,348) |
| Net cash provided by (used in) investing activities | 1,488,278 | (1,372,488) |
| Cash flows from financing activities: | | |
| Repayments of revolving line of credit and other long-term debt | (333,336) | (333,334) |
| Payment of cash dividends | (6,324,928) | (6,168,514) |
| Treasury stock purchased | (522,687) | (269,177) |
| Proceeds from exercise of stock options | 37,910 | 70,826 |
| Net cash used in financing activities | (7,143,041) | (6,700,199) |
| Change in cash and cash equivalents | (10,394,969) | (9,526,294) |
| Cash and cash equivalents, beginning of period | 35,222,620 | 17,247,891 |
| Cash and cash equivalents, end of period | \$ 24,827,651 | \$ 7,721,597 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**SUPREME INDUSTRIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE 1 BASIS OF PRESENTATION AND OPINION OF MANAGEMENT**

The accompanying unaudited condensed 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 presentation of the interim periods reported. The December 31, 2016 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. References to we, us, our, its, Supreme, or the Company refer to Supreme Industries, Inc. and its subsidiaries.

The Company has adopted a 52- or 53-week fiscal year ending the last Saturday in December. The results of operations for the three and six months ended July 1, 2017 and June 25, 2016 are for 13-week and 26-week periods.

NOTE 2 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, net of applicable reserves of \$1.0 million and \$1.1 million as of July 1, 2017 and December 31, 2016, respectively:

| | July 1, 2017 | December 31, 2016 |
|------------------|-------------------------|------------------------------|
| Raw materials | \$ 21,865,236 | \$ 17,404,606 |
| Work-in-progress | 3,661,950 | 3,397,225 |
| Finished goods | 5,164,661 | 3,443,491 |
| | \$ 30,691,847 | \$ 24,245,322 |

NOTE 3 FAIR VALUE MEASUREMENT

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

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

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

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

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

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

Derivatives: Our derivative instruments consist of an interest rate swap, currently reflected in other accrued liabilities on the Condensed Consolidated Balance Sheets. The Company obtains fair values from financial institutions that utilize internal models with observable market data inputs to estimate the fair value of these instruments (Level 2 inputs).

The carrying amounts of cash and cash equivalents, accounts receivable, and trade accounts payable approximated fair value as of July 1, 2017 and December 31, 2016, because of the relatively short maturities of these financial instruments. The carrying amount of current maturities of long-term debt approximated fair value as of July 1, 2017 and December 31, 2016, based upon terms and conditions available to the Company at those dates in comparison to the terms and conditions of its outstanding debt.

NOTE 4 DEBT

Credit Agreement

On December 19, 2012, the Company entered into an Amended and Restated Credit Agreement (the *Credit Agreement*) with Wells Fargo Bank, National Association (*Wells Fargo*). Under the terms of the Credit Agreement, Wells Fargo 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 Company had unused credit capacity of \$35.0 million at July 1, 2017. Interest on outstanding borrowings under the Credit Agreement is based on Wells Fargo's prime rate or LIBOR depending on the pricing option selected and the Company's leverage ratio (as defined in the Credit Agreement) resulting in an effective interest rate of 3.06% at July 1, 2017 and 3.05% at December 31, 2016. Pursuant to the Credit Agreement, the financial covenants include a consolidated total leverage ratio, a consolidated fixed charge coverage ratio, a limitation on annual capital expenditures, and a limitation on quarterly cash dividends. As of July 1, 2017 and December 31, 2016, the Company was in compliance with all financial covenants. The Credit Agreement is for a period of five years ending on December 19, 2017. The Company expects to enter into a new credit agreement before the current Credit Agreement expires.

Revolving Credit Facility

The revolving credit facility provides for borrowings of up to \$35.0 million. The revolving credit facility bears interest at (i) LIBOR plus a margin which varies from 1.50% to 2.50% based upon a leverage ratio of total indebtedness to trailing four quarter EBITDA or (ii) the higher of (a) the prime rate and (b) the federal funds rate plus 0.50% plus a margin which varies from 0.50% to 1.50% based upon the debt to EBITDA leverage ratio. 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. As of July 1, 2017, and December 31, 2016, there were no borrowings against the revolving credit facility.

Term Loan Facility

The term loan facility provides for borrowings of up to \$10.0 million. The term loan is secured by real estate and improvements, payable in quarterly installments of \$166,667 commencing on June 28, 2013, plus interest at prime rate or LIBOR, with the remaining balance due upon maturity on December 19,

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2017. As of July 1, 2017 and December 31, 2016, the outstanding balance under the term loan facility was \$7.2 million and \$7.5 million, respectively.

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

During 2014, the Company replaced all outstanding letters of credit with cash deposits with its workers compensation insurance carriers. As of July 1, 2017 and December 31, 2016, cash deposits with insurance carriers totaled \$1.9 million.

NOTE 5 STOCK-BASED COMPENSATION

The following table summarizes the activity for the outstanding stock options for the six months ended July 1, 2017:

| | Options | | Weighted - Average Exercise Price |
|--------------------------------|----------|----|--------------------------------------|
| Outstanding, December 31, 2016 | 17,850 | \$ | 2.12 |
| Exercised | (17,850) | \$ | 2.12 |
| Outstanding, July 1, 2017 | | | |

The following table summarizes the activity for the unvested restricted stock for the six months ended July 1, 2017:

| | Unvested Restricted Stock | | Weighted - Average Grant Date Fair Value |
|-----------------------------|---------------------------------|----|--|
| Unvested, December 31, 2016 | 129,666 | \$ | 8.12 |
| Granted | 77,495 | \$ | 19.54 |
| Vested | (49,594) | \$ | 10.10 |
| Forfeited | | \$ | |
| Unvested, July 1, 2017 | 157,567 | \$ | 13.11 |

The total fair value of restricted shares vested and recognized as stock-based compensation expense during the six months ended July 1, 2017 was \$500,917.

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As a part of annual director compensation, a stock award is paid to each of the Company's outside directors equal to \$40,000 divided by the closing sales price on the grant date. The grants are made in quarterly increments. The director stock-based compensation expense recognized during the six months ended July 1, 2017 was \$140,000.

Total unrecognized compensation expense related to all share-based awards outstanding at July 1, 2017, was approximately \$2.1 million and is to be recorded over a weighted-average contractual life of 2.2 years.

On May 25, 2016, the Company held its annual meeting of stockholders at which the Company's stockholders approved the 2016 Long-Term Incentive Plan (the "Plan") which had previously been

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approved by the Board of Directors and recommended to the stockholders. The Plan is effective until May 25, 2026; provided, however, any awards issued prior to the Plan's termination will remain outstanding in accordance with their terms. The Plan authorizes the issuance of 1,000,000 shares of the Company's Class A Common Stock with certain officers being limited to receiving grants of 100,000 shares in any one year. Employees, contractors and non-employee directors of the Company and its subsidiaries are eligible to receive awards under the Plan. The following types of awards may be granted under the Plan: (1) stock options (incentive and non-qualified); (2) stock appreciation rights; (3) restricted stock and restricted stock units; (4) dividend equivalent rights; (5) performance awards based on achieving specified performance goals; and (6) other awards. As of July 1, 2017, shares reserved for the granting of future share-based awards totaled 910,273, compared to 1,012,140 shares at December 31, 2016.

NOTE 6 INCOME TAXES

For the three months ended July 1, 2017, the Company recorded income tax expense of \$2.4 million at an effective tax rate of 27.9%, compared with \$4.2 million at an effective tax rate of 33.7% for the three months ended June 25, 2016. For the six months ended July 1, 2017, the Company recorded income tax expense of \$3.3 million at an effective tax rate of 29.0%, compared with \$6.1 million at an effective tax rate of 33.4% for the six months ended June 25, 2016. The decrease in the effective tax rate for the three and six months ended July 1, 2017 was the result of the adoption of ASU 2016-09 regarding the discrete treatment of excess tax benefits from the vesting of share-based payments. Additionally, the rates differ from the federal statutory rate because of varying state income tax rates and permanent federal income tax differences including benefits from a captive insurance company and the allowable domestic manufacturer deduction.

NOTE 7 COMMON STOCK

The Company paid the following cash dividends to all Class A and Class B common stockholders during the six months ended July 1, 2017:

| Declaration Date | Record Date | Paid Date | Cash Dividend Per Share |
|-------------------------|--------------------|------------------|------------------------------------|
| November 9, 2016 | December 12, 2016 | January 3, 2017 | \$ 0.300 |
| March 9, 2017 | March 23, 2017 | March 30, 2017 | \$ 0.035 |
| May 25, 2017 | June 14, 2017 | June 21, 2017 | \$ 0.035 |

NOTE 8 SALE OF TROLLEY BUSINESS

On May 11, 2016, the Company entered into an Asset Purchase Agreement (the "Agreement") for the sale of certain assets of the Company's trolley business. The final stage of the transaction closed in the second quarter of 2017 and no material gain or loss was realized on the sale. The trolley business does not meet the criteria of FASB Accounting Standards Update 2014-08 (Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity) and is, therefore, not reported as discontinued operations.

NOTE 9 COMMITMENTS AND CONTINGENCIES

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, certain of which are covered in whole or in part by insurance. The Company establishes accruals for these matters to the extent that losses are deemed probable and are reasonably estimable. Although the outcome of these matters cannot be fully

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determined on the basis of information currently available, it is the opinion of management that the ultimate outcome of these matters would not be significant to the Company's consolidated financial position, results of operations, or cash flow.

On January 3, 2017, an amended complaint was filed against the Company's subsidiary, Supreme Corporation, in a suit (SVI, Inc. v. Supreme Corporation, Hometown Trolley (a/k/a Double K, Inc.) and Dustin Pence) in the United States District Court, District of Nevada. The amended complaint (original complaint filed on May 16, 2016), filed by Supreme Corporation's former trolley distributor, alleges that Supreme Corporation's sale of its trolley assets to another trolley manufacturer was improper. Supreme Corporation filed a motion to dismiss which was granted in part on May 30, 2017. The remaining claims alleged against Supreme Corporation include: (i) misappropriation of trade secrets; (ii) civil conspiracy/collusion; (iii) tortious interference with contractual relationships; (iv) breach of contract; and (v) breach of the covenant of good faith and fair dealing. The plaintiff alleges that the net present value of the amount lost by the plaintiff is approximately \$40,000,000. Due to the inherent risk of litigation, the outcome of this case is uncertain and unpredictable; however, at this time, management believes that the allegations are without merit and is vigorously defending the matter.

On November 4, 2016, a putative class action lawsuit was filed against the Company, Mark Weber (the Company's Chief Executive Officer) and Matthew W. Long (the Company's Chief Financial Officer) in the United States District Court for the Central District of California alleging the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 by making material, misleading statements in July 2016 regarding projected backlog. The plaintiff seeks to recover unspecified damages. On February 14, 2017, the court transferred the venue of the case to the Northern District of Indiana upon the joint stipulation of the plaintiff and the defendants. An amended complaint was filed on April 24, 2017 challenging statements made during a putative class period of October 22, 2015 through October 21, 2016. Due to the inherent risk of litigation, the outcome of this case is uncertain and unpredictable; however, at this time, management believes that the allegations are without merit and is vigorously defending the matter.

NOTE 10 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 (as updated by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12, and ASU 2016-20) is for annual periods, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted for years beginning after December 15, 2016, to be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the effects of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's results of operations, cash flows or financial position, however, this new accounting guidance may require enhanced footnote disclosures. The Company will adopt the accounting standard during the first quarter of 2018 using the retrospective method to each prior reporting period presented.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The ASU provides guidance that will require an entity to recognize lease assets and lease liabilities on its balance sheet for leases in excess of one year that were previously classified as operating leases under U.S. GAAP. The guidance also requires companies to disclose in the footnotes to the financial statements information about the amount, timing, and uncertainty of the payments made for the lease agreements. The guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2018 on a retrospective basis. Early adoption is permitted. The Company is currently evaluating the effect of adopting this new

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accounting guidance but does not expect adoption will have a material impact on the Company's results of operations, cash flows or financial position.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation*. This ASU provides guidance for share-based payments, which simplifies (i) the income tax consequences related to exercised or vested share-based payment awards; (ii) the classification of awards as assets or liabilities; and (iii) the classification in the consolidated statements of cash flows. This guidance is effective for financial statements issued for annual and interim periods beginning after December 15, 2016 and early adoption is permitted. The Company adopted this new guidance in the second quarter of 2017 as required. The adoption did not have a material impact on the Company's consolidated financial statements.

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

The following discussion should be read in conjunction with the consolidated financial statements and related notes thereto (see Note 1 - Basis of Presentation and Opinion of Management) located in Item 1 of this document.

Company Overview

Supreme Industries, Inc., through its wholly-owned subsidiary, Supreme Corporation, is a leading manufacturer of specialized commercial vehicles including truck bodies and specialty vehicles. Established in 1974 and based in Goshen, Indiana, the Company has operations nationwide at seven manufacturing and component locations. In order to serve major geographic markets, these operations are positioned at strategic locations across the continental United States. The Company's significant brand recognition has a 40-plus-year heritage and offers a complete line of multi-purpose truck bodies. Customers include national rental fleets, national and regional leasing companies, truck dealers and fleet operators. With shipments of more than 20,000 truck bodies annually, the Company offers bodies to fit most original equipment manufacturers.

Supreme's extensive truck body product lines include dry-freight, service, refrigerated, and platform/stake bodies. Most of the Company's products are attached to light-duty and medium-duty truck 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. Specialty vehicles are designed and customized to move money, dispatch a tactical force, or respond to an emergency to meet many proactive and security needs of its customers.

With a nationwide footprint with seven facilities, the Company's flexible manufacturing systems support high volume fleets and low volume custom products. Since 2012, the Company has invested more than \$25 million in equipment and facilities including building additions, redesigned plant layouts, lean initiatives, and the application of computer-aided design software.

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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 in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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Results of Operations

Overview

Consolidated net sales for the three months ended July 1, 2017 increased 2.8% to \$95.5 million, compared with \$92.9 million in the second quarter of 2016. Higher net sales in the second quarter of 2017 were the result of increased rental fleet truck shipments, which more than offset a decline in retail trucks, specialty vehicles and trolleys. The Company had no trolley sales during the second quarter of 2017 as a result of the sale of the product line. In the first six months of 2017, consolidated net sales increased 1.1% to \$164.1 million, compared with \$162.3 million in the first six months of 2016.

The sales order backlog at the end of the second quarter of 2017 totaled \$84.1 million, up 17.0%, compared with \$71.9 million at the end of last year's second quarter, excluding the trolley backlog of \$3.6 million (the trolley product line was divested in 2017).

Gross profit in the second quarter of 2017 decreased to \$19.1 million, down from \$22.4 million in the second quarter of 2016. The gross profit decrease was primarily due to a significantly higher proportion of lower-margin rental fleet sales in the 2017 quarter. Additionally, material costs, group health insurance and workers' compensation expenses were notably higher in the second quarter of 2017, compared with 2016. As a percentage of net sales, the second quarter of 2017 gross profit decreased to 20.0%, compared with 24.1% in the second quarter of 2016. Gross profit in the first six months of 2017 decreased to \$32.1 million, compared with \$37.6 million in the same period of 2016. For the six-month period of 2017, gross margin, as a percentage of net sales, decreased to 19.6%, compared with 23.1% for the first six months of 2016 and was adversely impacted by a lower-margin product mix, higher overhead expenses, and inefficiencies in the first quarter caused by delays in receiving customer-supplied chassis.

Selling, general and administrative expenses increased by \$0.1 million, or 1.2%, to \$10.1 million for the three months ended July 1, 2017, compared with \$10.0 million for the three months ended June 25, 2016. For the six months ended July 1, 2017, selling, general and administrative expenses increased by \$0.7 million, or 3.9%, to \$20.1 million, compared with \$19.4 million for the six months ended June 25, 2016. The increases were due to higher wages, annual merit increases, increased group health insurance claims, higher OEM marketing expenses, product show costs and legal fees.

For the three months ended July 1, 2017, the Company recorded income tax expense of \$2.4 million at an effective tax rate of 27.9%, compared with \$4.2 million at an effective tax rate of 33.7% for the three months ended June 25, 2016. For the six months ended July 1, 2017, the Company recorded income tax expense of \$3.3 million at an effective tax rate of 29.0%, compared with \$6.1 million at an effective tax rate of 33.4% for the six months ended June 25, 2016.

Net income for the three months ended July 1, 2017 was \$6.3 million, or \$0.37 per diluted share, compared with net income of \$8.3 million, or \$0.48 per diluted share, for the three months ended June 25, 2016. Net income for the six months ended July 1, 2017 totaled \$8.2 million, or \$0.48 per diluted share, compared with net income of \$12.1 million, or \$0.70 per diluted share, for the six months ended June 25, 2016.

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On May 11, 2016, the Company entered into an Asset Purchase Agreement (the Agreement) for the sale of certain assets of the Company s trolley business. The final stage of the transaction closed in the second quarter of 2017 and no material gain or loss was realized on the sale. The trolley business does not meet the criteria of FASB Accounting Standards Update 2014-08 (Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity) and is, therefore, not reported as discontinued operations.

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Working capital increased to \$69.4 million at July 1, 2017, compared with \$58.2 million at December 31, 2016, due to higher inventories, to support a strong order backlog and higher accounts receivable. The Company ended the quarter with \$24.8 million in cash and cash equivalents and \$7.2 million in debt. Stockholders' equity increased at the quarter ended July 1, 2017 to \$108.9 million compared with \$101.7 million at December 31, 2016. Supreme invested \$1.6 million in facilities and equipment during the first six months of 2017, compared with \$1.3 million in the first six months of 2016. Net cash used by operating activities during the first six months of 2017 totaled \$4.7 million, compared with \$1.5 million in the first six months of 2016 primarily due to the higher inventories required to support the strong order backlog.

Despite the decrease in the Company's profitability and income per diluted share in the three and six months ended July 1, 2017, we remain encouraged by our progress and we are optimistic due to our strong order backlog. We believe our customer-centric strategy, our strategic initiatives to enhance the consistent execution of our strategy and our continuous improvements in products, internal processes and customer service levels have and are expected to continue to benefit our operations.

Net sales

Net sales for the three months ended July 1, 2017 increased \$2.6 million, or 2.8%, to \$95.5 million, compared with \$92.9 million for the three months ended June 25, 2016. Net sales for the six months ended July 1, 2017 increased \$1.8 million, or 1.1%, to \$164.1 million, compared with \$162.3 million for the six months ended June 25, 2016.

Truck body sales increased in the second quarter of 2017 by \$3.3 million, or 3.7%, compared with the second quarter of 2016. The sales growth for the quarter was primarily the result of a 39.1% increase in rental fleet truck sales when compared with the same period in 2016, which more than offset a decline in retail truck sales. Specialty vehicle sales decreased in the second quarter of 2017 by \$0.7 million, or 55.4% when compared with the same period in 2016, and the Company had no trolley sales during the second quarter of 2017 as a result of the sale of the product line. The Company's fiberglass facility supplies fiberglass reinforced plywood for use in the production of certain truck bodies and also sells product to third parties. Sales to third parties during the second quarter of 2017 were unchanged compared with last year's second quarter. For the six months ended July 1, 2017, truck body sales increased \$4.0 million, or 2.5%, which more than offset the decrease in specialty vehicle and trolley sales. The net sales growth was the result of higher rental fleet truck sales which was offset in part by lower retail truck sales. Additionally, truck sales for the first quarter of 2017 were unfavorably impacted by temporary delays in receiving customer-supplied chassis to commence rental fleet production. Fiberglass reinforced plywood sales decreased \$0.2 million for the first six months of 2017 when compared with same period last year.

Cost of sales and gross profit

For the three months ended July 1, 2017, gross profit was \$19.1 million, or 20.0% of net sales, compared with \$22.4 million, or 24.1% of net sales, in 2016. Gross profit for the six months ended July 1, 2017 was \$32.1 million, or 19.6% of net sales, compared with \$37.6 million, or 23.1% of net sales, for the six months ended June 25, 2016.

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For the three months ended July 1, 2017, the gross profit decrease was primarily due to a significantly higher proportion of rental fleet truck sales in the current year which typically yield a lower gross profit. In addition, raw material costs escalated due to higher aluminum and steel prices compared with the prior year period. Manufacturing overhead, as a percentage of net sales, increased as a result of higher group health insurance and workers compensation expenses compared with the same period in 2016. To

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address recent cost inflation pressure, the Company implemented a mid-year price increase which we anticipate should benefit the second half of 2017.

For the six months ended July 1, 2017, the gross profit decline was due to the lower margin product mix, highly competitive labor markets (causing employee turnover and labor inefficiency), and higher overhead expenses. Additionally, temporary delays in receiving customer-supplied chassis to commence rental fleet production adversely impacted the first quarter of 2017. While no orders were lost, the delays due to third-party transportation capacity constraints required the orders to be rescheduled across all plants into subsequent quarters. Operating efficiencies declined as a result of dedicated personnel being hired, trained, and awaiting chassis arrivals. The chassis supply issues were generally resolved in late March of 2017. Manufacturing overhead in the first quarter of 2017 was also impacted by reconfiguring certain manufacturing facilities to improve operating efficiencies resulting in higher repairs and maintenance expense.

Delivery expense, as a percentage of net sales, for the three and six months ended July 1, 2017 decreased 0.1% for both periods compared with the same periods in 2016. The slight decrease was due to changes in product mix, rental fleet customer pick-ups, and other customer shipment requirements.

Selling, general and administrative expenses

Selling, general and administrative expenses increased by \$0.1 million, or 1.2%, to \$10.1 million for the three months ended July 1, 2017, compared with \$10.0 million for the three months ended June 25, 2016. Selling, general and administrative expenses increased by \$0.7 million, or 3.9%, to \$20.1 million for the six months ended July 1, 2017, compared with \$19.4 million for the six months ended June 25, 2016.

Selling expenses for the three months ended July 1, 2017 increased \$0.1 million to \$3.2 million, compared with \$3.1 million for the three months ended June 25, 2016. For the six months ended July 1, 2017, selling expenses increased by \$0.5 million to \$6.5 million, compared with \$6.0 million for the six months ended June 25, 2016. The increases were due to higher sales wages as the Company upgraded sales personnel in key regions, annual merit increases, increased group health insurance claims, higher OEM marketing expenses and higher product show costs. As a percentage of net sales, selling expenses increased 0.1% for the three months ended July 1, 2017 and 0.3% for the six months ended July 1, 2017 compared with the same periods in 2016.

General and administrative expenses for the three months ended July 1, 2017 and June 25, 2016 was unchanged at \$6.9 million for both periods. For the six months ended July 1, 2017, general and administrative expenses increased by \$0.2 million to \$13.6 million, compared with \$13.4 million for the six months ended June 25, 2016. The year-to-date increase was mainly the result of higher legal fees associated with the SVI, Inc. complaint and increased group health insurance claims. The increased costs were partially offset by lower profit-based incentive compensation expense. As a percentage of net sales, general and administrative expenses decreased 0.2% for the three months ended July 1, 2017 and increased 0.1% for the six months ended July 1, 2017 compared with the same periods in 2016.

Other income (expense)

Other income (expense) consisted of rental income, gain or loss on the sale of assets, and other miscellaneous income received by the Company. As a result of a \$0.1 million loss on the sale of idle property resulting from the Indiana campus consolidation, other expense was \$59,000 for the three months ended July 1, 2017, compared with other income of \$21,000 for the three months ended June 25, 2016. For the six months ended July 1, 2017 and June 25, 2016, other income totaled \$10,000 and \$57,000, respectively.

Table of Contents***Interest (income) expense***

Interest (income) expense includes interest on bank debt, and chassis interest on bailment pool chassis reduced by interest support received from a chassis manufacturer. Interest expense was \$0.2 million for the three months ended July 1, 2017, compared with interest income of \$37,000 for the three months ended June 25, 2016. During the quarter ended June 25, 2016, the Company received higher interest support from chassis manufacturers due to higher retail customer demand which more than offset chassis interest and the interest on bank debt. Interest expense for the six months ended July 1, 2017 was \$0.5 million, compared with \$0.1 million for the six months ended June 25, 2016. The effective interest rate on bank borrowings was 3.06% at July 1, 2017, and the Company was in compliance with all provisions of its Credit Agreement.

Income taxes

For the three months ended July 1, 2017, the Company recorded income tax expense of \$2.4 million at an effective tax rate of 27.9%, compared with \$4.2 million at an effective tax rate of 33.7% for the three months ended June 25, 2016. For the six months ended July 1, 2017, the Company recorded income tax expense of \$3.3 million at an effective tax rate of 29.0%, compared with \$6.1 million at an effective tax rate of 33.4% for the six months ended June 25, 2016. The decrease in the effective tax rate for the three and six months ended July 1, 2017 was the result of the adoption of ASU 2016-09 regarding the discrete treatment of excess tax benefits from the vesting of share-based payments. Additionally, the rates differ from the federal statutory rate because of varying state income tax rates and permanent federal income tax differences including benefits from a captive insurance company and the allowable domestic manufacturer deduction.

Net income

Net income for the three months ended July 1, 2017 was \$6.3 million, or \$0.37 per diluted share, compared with a net income of \$8.3 million, or \$0.48 per diluted share, for the three months ended June 25, 2016. Net income for the six months ended July 1, 2017 was \$8.2 million, or \$0.48 per diluted share, compared with net income of \$12.1 million, or \$0.70 per diluted share, for the comparable period last year.

Basic and diluted income per share

The following table presents basic and diluted income per share:

| | Three Months Ended | | Six Months Ended | |
|-------------------|--------------------|------------------|------------------|------------------|
| | July 1, 2017 | June 25, 2016 | July 1, 2017 | June 25, 2016 |
| Income per share: | | | | |
| Basic | \$ 0.37 | \$ 0.49 | \$ 0.48 | \$ 0.71 |
| Diluted | 0.37 | 0.48 | 0.48 | 0.70 |

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Shares used in the computation of income per share:

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 17,155,898 | 16,945,141 | 17,127,502 | 16,891,693 |
| Diluted | 17,157,871 | 17,222,811 | 17,129,475 | 17,185,031 |

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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 Agreement. Principal uses of cash have been to support working capital needs, fund capital expenditures, pay cash dividends, and meet debt service requirements.

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 used in operating activities totaled \$4.7 million for the six months ended July 1, 2017, as compared with net cash used in operating activities of \$1.5 million for the six months ended June 25, 2016. During the first six months of 2017, changes in operating assets and liabilities included a \$13.3 million increase in accounts receivable due to increased sales volume compared with the end of 2016, primarily due to the timing of seasonal orders received from fleet truck customers. Additionally, inventories increased by \$6.4 million to support our increased sales order backlog. These uses of cash were partially offset by a \$4.1 million increase in trade accounts payable related to the higher level of inventories.

During the first six months of 2016, changes in operating assets and liabilities included a \$14.4 million increase in accounts receivable due to increased sales volume. Inventories at June 25, 2016 increased \$6.9 million compared with the end of 2015. These uses of cash were partially offset by a \$3.2 million increase in trade accounts payable related to the higher level of inventories.

Investing activities

Net cash provided by investing activities was \$1.5 million for the six months ended July 1, 2017, as compared with net cash used in investing activities of \$1.4 million for the six months ended June 25, 2016.

During the first six months of 2017, the Company received \$4.2 million for the sale of certain idle facilities in Indiana, which were being marketed for sale or lease. These proceeds were partially offset by capital expenditures of \$1.6 million, primarily consisting of investments in replacement equipment, and \$1.1 million of insurance premiums invested by the Company's wholly owned captive insurance subsidiary. During the first six months of 2016, the Company's capital expenditures were \$1.3 million, primarily consisting of investments in replacement equipment.

Financing activities

Net cash used in financing activities for the six months ended July 1, 2017 was \$7.1 million, as compared with \$6.7 million of net cash used in financing activities for the six months ended June 25, 2016.

During the first six months of 2017, the Company used \$6.3 million to pay cash dividends consisting of regular quarterly dividends totaling seven cents (\$0.07) per share, and a thirty cents (\$0.30) per share dividend declared on November 9, 2016. The dividend declared on November 9, 2016 consisted of a special dividend of twenty six and one-half cents (\$0.265) per share, in addition to a regular quarterly dividend of three and one-half cents (\$0.035) per share. Additionally, \$0.5 million of shares were surrendered to the Company to satisfy tax obligations upon the vesting of restricted stock, and the Company used \$0.3 million to make scheduled quarterly principal payments on its outstanding term loan.

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During the first six months of 2016, the Company used \$6.2 million to pay cash dividends consisting of regular quarterly dividends totaling six and one-half cents (\$0.065) per share, and a thirty cents (\$0.30) per share dividend declared on November 10, 2015. The dividend declared on November 10, 2015 consisted of a special dividend of twenty seven cents (\$0.27) per share, in addition to a regular quarterly dividend of three cents (\$0.03) per share. Additionally, the Company used \$0.3 million to make scheduled quarterly principal payments on its outstanding term loan.

Capital Resources

Credit Agreement

On December 19, 2012, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"). Under the terms of the Credit Agreement, Wells Fargo 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 Company had unused credit capacity of \$35.0 million at July 1, 2017. The Company was in compliance with all provisions of the Credit Agreement during the six months ended July 1, 2017. The Credit Agreement is for a period of five years ending on December 19, 2017. The Company expects to enter into a new credit agreement before the current Credit Agreement expires.

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 the 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.

Critical Accounting Policies and Estimates

Management's discussion and analysis of its financial position and results of operations are based upon the Company's condensed 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 included in the Annual Report on Form 10-K for the year ended December 31, 2016. In management's opinion, the Company's critical accounting policies include revenue recognition, inventory reserves, fair value of assets held for sale, accrued insurance, accrued warranty and unrecognized tax positions.

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.

Inventory Reserves The Company makes estimates regarding the future use of raw materials and finished products and provides 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. In addition, the Company reserves for possible losses due to

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production reporting errors based upon monthly production. We conduct semi-annual physical inventories at a majority of our locations and schedule them in a manner that provides coverage in each of our calendar quarters.

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.

Unrecognized Tax Positions The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions. ASC 740 states that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. We record unrecognized tax benefits as liabilities in accordance with ASC 740 and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, other than historical facts, which reflect the view of management with respect to future

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events. When used in this report, words such as believe, expect, anticipate, estimate, intend, may, plan, optimistic, encouraged, should, and similar expressions, as they relate to the Company or its 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 lender(s),

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limitations on the availability of chassis on which the Company's products are dependent, availability of raw materials, raw material cost increases, interest rate increases, a change in the number of vehicles subject to recalls, changes in the costs of implementing the recalls, actions by NHTSA, including fines and/or penalties, or limitations on the availability of materials used to implement the recalls. Additionally, backlogs may not be indicative of future performance. Furthermore, the Company can provide no assurance that any 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 31, 2016.

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). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of July 1, 2017.

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.

PART II. OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS.

The following information provides an update of material developments during the quarter ended July 1, 2017, regarding the discussion set forth under Part I, Item 3. Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

On January 3, 2017, an amended complaint was filed against the Company's subsidiary, Supreme Corporation, in a suit (SVI, Inc. v. Supreme Corporation, Hometown Trolley (a/k/a Double K, Inc.) and Dustin Pence) in the United States District Court, District of Nevada. The amended complaint (original complaint filed on May 16, 2016), filed by Supreme Corporation's former trolley distributor, alleges that Supreme Corporation's sale of its trolley assets to another trolley manufacturer was improper. Supreme

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Corporation filed a motion to dismiss which was granted in part on May 30, 2017. The remaining claims alleged against Supreme Corporation include: (i) misappropriation of trade secrets; (ii) civil conspiracy/collusion; (iii) tortious interference with contractual relationships; (iv) breach of contract; and (v) breach of the covenant of good faith and fair dealing. The plaintiff alleges that the net present value of the amount lost by the plaintiff is approximately \$40,000,000. Due to the inherent risk of litigation, the outcome of this case is uncertain and unpredictable; however, at this time, management believes that the allegations are without merit and is vigorously defending the matter.

ITEM 1A. **RISK FACTORS.**

For a discussion of those Risk Factors affecting the Company, you should carefully consider the Risk Factors discussed in Part I, under Item 1A: Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2016, which is herein incorporated by reference.

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

Not applicable.

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

Not applicable.

ITEM 4. **MINE SAFETY DISCLOSURES.**

Not applicable.

ITEM 5. **OTHER INFORMATION.**

Not applicable.

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ITEM 6. EXHIBITS.

- Exhibit 3.1 Certificate of Incorporation of the Company, filed as Exhibit 3(a) to the Company's Registration Statement on Form 8-A, filed with the Commission on September 18, 1989, and incorporated herein by reference.
- Exhibit 3.2 Certificate of Amendment of Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on June 10, 1993 filed as Exhibit 3.2 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1993, and incorporated herein by reference.
- Exhibit 3.3 Certificate of Amendment of Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on May 29, 1996 filed as Exhibit 3.3 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1996, and incorporated herein by reference.
- Exhibit 3.4 Certificate of Amendment of Certificate of Incorporation of the Company filed with the Secretary of State of Delaware on June 16, 2014 and filed as Exhibit 3.4 of the Company's quarterly report on Form 10-Q for the period ended June 28, 2014, and incorporated herein by reference.
- Exhibit 3.5 Third Amended and Restated Bylaws, filed as Exhibit 3.1 to the Company's current report on Form 8-K, filed on November 10, 2014, and incorporated herein by reference.
- 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.
- Exhibit 101* The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2017, filed on August 4, 2017, formatted in XBRL: (i) Condensed Consolidated Balance Sheets (Unaudited), (ii) Condensed Consolidated Statements of Comprehensive Income (Unaudited), (iii) Condensed Consolidated Statements of Cash Flows (Unaudited) and (iv) the Notes to Condensed Consolidated Financial Statements (Unaudited).

*Filed herewith.

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*Filed herewith.