SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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

| | |
|---|---|
| For the Quarter Ended<br>**June 30, 1999** | Commission File Number<br>**0-13611** |

# SPARTAN MOTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Michigan**<br>(State or Other Jurisdiction of<br>Incorporation or Organization) | **38-2078923**<br>(I.R.S. Employer<br>Identification No.) |
| **1000 Reynolds Road**<br>**Charlotte, Michigan**<br>(Address of Principal Executive Offices) | **48813**<br>(Zip Code) |

Registrant's Telephone Number, Including Area Code: **(517) 543-6400**

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

Yes __X__ No _____

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

| Class | Outstanding at<br>August 3, 1999 |
|---|---|
| Common stock, $.01 par value | 12,534,702 shares |

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**SPARTAN MOTORS, INC.**

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## PART I. FINANCIAL INFORMATION

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

### SPARTAN MOTORS, INC.
### CONSOLIDATED BALANCE SHEETS

| | June 30, 1999 (Unaudited) | December 31, 1998 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 547,602 | $ 37,645 |
| Investment securities | | 500,000 |
| Accounts receivable, less allowance for doubtful accounts of $2,632,000 in 1999 and $2,600,000 in 1998 | 47,522,914 | 43,110,400 |
| Inventories (Note 5) | 48,232,688 | 47,244,529 |
| Deferred tax benefit | 2,148,867 | 2,165,250 |
| Other current assets | 1,489,688 | 1,042,762 |
| **Total Current Assets** | 99,941,759 | 94,100,586 |
| **Property, Plant and Equipment,** net of accumulated depreciation of $15,509,000 in 1999 and $14,003,000 in 1998 | 22,583,792 | 23,420,603 |
| **Goodwill**, net of accumulated amortization of $669,000 in 1999 and $478,000 in 1998 | 7,100,029 | 7,315,035 |
| **Other Assets** | 1,587,805 | 1,080,253 |
| **Total Assets** | $ 131,213,385 | $ 125,916,477 |

(Continued)

**SPARTAN MOTORS, INC.**
**CONSOLIDATED BALANCE SHEETS (Continued)**

| | June 30, 1999 (Unaudited) | December 31, 1998 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 23,419,127 | $ 23,969,302 |
| Notes payable | 8,145,356 | 7,134,297 |
| Other current liabilities and accrued expenses | 4,852,602 | 5,184,466 |
| Accrued warranty | 3,781,217 | 3,888,364 |
| Accrued customer rebates | 489,320 | 563,152 |
| Taxes on income | 701,027 | 1,446,432 |
| Accrued compensation and related taxes | 1,925,473 | 1,327,923 |
| Accrued vacation | 1,472,244 | 1,253,460 |
| Deposits from customers | 3,821,003 | 3,133,676 |
| Current portion of long-term debt | 511,658 | 991,251 |
| **Total Current Liabilities** | 49,119,027 | 48,892,323 |
| **Accounts Payable, long-term** | 1,622,362 | 1,655,607 |
| **Long-Term Debt, less current portion** | 31,377,353 | 27,641,888 |
| **Notes Payable to Related Parties** | 1,616,951 | 2,593,874 |
| **Shareholders' Equity:** | | |
| Preferred stock, no par value, 2,000,000 shares authorized (none issued) | | |
| Common stock, $.01 par value, 23,900,000 shares authorized, issued 12,534,702 shares in 1999 and 12,536,891 shares in 1998 | 125,347 | 125,369 |
| Additional paid in capital | 24,149,071 | 24,152,744 |
| Retained earnings, net of effect of minority interest in shareholders' deficit of subsidiary of ($5,457,000) in 1999 and ($6,207,000) in 1998 | 23,203,274 | 20,883,094 |
| Accumulated other comprehensive loss | -- | (28,422) |
| **Total Shareholders' Equity** | 47,477,692 | 45,132,785 |
| **Total Liabilities and Shareholders' Equity** | $ 131,213,385 | $ 125,916,477 |

See notes to condensed consolidated financial statements.



**SPARTAN MOTORS, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| | Three Months Ended June 30, | |
|---|---|---|
| | 1999 | 1998 |
| **Sales** | $ 75,262,770 | $ 55,504,257 |
| Cost of products sold | 65,470,269 | 47,932,264 |
| **Gross profit** | 9,792,501 | 7,571,993 |
| **Operating expenses** | | |
| Research and development | 1,678,560 | 1,301,747 |
| Selling, general and administrative | 5,518,807 | 4,635,631 |
| **Operating income** | 2,595,134 | 1,634,615 |
| **Other income (expense)** | | |
| Interest expense | (561,172) | (267,082) |
| Interest and other income | 111,429 | 201,440 |
| **Earnings before equity in loss of affiliate and taxes on income** | 2,145,391 | 1,568,973 |
| **Equity in loss of affiliate** | -- | 1,521,000 |
| **Earnings before taxes on income** | 2,145,391 | 47,973 |
| **Taxes on income** | 1,142,834 | 502,109 |
| **Net earnings (loss)** | $ 1,002,557 | $ (454,136) |
| **Basic and diluted net earnings per share** | $ 0.08 | $ (0.04) |
| **Basic weighted average common shares outstanding** | 12,535,000 | 12,564,000 |
| **Diluted weighted average common shares outstanding solely due to impact of outstanding stock options** | 12,547,000 | 12,564,000 |

See notes to condensed consolidated financial statements.



**SPARTAN MOTORS, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(UNAUDITED)**

| | Six Months Ended June 30, | |
|---|---|---|
| | 1999 | 1998 |
| **Sales** | $ 150,888,341 | $ 114,660,512 |
| Cost of products sold | 130,256,957 | 98,402,743 |
| **Gross profit** | 20,631,384 | 16,257,769 |
| **Operating expenses** | | |
| Research and development | 3,422,024 | 2,619,047 |
| Selling, general and administrative | 10,980,155 | 8,855,314 |
| **Operating income** | 6,229,205 | 4,783,408 |
| **Other income (expense)** | | |
| Interest expense | (1,319,104) | (484,709) |
| Interest and other income | 227,749 | 495,390 |
| **Earnings before equity in loss of affiliate and taxes on income** | 5,137,850 | 4,794,089 |
| **Equity in loss of affiliate** | -- | 2,771,000 |
| **Earnings before taxes on income** | 5,137,850 | 2,023,089 |
| **Taxes on income** | 2,690,240 | 1,538,988 |
| **Net earnings** | $ 2,447,610 | $ 484,101 |
| **Basic and diluted net earnings per share** | $ 0.20 | $ 0.04 |
| **Basic weighted average common shares outstanding** | 12,535,000 | 12,488,000 |
| **Diluted weighted average common shares outstanding solely due to impact of outstanding stock options** | 12,543,000 | 12,525,000 |

See notes to condensed consolidated financial statements.



**SPARTAN MOTORS, INC.**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(UNAUDITED)**

| | Number of Shares | Common Stock | Additional Paid In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) Valuation Allowance | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 1999 | $ 12,536,891 | $ 125,369 | $ 24,152,744 | $ 20,883,094 | $ (28,422) | $ 47,132,785 |
| Stock options exercised | 1,325 | 13 | 3,167 | | | 3,180 |
| Shares issued in purchase price adjustment related to acquisition of subsidiary | 39,149 | 392 | 248,711 | | | 249,103 |
| Assets sold in exchange for stock | (42,663) | (427) | (255,551) | | | (255,978) |
| Minority funding of shareholders' deficit of subsidiary | | | | 750,000 | | 750,000 |
| Dividends paid (.07 per share) | | | | (877,430) | | (877,430) |
| Comprehensive income: | | | | | | |
| Net earnings | | | | 2,447,610 | | 2,447,610 |
| Other comprehensive items, net of tax: | | | | | | |
| Change in valuation allowance (net of tax benefit of $16,400) | | | | | 28,422 | 28,422 |
| Total comprehensive income | | | | | | 2,476,032 |
| Balance at June 30, 1999 | 12,534,702 | $ 125,347 | $ 24,149,071 | $ 23,203,274 | $ 0 | $ 47,477,692 |

See notes to condensed consolidated financial statements.



**SPARTAN MOTORS, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

| | Six Months Ended June 30, 1999 | Six Months Ended June 30, 1998 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net earnings | $ 2,447,610 | $ 484,101 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | |
| Depreciation and amortization | 2,052,054 | 1,175,992 |
| Gain on disposal of assets | (68,180) | -- |
| Equity in net loss of affiliate | -- | 2,771,000 |
| Decrease (increase) in assets: | | |
| Accounts receivable | (4,412,514) | (2,078,692) |
| Inventories | (1,256,515) | (8,088,080) |
| Federal taxes receivable | -- | 424,701 |
| Other assets | (954,478) | 478,308 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (583,420) | 563,627 |
| Other current liabilities and accrued expenses | 166,342 | 383,681 |

| | | |
|---|---|---|
| Accrued warranty | (107,147) | (111,257) |
| Accrued customer rebates | (73,832) | (199,548) |
| Taxes on income | (745,405) | 265,214 |
| Accrued vacation | 218,784 | (163,762) |
| Accrued compensation and related taxes | 597,550 | (331,889) |
| Other | 642,327 | (2,251,794) |
| **Total Adjustments** | (4,524,434) | (7,162,499) |
| **Net Cash Used In Operating Activities** | (2,076,824) | (6,678,398) |
| **Cash Flows From Investing Activities:** | | |
| Purchases of property, plant and equipment | (865,222) | (493,992) |
| Proceeds from sales of property, plant and equipment | 35,348 | 25,245 |
| Purchases of investment securities | -- | (364,976) |
| Proceeds from sales of investment securities | 500,000 | 400,000 |
| Investment in affiliate | -- | (2,771,000) |
| Purchase price adjustment related to acquisition of subsidiary | (249,103) | -- |
| Minority interest funding of shareholders' deficit of subsidiary | 750,000 | -- |
| Acquisition of subsidiaries, net of cash received | -- | (1,661,787) |
| **Net Cash Provided By (Used In) Investing Activities** | 171,023 | (4,866,510) |

(Continued)



**SPARTAN MOTORS, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED) (Continued)**

| | Six Months Ended June 30, | |
|---|---|---|
| | 1999 | 1998 |
| **Cash Flows From Financing Activities:** | | |
| Proceeds from notes payable | $ -- | $ 55,000 |
| Payments on notes payable | 34,136 | (236,177) |
| Proceeds from long-term debt | 3,985,713 | 9,500,000 |
| Payments on long-term debt | (729,841) | (677,317) |
| Net proceeds from exercise of stock options | 3,180 | 63,265 |
| Dividends paid | (877,430) | (879,655) |
| Purchase of previously-issued stock | -- | (137,225) |
| **Net Cash Provided By Financing Activities** | 2,415,758 | 7,687,891 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 509,957 | (3,857,017) |
| **Cash and Cash Equivalents at Beginning of Period** | 37,645 | 4,812,438 |
| **Cash and Cash Equivalents at End of Period** | $ 547,602 | $ 955,421 |

See notes to condensed consolidated financial statements.



**SPARTAN MOTORS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1** For a description of the accounting policies followed refer to the notes to the Company's annual consolidated financial statements for the year ended December 31, 1998, included in the Form 10-K filed with the Securities and Exchange Commission on March 19, 1999.

**Note 2** The accompanying unaudited interim consolidated financial statements reflect all normal and recurring adjustments that are necessary for fair presentation of the financial position as of June 30, 1999 and the results of operations and cash flows for the periods presented.

**Note 3** The results of operations for the six month period ended June 30, 1999 are not necessarily indicative of the results to be expected for the full year.

**Note 4** As of January 1, 1998, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 130, "Reporting Comprehensive Income." Statement No. 130 establishes rules for the reporting of comprehensive income and its components. The adoption of this statement had no impact on the Company's net earnings or shareholders' equity. Other comprehensive gain for the six months ended June 30, 1998 was $453,000.

**Note 5** Inventories consist of raw materials and purchased components, work in process and finished goods and are summarized as follows:

| | June 30, 1999 | December 31, 1998 |
|---|---|---|
| | (Unaudited) | |
| Finished goods | $ 5,958,778 | $ 4,688,880 |
| Raw materials and purchased components | 38,195,889 | 38,477,149 |
| Work in process | 6,487,708 | 5,698,500 |
| Obsolescence reserve | ( 2,409,687) | (1,620,000) |
| | $ 48,232,688 | $ 47,244,529 |

**Note 6** Sales and other financial information by business segment are as follows (in thousands). The Chassis Group consists of the Company's wholly owned subsidiary, Spartan Motors Chassis, Inc. The Bodies Group consists of the Company's wholly owned subsidiaries: Luverne Fire Apparatus Co., Ltd., Quality Manufacturing, Inc. and Road Rescue, Inc., as well as Carpenter, the Company's 49.9% subsidiary.

Three months ended June 30, 1999

| | Manufacturing of | | Other/ Consolidation | |
|---|---|---|---|---|
| | Chassis | Bodies | Entries | Consolidated |
| Net sales | $ 55,571 | $ 22,064 | $ 2,372 | $ 75,263 |
| Interest expense | 264 | 299 | (2) | 561 |
| Depreciation and amortization expense | 351 | 576 | 131 | 1,058 |
| Income tax expense | 1,090 | 100 | (47) | 1,143 |
| Segment earnings | 2,112 | (924) | (185) | 1,003 |
| Segment assets | 70,567 | 54,225 | 6,421 | 131,213 |

**SPARTAN MOTORS, INC.**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Three months ended June 30, 1998

| | Manufacturing of | | Other/ Consolidation | |
|---|---|---|---|---|
| | Chassis | Bodies | Entries | Consolidated |
| Net sales | $ 44,998 | $ 12,586 | $ (2,080) | $ 55,504 |
| Interest expense | 272 | 72 | (77) | 267 |
| Depreciation and amortization expense | 418 | 175 | -- | 593 |
| Equity in the loss of affiliate | -- | -- | 1,521 | 1,521 |
| Income tax expense | 486 | 11 | 5 | 502 |
| Segment earnings | 1,214 | 103 | (1,771) | (454) |
| Segment assets | 54,528 | 21,681 | 16,358 | 92,567 |

Six months ended June 30, 1999

| | Manufacturing of | | Other/ Consolidation | |
|---|---|---|---|---|
| | Chassis | Bodies | Entries | Consolidated |
| Net sales | $ 116,026 | $ 39,641 | $ (4,777) | $ 150,888 |
| Interest expense | 565 | 783 | (29) | 1,319 |
| Depreciation and amortization expense | 690 | 1,154 | 208 | 2,052 |
| Income tax expense | 2,563 | 314 | (187) | 2,690 |
| Segment earnings | 4,920 | (2,095) | (377) | (2,448) |

Six months ended June 30, 1998

| | Manufacturing of | | Other/ Consolidation | |
|---|---|---|---|---|
| | Chassis | Bodies | Entries | Consolidated |
| Net sales | $ 93,488 | $ 25,097 | $ (3,924) | $ 114,661 |
| Interest expense | 452 | 110 | (77) | 485 |
| Depreciation and amortization expense | 825 | 351 | -- | 1,176 |
| Equity in the loss of affiliate | -- | -- | 2,771 | 2,771 |
| Income tax expense | 1,446 | 88 | 5 | 1,539 |
| Segment earnings | 1,945 | 200 | (1,661) | 484 |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of the major elements impacting the Company's financial and operating results for the period ended June 30, 1999 compared to the period ended June 30, 1998. You should read the comments that follow in conjunction with the Company's consolidated financial statements and related notes contained in this Quarterly Report on Form 10-Q.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

**RESULTS OF OPERATIONS**

The following table sets forth, for the periods indicated, the components of the Company's consolidated statements of operations, on an actual basis, as a percentage of revenues:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of product sold | 87.0% | 86.4% | 86.3% | 85.8% |
| Gross profit | 13.0% | 13.6% | 13.7% | 14.2% |
| Operating expenses: | | | | |
| Research and development | 2.2% | 2.3% | 2.3% | 2.3% |
| Selling, general and administrative | 7.3% | 8.3% | 7.3% | 7.7% |
| Operating income | 3.5% | 3.0% | 4.1% | 4.2% |
| Other | (0.6)% | (0.2)% | (0.7)% | 0.0% |
| Earnings before loss on equity investment and taxes on income | 2.9% | 2.8% | 3.4% | 4.2% |
| Equity in loss of affiliate | 0.0% | 2.7% | 0.0% | 2.4% |
| Taxes on income | 1.6% | 0.9% | 1.8% | 1.4% |
| Net earnings (loss) | 1.3% | (0.8)% | 1.6% | 0.4% |

***Three-Month Period Ended June 30, 1999 Compared to the Three-Month Period Ended June 30, 1998***

For the second quarter of 1999 consolidated sales increased by $19.8 million (35.6%) over the amount reported for the same period in 1998. The consolidation of Carpenter Industries, Inc. ("Carpenter") in the second quarter of 1999 accounts for $7.9 million of the increase, or 39.4%. Chassis Group sales for the second quarter of 1999 increased by $10.6 million (23.5%) compared to the sales reported for the same period in 1998. The two product lines responsible for this increase are motorhome chassis and fire truck chassis. For the second quarter of 1999, motorhome chassis sales increased 48.2% compared to the quarter ended June 30, 1998, primarily due to the increase in market demand for recreational vehicles. Fire truck chassis sales increased 19.9% during the second quarter of 1999 compared to the same period of 1998. The success of the Company's Advantage fire truck product line, coupled with a strong market, resulted in the increase.

Transit bus sales declined 93.4% for the second quarter of 1999 compared to the sales reported for the same period in 1998. This is primarily attributable to a reduction in sales to a customer that had a dramatic change in their management structure during the second quarter of 1999. The Company expects sales to improve during the third and fourth quarters, however sales are not expected to achieve 1998 volumes. Transit bus sales comprised less than 8% of the Company's annual revenues during 1998.

Gross profit increased $2.2 million (29.3%) for the second quarter of 1999 compared to the second quarter of 1998. This improvement is due to increased sales of the Company. Gross profit as a percentage of sales decreased from 13.6% for the second quarter of 1998 to 13.0% for the second quarter of 1999. The Bodies Group operates at lower margins than the Chassis Group since the value added is only in the body rather than the complete vehicle. The Bodies Group impact was increased with consolidation of Carpenter for the second quarter of 1999.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Operating expenses increased $1.2 million in the second quarter of 1999 compared to the same period in 1998, but declined as a percentage of sales from 10.7% to 9.5%. This decline primarily is due to a 10.2% decline in Chassis Group operating expenses as a percentage of sales for the second quarter of 1999 compared to the second quarter of 1998. The reduction in operating expenses reflects the Company's continued efforts to increase efficiencies and reduce costs. An increase in the Company's interest-bearing debt resulted in increased interest expense for the second quarter of 1999 compared to the same period in 1998. This increase is related to the consolidation of Carpenter versus the entity being accounted for on the equity method for the second quarter of 1998. Carpenter is not consolidated for tax purposes, however, because the Company owns less than 80% of Carpenter. Accordingly, Carpenter's losses cannot be deducted for tax purposes. Therefore, the Company's tax rate appears higher than the actual effective tax rate for the Company.

Total chassis orders received increased 24.3% during the second quarter of 1999 compared to the same period in 1998. The increase in orders primarily is attributed to the Company's fire truck and motorhome product lines. Based on average order lead-time, the Company estimates that approximately one-half of the motorhome, one-third of the bus/specialty and none of the fire truck orders received during the three-month period ended June 30, 1999 were produced and delivered by June 30, 1999.

At June 30, 1999, the Company had $111.9 million in backlog orders compared with backlog of $108.6 million for the same period in 1998. A portion of the increase is due to motorhome backlog which has increased by 9% during the second quarter of 1999 compared to the amount of backlog reported for the same period in 1998 in response to the strengthening of the recreational vehicle market. While orders in backlog are subject to modification, cancellation or rescheduling by customers, the Company has not experienced significant modification, cancellation or rescheduling of orders in the past. Although the backlog of unfilled orders is one of many indicators of market demand, several factors, such as changes in production rates, available capacity, new product introductions and competitive pricing actions, may affect actual sales. Accordingly, a comparison of backlog from period to period is not necessarily indicative of eventual actual shipments.

***Six-Month Period Ended June 30, 1999 Compared to the Six-Month Period Ended June 30, 1998***

Revenues for the six months ended June 30, 1999 were $150.9 million compared to $114.7 million for the same period in 1998, an increase of 31.6%. The consolidation of Carpenter during the six months ended June 30, 1999 accounts for $12.5 million of the increase, or 34.5%. Net income for the six months ended June 30, 1999 was $2.5 million compared with net income of $484,000 for the six months ended June 30, 1998, an increase of 405.6%. The increase in revenues and income primarily is attributable to the contribution of the Chassis Group. Total chassis production increased 24.1% in the six months ended June 30, 1999 with fire truck production increasing 24.0%. Motor home production increased 37.5% in the six months ended June 30, 1999 compared to the amount of production in the six months ended June 30, 1998 due to the strong market demand in the recreational vehicle market.

Gross profit as a percentage of sales declined from 14.2% for the six months ended June 30, 1998 to 13.7% for the six months ended June 30, 1999. The Bodies Group impact was increased with consolidation of Carpenter for the six months ended June 30, 1999.

Operating expenses for the six months ended June 30, 1999 declined as a percentage of sales from 10.0% during the six months ended June 30, 1998 to 9.6%. The decline primarily is due to a 9.6% decline in Chassis Group operating expenses as a percentage of sales for the six months ended June 30, 1999 compared to the six months ended June 30, 1998. The reduction in operating expenses reflects the Company's continued efforts to increase efficiencies and reduce costs. An increase in the Company's interest-bearing debt resulted in increased interest expense for the six months ended June 30, 1999 compared to the six months ended June 30, 1998. This increase is related to the consolidation of Carpenter versus the entity being accounted for on the equity method for the second quarter of 1998. Carpenter is not consolidated for tax purposes, however, because the Company owns less than 80% of Carpenter. Accordingly, Carpenter's losses cannot be deducted for tax purposes. Therefore, the Company's tax rate appears higher than the actual effective tax rate for the Company.





Total chassis orders received increased 11.6% during the six months ended June 30, 1999 compared to the same period in 1998. The increase in orders primarily is attributed to the Company's motorhome and fire truck product lines. Based on average order lead-time, the Company estimates that approximately one-half of the motorhome, one-third of the bus/specialty and one-sixth of the fire truck orders received during the three-month period ended June 30, 1999 were produced and delivered by June 30, 1999.

At June 30, 1999, the Company had $111.9 million in backlog orders compared with backlog of $108.6 million for the same period in 1998. A portion of the increase is due to motorhome backlog which has increased by 9% during the six months ended June 30, 1999 compared to the amount of backlog reported for the same period in 1998 in response to the strengthening of the recreational vehicle market. While orders in backlog are subject to modification, cancellation or rescheduling by customers, the Company has not experienced significant modification, cancellation or rescheduling of orders in the past. Although the backlog of unfilled orders is one of many indicators of market demand, several factors, such as changes in production rates, available capacity, new product introductions and competitive pricing actions, may affect actual sales. Accordingly, a comparison of backlog from period to period is not necessarily indicative of eventual actual shipments.

**LIQUIDITY AND CAPITAL RESOURCES**

For the six months ended June 30, 1999 cash used by operating activities was $2.1 million compared to cash used in operating activities of $6.7 million for the six months ended June 30, 1998. The decrease in cash used primarily relates to an increase in earnings and the maintenance of consistent inventory levels for the Chassis Group. Working capital increased $5.6 million, from $45.2 million at December 31, 1998 to $50.8 million at June 30, 1999. See the Consolidated Statement of Cash Flows contained in this Form 10-Q for further information regarding the increase in cash and cash equivalents from $37,645 at December 31, 1998 to $547,602 at June 30, 1999.

Shareholders' equity increased $2.3 million from the amount reported at December 31, 1998 to $47.5 million for the six months ended June 30, 1999. This change primarily is due to net earnings of $2.4 million and a $750,000 contribution by the minority shareholder of Carpenter, which were offset by a dividend paid to shareholders of $877,430. The Company's debt to equity ratio increased to 74.0% on June 30, 1999 compared with 72.9% at December 31, 1998, due to the increase in borrowing resulting from the negative cash flow from operations.

The Company's primary line of credit is a $30.0 million revolving note payable to a bank. Under the terms of the line of credit agreement, the Company is required to maintain certain financial ratios and other financial conditions. The agreement also prohibits the Company from incurring additional indebtedness, limits certain acquisitions, investments, advances or loans and restricts substantial asset sales. At June 30, 1999 the Company was in compliance with all debt covenants. The Company also has unsecured lines of credit at its subsidiary locations for $0.2 million and $1.0 million and a secured line of credit for $4.3 million. The $4.3 million line carries an interest rate of ½% above the bank's prime rate (prime rate at June 30, 1999, was 7.75%) and has an expiration date of June 2000. This line of credit is secured by accounts receivable and inventory. Borrowings under this line totaled approximately $4.3 million at June 30, 1999. The other two lines carry an interest rate of 1% above the bank's prime rate. The $0.2 million line has an expiration date of June 1, 2000. The $1.0 million line expires only if there is a change in management. There were no borrowings on either of these lines at June 30, 1999. The Company believes it has sufficient resources from cash flows from operating activities and, if necessary, from additional borrowings under its lines of credit to satisfy ongoing cash requirements for the next 12 months.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The Company's primary market risk exposure is a change in interest rates in connection with its outstanding variable rate short-term and long-term debt. Due to variable interest rates on the Company's short-term and long-term debt, an increase in interest rates of 1% could result in the Company incurring an additional $0.3 million in annual interest expense. Conversely, a decrease in interest rates of 1% could result in the Company saving $0.3 million in annual interest expense. The Company does not expect such market risk exposure to have a material adverse effect on the Company. The Company does not enter into market risk sensitive instruments for trading purposes.

**Year 2000 Readiness Disclosure**

This Year 2000 Readiness Disclosure is based upon and partially repeats information provided by the Company's outside consultants and others regarding the Year 2000 readiness of the Company and its customers, suppliers, financial institutions and other parties. Although the Company believes this information to be accurate, it has not independently verified this information.

The Company is currently in the process of addressing a potential problem that is facing all users of automated information systems. The problem is that many computer systems that process transactions based on two digits representing the year of transaction may recognize a date using "00" as the year 1900 rather than the year 2000. The problem could affect a wide variety of automated information systems, in the form of software failure, errors or miscalculations.

The Company established a Year 2000 task force and developed a plan to prepare for the Year 2000 in 1998. This plan began with the performance of an inventory of software applications and equipment with embedded chips and communications with third party vendors and suppliers. The plan regularly is updated and monitored by the Company's technical personnel and management. The Company's plan to address the Year 2000 issue involves the following four phases: assessment, remediation, testing and implementation. The status of these phases is summarized in the chart below.

| | Assessment | Remediation | Testing | Implementation |
|---|---|---|---|---|
| Information Technology | 100% Complete | 100% Complete | 95% Complete | 95% Complete |
| | | | Expected completion date is September 1999 | Expected completion date is September 1999 |
| Operating Equipment with Embedded Chips or Software | 100% Complete | 100% Complete | 100% Complete | 100% Complete |
| Products | 100% Complete | 100% Complete | 100% Complete | 100% Complete |
| Third Parties | 100% Complete | 100% Complete | 100% Complete | 75% Complete |
| | | | | Implement contingency plans or other alternatives as necessary by September 1999 |

As referenced in the previous chart, management has reviewed its Year 2000 exposure to third party customers, distributors, suppliers and financial institutions. Lack of readiness by these third parties could expose the Company to the potential for loss and impairment of business processes and activities. The Company is assessing these risks and is considering the need for contingency plans intended to address perceived risks. The Company cannot predict what effect the failure of such a third party to address, in a timely manner, the Year 2000 problem would have on the Company.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

As of June 30, 1999, the Company had not incurred any material costs in connection with identifying, assessing, remediating and testing Year 2000 issues and does not expect to incur material costs in the future. The immaterial costs consist primarily of personnel expense for employees who have only a portion of their time dedicated to the Year 2000 remediation effort. It is the Company's policy to expense these costs as incurred. These costs will be funded through operating cash flows. The Company has not replaced, nor does it anticipate replacing, any systems due to Year 2000 issues. In addition, the Company has not accelerated any system replacement due to Year 2000 issues. Any system replacement that the Company has undertaken was due to regular, scheduled maintenance. Based on currently available information, management does not presently anticipate that the costs to address the Year 2000 issues will have an adverse impact on the Company's financial condition, results of operation or liquidity. However, the extent to which the computer operations and other systems of the Company's important third parties are adversely affected could, in turn, affect the Company's ability to communicate with third parties and could have a material adverse effect on the operations of the Company.

Management of the Company believes that it has an effective program in place to resolve the Year 2000 issue in a timely manner. As noted above, the Company has not yet completed all necessary phases of its Year 2000 plan. If the Company does not complete any additional phases, the Company will be unable to access its voice mail and may have some employees with personal computers that will malfunction. In addition, disruptions in the economy generally resulting from Year 2000 issues could also materially adversely affect the Company. The amount of potential liability and lost revenue cannot be reasonably estimated at this time. The Company has developed contingency plans for certain critical applications and is working on developing such plans for other applications. These contingency plans involve, among other actions, manual workarounds, increasing inventories and adjusting staffing strategies.

The costs of the project and the date on which the Company believes it will complete the Year 2000 modifications are based on management's best estimates. There can be no guarantee that these estimates will be achieved and actual results could differ from those anticipated. Specific factors that might cause differences include, but are not limited to, the ability of other companies on which the Company's systems rely to modify or convert their systems to be Year 2000 compliant, the ability to locate and correct all relevant computer code, the ability of all third parties who have business relationships with the Company to continue their businesses without interruption and similar circumstances.

**Forward-Looking Statements**

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the Company's markets, the economy and about the Company itself. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "plans," "projects," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may differ materially from what may be expressed or forecasted in such forward-looking statements. Spartan undertakes no obligation to update, amend or clarify forward-looking statements, as a result of new information, future events or otherwise.

Future Factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement include, but are not limited to, changes in interest rates; demand for products and services; the effects of the Year 2000 issues on the Company's business; the degree of competition by competitors; changes in laws or regulations, including changes related to safety standards adopted by National Fire Protection Association; changes in prices, levies and assessments; the impact of technological advances; government and regulatory policy changes; trends in customer behaviors; dependence on key personnel; and the vicissitudes of the world and national economy.



## Item 3. Quantitative and Qualitative Disclosures About Market Risk

See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources," which is incorporated by reference in this Item 3, for discussion of market risk related to variable interest rates on short-term and long-term debt.

**PART II. OTHER INFORMATION**

## Item 4. Submission of Matters to a Vote of Security-Holders

The annual meeting of shareholders of Spartan Motors, Inc. was held on May 25, 1999. The purpose of the meeting was to elect directors, to approve the Stock Option and Restricted Stock Plan of 1998, to ratify the appointment of Ernst & Young LLP as independent auditors for the current fiscal year and transact any other business that properly came before the meeting.

The name of each director elected (along with the number of votes cast for or authority withheld) is as follows:

**Votes Cast**

| Elected Directors | For | Authority Withheld/Against |
|---|---|---|
| George W. Sztykiel | 11,239,403 | 108,775 |
| William F. Foster | 11,239,403 | 108,775 |

The following persons continue to serve as directors: Charles E. Nihart, James C. Penman, Anthony G. Sommer, John E. Sztykiel, George Tesseris and David R. Wilson.

The following proposals were acted on:

| Proposal | For | Against | Abstain |
|---|---|---|---|
| Proposal to approve the Stock Option and Restricted Stock Plan of 1998: | 5,686,967 | 1,189,515 | 4,471,696 |
| Proposal to ratify the appointment of Ernst & Young LLP as independent auditors for the current fiscal year: | 11,289,446 | 39,254 | 19,478 |

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits. The following documents are filed as exhibits to this report on Form 10-Q:

| Exhibit No. | Document |
|---|---|
| 3.1 | Spartan Motors, Inc. Restated Articles of Incorporation. Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1996, and incorporated herein by reference. |
| 3.2 | Spartan Motors, Inc. Bylaws (restated to reflect all amendments). Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 1995, and incorporated herein by reference. |
| 4.1 | Restated Articles of Incorporation. See Exhibit 3.1 above. |



| | |
|---|---|
| 4.2 | Bylaws. See Exhibit 3.2 above. |
| 4.3 | Form of Stock Certificate. Previously filed as an exhibit to the Registration Statement on Form S-18 (Registration No. 2-90021-C) filed on March 19, 1984, and incorporated herein by reference. |
| 4.4 | Rights Agreement dated June 4, 1997, between Spartan Motors, Inc. and American Stock Transfer and Trust Company. Previously filed as an Exhibit to the Company's Form 8-A filed on June 25, 1997, and incorporated herein by reference. |
| 10.1 | Restated Spartan Motors, Inc. 1988 Non-Qualified Stock Option Plan.* Previously filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1996, and incorporated herein by reference. |
| 10.2 | Restated Spartan Motors, Inc. 1994 Incentive Stock Option Plan.* Previously filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1996, and incorporated herein by reference. |

| | |
|---|---|
| 10.3 | Spartan Motors, Inc. 1996 Stock Option and Restricted Stock Plan for Outside Market Advisors. Previously filed as an Exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1996, and incorporated herein by reference. |
| 10.4 | Carpenter Industries, Inc. Stockholders' Agreement. Previously filed as an Exhibit to the Company's Form 8-K Current Report filed on January 21, 1997, and incorporated herein by reference. |
| 10.5 | Contribution Agreement between Carpenter Industries LLC and Carpenter Industries, Inc. Previously filed as an Exhibit to the Company's Form 8-K Current Report filed on January 21, 1997, and incorporated herein by reference. |
| 10.6 | Carpenter Industries, Inc. Registration Rights Agreement. Previously filed as an Exhibit to the Company's Form 8-K Current Report filed on January 21, 1997, and incorporated herein by reference. |
| 10.7 | Spartan Motors, Inc. Stock Option and Restricted Stock Plan of 1998. Previously filed with the Company's Definitive Proxy Statement filed on April 30, 1999. |
| 27 | Financial Data Schedule. |

(b) Reports on Form 8-K. During the second quarter ended June 30, 1999, the Company filed no current reports on Form 8-K.



**SIGNATURES**

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

SPARTAN MOTORS, INC.

Date: August 11, 1999

By /s/Richard J. Schalter

Richard J. Schalter
Secretary, Treasurer and Chief Financial Officer



**EXHIBIT INDEX**

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| 27 | Financial Data Schedule. |

| | |
|---|---|
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| <LEGEND> THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF SPARTAN MOTORS, INC. AND SUBSIDIARIES FOR THE PERIOD ENDED JUNE 30, 1999, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS. | |
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