

SUPREME INDUSTRIES INC  
Form 10-K  
March 26, 2008

**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 29, 2007**

**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)

**P.O. Box 237, 2581 E. Kercher Road**

**Goshen, Indiana**  
(Address of principal executive office)

**75-1670945**  
(I.R.S. Employer Identification Number)

**46528**  
(Zip Code)

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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)	American Stock Exchange

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 ☐ No ☒

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 ☐ No ☒

Indicate by check 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 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. ☒

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 definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

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

The aggregate market value of the voting 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 \$6.94 per share for the common stock on the American Stock Exchange on such date was approximately: \$62,331,312

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

<b>Class</b>	<b>Outstanding at March 13, 2008</b>
Class A Common Stock (\$.10 Par Value)	11,012,944 shares
Class B Common Stock (\$.10 Par Value)	2,024,133 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 2008 Annual Meeting of Stockholders to be held on May 8, 2008      Part III

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**PART I**

**ITEM 1. BUSINESS.**

**History**

Supreme Industries, Inc., a Delaware corporation (the "Company" or "Supreme"), is one of the nation's leading manufacturers of specialized vehicles, including trucks, buses and armored vehicles. The Company was incorporated in 1979 and originally had one operating subsidiary, TGC Industries, Inc., which was spun-off to stockholders of the Company effective July 31, 1986.

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

**Financial Information About Operating Segments**

The Company has two operating segments—specialized vehicles and vertically integrated fiberglass products. The vertically integrated 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).

**General Description of the Company's Business**

The specialized vehicle industry consists of companies that manufacture and/or distribute specialized truck bodies and shuttle buses. Depending on the product, it is either built directly on a truck chassis or built separately and installed at a later date. The truck chassis, which consists of an engine, 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's core truck products are medium-priced although prices can range from \$1,000 to \$175,000. Supreme's truck bodies are offered in aluminum or fiberglass reinforced plywood panel ("FRP") construction and are available in lengths of 9 to 45 feet and heights up to 13 feet, 6 inches. Examples of optional equipment offered by Supreme include lift gates, cargo-handling equipment, customized doors, special bumpers, ladder racks, and refrigeration equipment, which are configured with the truck bodies to meet the end-user's needs.

Supreme also makes its own fiberglass wind deflectors, under the name of Fuel Shark, which reduce wind resistance and improve fuel efficiency. Supreme is not in the business of manufacturing long-distance truck-trailers.

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

	2007	2006	2005
Specialized vehicles:			
Trucks	\$ 209,180,974	\$ 259,894,141	\$ 267,563,822
Buses	65,409,725	59,396,203	56,112,684
Armored vehicles	13,813,434	8,361,974	9,203,059
Motorhomes	11,617,653	4,063,359	
	300,021,786	331,715,677	332,879,565
Composites	13,250,937	9,031,112	8,373,287
	\$ 313,272,723	\$ 340,746,789	\$ 341,252,852

The following is a brief summary of Supreme's products:

Van bodies. Supreme's van bodies are typically fabricated up to 28 feet in length with pre-painted aluminum or FRP panels, aerodynamic front and side corners, hardwood floors, and various door configurations to accommodate end-user loading and unloading requirements. This product is used for diversified dry freight transportation.

Iner-City® cutaway van bodies. An ideal route truck for a variety of commercial applications, the Iner-City's aluminum or FRP 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 17 feet) than a 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 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 trucks. Supreme's armored trucks are built to customer specifications in aluminum, galvaneal, or stainless steel.

StarTrans® shuttle buses. The StarTrans® shuttle buses 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.

StarTrans® mid-size buses. Supreme's StarTrans® 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 and provides the Company's dealer network with a more comprehensive product line.

StarTrans® trolleys. Supreme's StarTrans® trolley line is similar in size to the mid-size bus line but resembles a San Francisco trolley car. It is marketed to resort areas, theme parks, and cities desiring unique transportation vehicles.

StarTrans® Tourliner. StarTrans® introduced its Tourliner model in October 2006. This luxury touring coach provides transportation for up to 39 passengers and is marketed to church groups, retirement communities, colleges, and other touring organizations.

StarTrans® Activity Bus. The Activity Bus is a stylish replacement for the former 15 passenger van and is marketed to churches, schools, day care centers, and other organizations in need of shuttle bus capabilities.

Silver Crown. Silver Crown luxury motorcoaches are custom designed for the enthusiast in the race car, show horse, sports car, and motorcycle industries. The custom design along with the strength of a Freightliner chassis allows for towing capacity of large trailers with the comforts of a high-end recreational vehicle.



Pony Xpress. Pony Xpress manufactures motorhomes, motorhomes, and garages on a variety of OEM chassis. The product provides towing capacity and mobility for a variety of hauling needs with the comforts of a traditional recreation vehicle.

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

Some examples of specialized vehicles that are not manufactured by Supreme are dump bodies, utility bodies, and garbage packers. Neither Supreme nor any of its competitors manufacture every type of specialized vehicle.

### **Manufacturing**

Supreme's manufacturing facilities are located in Goshen and Ligonier, Indiana; Griffin, Georgia; Cleburne, Texas; Moreno Valley, California; Jonestown, Pennsylvania; Woodburn, Oregon, and White Pigeon, Michigan. Supreme's management estimates that the capacity utilization of its plants and equipment ranges from 60% to 90% of capacity when annualized on a one-shift basis. At various times during the year, several of the Company's plants operate at near capacity to fulfill large fleet order contracts.

Supreme builds specialized vehicles 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. At each step of 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.

Supreme is more vertically integrated than many of its competitors. The Company manufactures its own fiberglass reinforced plywood, fiberglass parts, and has extensive roll forming and metal bending capabilities. A portion of the excess capacity of these fabrication capabilities is used to supply products to the recreational vehicle and marine industries. 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.

### **Marketing**

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Supreme normally sells the vehicle and/or equipment that has been installed on the chassis to commercial dealers, distributors, fleet leasing companies, or directly to end-users. Products purchased by a dealer from Supreme are sold by the dealer to its own customers. Since Supreme or its distributors generally service all Supreme products sold by the dealers, each dealer is normally located within relatively close geographic proximity to Supreme or the distributor supplying such dealer.

Supreme's distributor/dealer network consists of approximately 40 bus distributors, a limited number of truck equipment distributors, and approximately 1,000 commercial dealers. Management believes that this large network, coupled with Supreme's geographically-dispersed plant and distribution sites, gives Supreme a distinct marketing advantage over its competitors. Supreme generally delivers its products within 4 to 8 weeks after the receipt of orders.

Supreme directly markets products in geographic areas where the Company does not have a distributor. The Company currently has distribution/mounting facilities in or near the cities of St. Louis, Missouri; Louisville, Kentucky; Cleveland and Columbus, Ohio; Orlando, Florida; Houston and San Antonio, Texas; Denver, Colorado and Harrisville, Rhode Island.

Approximately 85 employees are engaged in direct sales. Supreme engages in direct advertising in trade publications, trade shows, and cooperative advertising campaigns with distributors.

### **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 its days sales outstanding and its days inventories on hand are within normal industry levels. The Company had working capital of \$58.5 million and \$66.6 million at December 29, 2007 and December 30, 2006, respectively.

### **Major Customers**

No single customer, or group of customers, accounted for 10% or more of the Company's net sales for the fiscal years ended in 2007, 2006, and 2005. The Company's export sales are not significant.

### **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, diverse product offerings, and strong financial position, the Company believes it is well-positioned to meet the competitive challenges presented.

### **Governmental Regulation**

Our 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 the water, treatment, storage, and disposal of water, and remediation of contaminated sites. From time to time, we have received notices of noncompliance with respect to our operations. These have typically been resolved by investigating the alleged noncompliance and correcting any noncompliant conditions.

**Seasonality of Business**

The Company's business is generally not seasonal in nature due to the normal replacement cycle of its products (being approximately seven years). However, the Company historically has participated in bids for large fleet contracts and, if successful, is generally required to ship these fleet units 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 29, 2007 and December 30, 2006, the Company employed approximately 2,100 and 2,400 employees, respectively, none of whom are represented by a collective bargaining unit. The Company considers its relations with its employees to be very favorable.

**Back Log**

The Company's backlog of firm orders was \$87.0 million at December 29, 2007 compared to \$97.5 million at December 30, 2006.

**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.

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

Supreme does not have long-term raw material contracts and is dependent upon suppliers of steel, aluminum, wood products, and fiberglass materials 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.

**Volatility in the supply of vehicle chassis and other vehicle components could adversely affect our business because they may reduce the number of truck bodies and buses that we can manufacture or result in excess inventory costs.**

Supreme generally does not purchase vehicle chassis for its inventory. Supreme 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. In the event of a labor disruption or other uncontrollable event adversely affecting all or most of the companies which manufacture and/or deliver such chassis, Supreme's level of manufacturing could be substantially reduced. The Company has established relationships with all major chassis manufacturers. In the event of a disruption in supply from one manufacturer, the Company would attempt to divert its demand to the other manufacturers. Approximately 30% of the chassis involved in Supreme's manufacturing have been secured through converter pool agreements with three major chassis manufacturers. These agreements provide for truck chassis pools at each of Supreme's manufacturing facilities.

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

**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 shuttle 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 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 liability claim in excess of our insurance coverage, 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 claims if the use of our current and formally manufactured products result, or are alleged to result, in personal injury and/or property damage. If we manufacture a defective product, we may experience material product liability losses in the future. In addition, we may incur significant costs to defend product liability claims. We could also incur damages and significant costs in correcting any defects, lost sales, and suffer damage to our reputation. Our product liability 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 would harm our business and our ability to implement our strategies.

**Our relatively low trading volumes may limit our stockholders' ability to 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 29, 2007, were \$8.10 and \$5.50, respectively. Our Class A Common Stock is listed on the American Stock 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 public-traded securities. For example, during the twelve month period ended December 29, 2007, our

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daily trading volume has been as low as zero. It may be difficult for you to sell your 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 March 20, 2008, our officers and directors as a group beneficially own 32.3% of our Class A Common Stock and 90.1% 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 shareholder 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 American Stock Exchange, and the holders thereof are entitled to elect three members of the Company's Board of Directors. The majority (90.1%) 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 you to receive any related take-over premium for your shares (unless the controlling group approves the sale).

**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 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 assure compliance 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.

(See other risk factors listed under the following captions: Critical Accounting Policies and Estimates and Forward-Looking Statements)

**ITEM 2. PROPERTIES.**

Set forth below is a brief summary of the properties which are owned or leased by the Company as of December 29, 2007.

	<b>Square Footage</b>	<b>Owned or Leased</b>	<b>Operating Segment</b>
<u>Manufacturing of Products</u>			
Jonestown, Pennsylvania	429,376	Owned	