

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2012.

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 000-13611

**SPARTAN MOTORS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Michigan**

(State or Other Jurisdiction of  
Incorporation or Organization)

**38-2078923**

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

**1541 Reynolds Road**

**Charlotte, Michigan**

(Address of Principal Executive Offices)

**48813**

(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  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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

Yes  No

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

<u>Class</u>	Outstanding at <u>April 30, 2012</u>
Common stock, \$.01 par value	33,878,053 shares

**SPARTAN MOTORS, INC.**

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## FORWARD-LOOKING STATEMENTS

There are certain statements within this Report that are not historical facts. These statements are called “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve important known and unknown risks, uncertainties and other factors and can be identified by phrases using “estimate,” “anticipate,” “believe,” “project,” “expect,” “intend,” “predict,” “potential,” “future,” “may,” “will”, “should” and similar expressions or words. Our future results, performance or achievements may differ materially from the results, performance or achievements discussed in the forward-looking statements. There are numerous factors that could cause actual results to differ materially from the results discussed in forward-looking statements, including, among others:

- **Constrained government budgets may have a negative effect on the Company’s business and its operations.**
- **The integration of businesses or assets we have acquired or may acquire in the future involves challenges that could disrupt our business and harm our financial condition.**
- **When we introduce new products, we may incur expenses that we did not anticipate, such as recall expenses, resulting in reduced earnings.**
- **Changes in economic conditions, including changes in interest rates, credit availability, financial market performance and the Company’s industries can have adverse effects on its earnings and financial condition, as well as its customers, dealers and suppliers. In particular, the Company could be adversely affected by the economic impact to its supply base, including those members of the supply base that support the automobile industry.**
- **Changes in relationships with major customers and suppliers could significantly affect the Company’s revenues and profits .**
- **Amendments of the laws and regulations governing our businesses, or the promulgation of new laws and regulations, could have a material impact on the Company’s operations.**
- **We source components from a variety of domestic and global suppliers who may be subject to disruptions from natural or man-made causes. Disruptions in our supply of components could have a material and adverse impact on our results of operations or financial position.**
- **Changes in the markets we serve may, from time to time, require us to re-configure our production lines or re-locate production of products between buildings or to new locations in order to maximize the efficient utilization of our production capacity. Costs incurred to effect these re-configurations may exceed our estimates and efficiencies gained may be less than anticipated.**

This list provides examples of factors that could affect the results described by forward-looking statements contained in this Report. However, this list is not intended to be all inclusive. The risk factors disclosed in Item 1A “Risk Factors” of Part II of this Quarterly Report on Form 10-Q and in Part I – Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, include all known risks our management believes could materially affect the results described by forward-looking statements contained in this Report. However, those risks may not be the only risks we face. Our business, operations, and financial performance could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations. In addition, new risks may emerge from time to time that may cause actual results to differ materially from those contained in any forward-looking statements. We believe that the forward-looking statements contained in this Report are reasonable. However, given these risks and uncertainties, we cannot provide you with any guarantee that the anticipated results will be achieved. All forward-looking statements in this Report are expressly qualified in their entirety by the cautionary statements contained in this Section and you are cautioned not to place undue reliance on the forward-looking statements contained in this Report as a prediction of actual results. We disclaim any obligation to update or revise information contained in any forward-looking statement to reflect developments or information obtained after the date this Report is filed with the Securities and Exchange Commission.

## Item 1.

Financial Statements

**SPARTAN MOTORS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except par value)

	March 31 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 39,441	\$ 31,677
Accounts receivable, less allowance of \$675 and \$749	43,141	40,042
Inventories	58,737	66,991
Deferred income tax assets	6,425	6,425
Income taxes receivable	3,003	1,479
Assets held for sale	3,432	-
Other current assets	2,757	2,454
<b>Total current assets</b>	<b>156,936</b>	<b>149,068</b>
Property, plant and equipment, net	56,317	65,399
Goodwill	20,816	20,816
Intangible assets, net	11,720	11,943
Other assets	1,561	1,383
<b>TOTAL ASSETS</b>	<b>\$ 247,350</b>	<b>\$ 248,609</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 22,552	\$ 21,649
Accrued warranty	5,853	5,802
Accrued customer rebates	1,093	1,546
Accrued compensation and related taxes	5,816	5,670
Deposits from customers	6,867	7,902
Other current liabilities and accrued expenses	8,175	7,772
Current portion of long-term debt	55	55
<b>Total current liabilities</b>	<b>50,411</b>	<b>50,396</b>
Other non-current liabilities	3,168	2,932
Long-term debt, less current portion	5,071	5,084
Deferred income tax liabilities	7,359	7,359
<b>Shareholders' equity:</b>		
Preferred stock, no par value: 2,000 shares authorized (none issued)	-	-
Common stock, \$0.01 par value; 40,000 shares authorized; 33,873 and 33,596 outstanding	339	336
Additional paid in capital	71,660	71,145
Retained earnings	109,342	111,357
<b>Total shareholders' equity</b>	<b>181,341</b>	<b>182,838</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 247,350</b>	<b>\$ 248,609</b>

See Accompanying Notes to Condensed Consolidated Financial Statements.

**SPARTAN MOTORS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Sales	\$ 118,812	\$ 95,133
Cost of products sold	101,453	82,171
Restructuring charge	3,615	-
<b>Gross profit</b>	<b>13,744</b>	<b>12,962</b>
Operating expenses:		
Research and development	3,775	3,548
Selling, general and administrative	11,596	10,743
Restructuring charge	1,793	-
Total operating expenses	17,164	14,291
<b>Operating loss</b>	<b>(3,420)</b>	<b>(1,329)</b>
Other income (expense):		
Interest expense	(91)	(95)
Interest and other income	207	84
Total other income (expense)	116	(11)
Loss before taxes	(3,304)	(1,340)
Taxes	(1,289)	(442)
<b>Net loss</b>	<b>\$ (2,015)</b>	<b>\$ (898)</b>
<b>Basic and Diluted net loss per share</b>	<b>\$ (0.06)</b>	<b>\$ (0.03)</b>
Basic and Diluted weighted average common shares outstanding	33,019	32,652

See Accompanying Notes to Condensed Consolidated Financial Statements.

**SPARTAN MOTORS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,015)	\$ (898)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,392	2,397
Loss on disposal and impairment of assets	4,594	72
Expense from changes in fair value of contingent consideration	407	64
Tax (benefit) expense related to stock incentive plan transactions	6	(14)
Stock based compensation related to stock awards	453	437
Decrease (increase) in operating assets:		
Accounts receivable	(3,099)	10,926
Inventories	8,254	(1,275)
Income taxes receivable	(1,524)	(313)
Other assets	(303)	272
Increase (decrease) in operating liabilities:		
Accounts payable	903	6,810
Accrued warranty	51	195
Accrued customer rebates	(453)	(1)
Accrued compensation and related taxes	146	130
Deposits from customers	(1,035)	(1,372)
Other current liabilities and accrued expenses	(8)	(1,189)
Taxes on income	58	346
<b>Total adjustments</b>	<b>10,842</b>	<b>17,485</b>
<b>Net cash provided by operating activities</b>	<b>8,827</b>	<b>16,587</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(1,115)	(1,440)
Proceeds from sale of property, plant and equipment	1	-
Acquisition of business, net of cash acquired	-	(4,685)
<b>Net cash used in investing activities</b>	<b>(1,114)</b>	<b>(6,125)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	-	17
Payments on long-term debt	(14)	(25)
Net proceeds from the exercise, vesting or cancellation of stock incentive awards	71	18
Cash retained (paid) related to tax impact of stock incentive plan transactions	(6)	14
<b>Net cash provided by financing activities</b>	<b>51</b>	<b>24</b>
<b>Net increase in cash and cash equivalents</b>	<b>7,764</b>	<b>10,486</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>31,677</b>	<b>14,507</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 39,441</b>	<b>\$ 24,993</b>

See Accompanying Notes to Condensed Consolidated Financial Statements

**SPARTAN MOTORS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
(In thousands)  
(Unaudited)

	<b>Number of Shares</b>	<b>Common Stock</b>	<b>Additional Paid In Capital</b>	<b>Retained Earnings</b>	<b>Total Shareholders' Equity</b>
Balance at December 31, 2011	33,596	\$ 336	\$ 71,145	\$ 111,357	\$ 182,838
Issuance of common stock and the tax impact of stock incentive plan transactions	(39)	-	65	-	65
Issuance of restricted stock, net of cancellation	316	3	(3)	-	-
Stock based compensation expense related to restricted stock	-	-	453	-	453
Net loss	-	-	-	(2,015)	(2,015)
Balance at March 31, 2012	<u>33,873</u>	<u>\$ 339</u>	<u>\$ 71,660</u>	<u>\$ 109,342</u>	<u>\$ 181,341</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

**SPARTAN MOTORS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except per share data)**

**NOTE 1 - GENERAL AND SUMMARY OF ACCOUNTING POLICIES**

For a description of key accounting policies followed refer to the notes to the Spartan Motors, Inc. (the “Company”) consolidated financial statements for the year ended December 31, 2011, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2012. There have been no changes in such accounting policies as of the date of this report.

The accompanying unaudited interim condensed consolidated financial statements reflect all normal and recurring adjustments that are necessary for the fair presentation of the Company’s financial position as of March 31, 2012, the results of operations for the three month period ended March 31, 2012 and the cash flows for the three month period ended March 31, 2012, and should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

The results of operations for the three month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the full year.

The Company is required to disclose the fair value of its financial instruments in accordance with Financial Accounting Standards Board (FASB) Codification relating to “Disclosures about Fair Values of Financial Instruments.” The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and the Company’s fixed and variable rate debt instruments approximate their fair value at March 31, 2012 and December 31, 2011.

Certain immaterial amounts in the prior periods’ financial statements have been reclassified to conform to the current period’s presentation.

Recently issued accounting standards

In September, 2011 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2011-08 “*Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*” (“ASU 2011-08”). ASU 2011-08 permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Under the amendments in ASU 2011-08, an entity is not required to calculate the fair value of a reporting unit unless it determines that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. ASU 2011-08 is effective for interim and annual goodwill impairment tests performed for fiscal years beginning on or after December 15, 2011, with early adoption permitted. The Company’s early adoption of ASU 2011-08 for its goodwill impairment testing as of October 1, 2011 did not have an impact on its consolidated financial statements.



**SPARTAN MOTORS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in thousands, except per share data)

**NOTE 2 – INVENTORIES**

Inventories are summarized as follows:

	<u>March 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Finished goods	\$ 11,367	\$ 14,763
Work in process	15,408	18,518
Raw materials and purchased components	35,871	37,275
Reserve for slow-moving inventory	(3,909)	(3,565)
	<u>\$ 58,737</u>	<u>\$ 66,991</u>

The Company has a number of demonstration units as part of its sales and training program. These demonstration units are included in the “Finished goods” line item above, and the net carrying amount was \$8,772 and \$8,091 at March 31, 2012 and December 31, 2011.

**NOTE 3 – ACQUISITION ACTIVITIES**

On April 1, 2011, the Company completed its acquisition of substantially all of the assets and related liabilities of Classic Fire, LLC (“Classic Fire”), a manufacturer of fire trucks and fire apparatus. The Company’s acquisition of Classic Fire has allowed it to expand its offerings in the fire truck market into segments and price points that complement its offerings from Spartan Motors Chassis, Inc. and Crimson Fire, Inc., as well as provide strategic sourcing of pump modules and other technology. Classic Fire is reported as a component of the Company’s Specialty Vehicles segment. The pro forma effect of the acquisition on the Company’s results of operations is immaterial.

The revenue and earnings of Classic Fire are included in the Company’s results since the April 1, 2011 acquisition. Acquisition related expenses included in the Company’s Condensed Consolidated Statements of Operations are not material.

This acquisition was accounted for using the purchase method of accounting and the purchase price was allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the date of acquisition. Identifiable intangible assets acquired include a trade name, customer and dealer relationships, unpatented technology and certain non-compete agreements. The excess purchase price over the net tangible and intangible assets acquired of \$2,397 was recorded as goodwill, which is expected to be deductible for tax purposes. The purchase price consisted of cash consideration of \$3,975, net of cash acquired of \$25, paid by the Company at closing; a working capital adjustment of \$771; Spartan Motors, Inc. common stock valued at \$1,029 and a contingency for certain performance-based earn out payments recorded at \$180, discounted to April 1, 2011. During the year ended December 31, 2011 the Company recorded an adjustment to operating expenses of \$97 to bring the contingent liability to \$83, based on the expected future payment amounts, discounted to December 31, 2011. During the three months ended March 31, 2012 the Company recorded an adjustment to operating expenses of \$83 to bring the contingent liability to \$0 based on the likelihood of future payments.

**SPARTAN MOTORS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in thousands, except per share data)

The purchase price was allocated to assets acquired and liabilities assumed as follows:

Cash and cash equivalents	\$ 25
Accounts receivable	635
Inventory	1,352
Other current assets	7
Property, plant and equipment	451
Intangible assets	1,650
Goodwill	2,397
Total assets acquired	6,517
Accounts payable	186
Accrued warranty	140
Other current liabilities	31
Other non-current liabilities	180
Total liabilities assumed	537
Total purchase price	<u>\$ 5,980</u>

The Company leases the land and building that houses the operations of Classic Fire, from an entity that is controlled by the sellers of Classic Fire, under an operating lease with an initial term of three years. The lease contains options allowing the Company to renew the lease for an additional three year term, or purchase the property at a fixed price at any time during the initial lease period or the renewal period, if any. For purchase accounting purposes, the Company recorded an unfavorable lease liability valued at \$180 at April 1, 2011. For the three months ended March 31, 2012 the Company accreted \$15 to earnings as amortization of this liability.

**NOTE 4 – DEBT**

Long-term debt consists of the following:

	March 31, 2012	December 31, 2011
Note payable to Prudential Investment Management, Inc. Principal due December 1, 2016 with quarterly interest only payments of \$68 at 5.46%. Unsecured debt. (1)	\$ 5,000	\$ 5,000
Line of credit revolver (2)	--	--
Capital lease obligations	126	139
Total debt	5,126	5,139
Less current portion of long-term debt	(55)	(55)
Total long-term debt	<u>\$ 5,071</u>	<u>\$ 5,084</u>

The long-term debt due is as follows; \$42 in 2012; \$56 in 2013; \$28 in 2014; none in 2015 and \$5,000 in 2016.

**SPARTAN MOTORS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except per share data)**

- (1) The Company has a private shelf agreement with Prudential Investment Management, Inc., which allows the Company to borrow up to \$45,000 to be issued in \$5,000 minimum increments. The interest rate is determined based on applicable rates at the time of issuance. The Company had \$5,000 of private placement notes outstanding at March 31, 2012 and December 31, 2011 with Prudential Investment Management, Inc.
- (2) The Company's primary line of credit is a \$70,000 unsecured revolving line with Wells Fargo Bank and JPMorgan Chase Bank, expiring on December 16, 2016. Both lending institutions equally share this commitment. This line carries an interest rate of the higher of either (i) the highest of prime rate, the federal funds effective rate plus 0.5%, or the one month adjusted LIBOR plus 1.00%; or (ii) adjusted LIBOR plus margin based upon the Company's ratio of debt to earnings from time to time. The Company had no borrowings on this line at March 31, 2012 or December 31, 2011. General Motors Company ("GM") has the ability to draw up to \$5,000 against the Company's primary line of credit in relation to chassis supplied to Utilimaster under a chassis bailment inventory program, resulting in net available borrowings of \$65,000 at March 31, 2012. See Note 6, *Commitments and Contingent Liabilities* for further information about this chassis bailment inventory program. The applicable borrowing rate including margin was 3.25% at March 31, 2012.

Under the terms of the primary line of credit agreement and the private shelf agreement, the Company is required to maintain certain financial ratios and other financial conditions. The agreements also prohibit the Company from incurring additional indebtedness; limit certain acquisitions, investments, advances or loans; and restrict substantial asset sales. At March 31, 2012 and December 31, 2011, the Company was in compliance with all debt covenants.

**NOTE 5 – RESTRUCTURING**

During the quarter ending March 31, 2012 the Company incurred restructuring charges including asset impairments as the result of its planned relocation of its delivery and service vehicles operations and certain severance charges within its Specialty Vehicles segment to help align expenses with current and future revenue expectations.

**SPARTAN MOTORS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in thousands, except per share data)

Restructuring charges included in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2012 are as follows:

	Segment		Total
	Delivery and Service Vehicles	Specialty Vehicles	
<b>Cost of products sold</b>			
Asset Impairment	\$ 3,372	\$ -	\$ 3,372
Bristol relocation costs	98	-	98
Accrual for severance	-	145	145
<b>Total cost of products sold</b>	<b>3,470</b>	<b>145</b>	<b>3,615</b>
<b>Operating expenses</b>			
Asset Impairment	1,153	-	1,153
Bristol relocation costs	47	-	47
Accrual for severance	-	593	593
<b>Total operating expenses</b>	<b>1,200</b>	<b>593</b>	<b>1,793</b>
<b>Total restructuring</b>	<b>\$ 4,670</b>	<b>\$ 738</b>	<b>\$ 5,408</b>

As a result of the planned move of the delivery and service vehicles operations to Bristol, Indiana, the Company classified certain buildings and related machinery and equipment within its Wakarusa, Indiana facility as held for sale. During the three months ended March 31, 2012, the buildings and machinery and equipment were adjusted to their current fair values less cost to sell, as determined by a market appraisal completed in March of 2012, resulting in impairment charges of \$4,525. The estimated fair value of these assets of \$3,432 is recorded within Assets held for sale at March 31, 2012 on the Condensed Consolidated Balance Sheets.

The following table provides a summary of the compensation related charges incurred through the three month period ended March 31, 2012 and the related outstanding balances to be paid out in relation to those expenses:

	Severance
Balance as of Jan 1, 2012	\$ --
Accrual for severance	738
Payments made in period	(81)
<b>Balance as of March 31, 2012</b>	<b>\$ 657</b>

**NOTE 6 - COMMITMENTS AND CONTINGENT LIABILITIES**

Under the terms of its credit agreement with its banks, the Company has the ability to issue letters of credit totaling \$10,000. The balance of letters of credit outstanding was \$4,450 and \$5,084 at March 31, 2012 and December 31, 2011, respectively, related to the Company's workers compensation insurance, certain emergency response vehicle body contracts and the Utilimaster chassis agreement discussed below.

**SPARTAN MOTORS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in thousands, except per share data)**

At March 31, 2012, the Company and its subsidiaries were parties, both as plaintiff and defendant, to a number of lawsuits and claims arising out of the normal course of their businesses. In the opinion of management, the financial position, future operating results or cash flows of the Company will not be materially affected by the final outcome of these legal proceedings.

Chassis Agreements

Utilimaster is party to a chassis bailment inventory agreement with GM which allows GM to draw up to \$5,000 against the Company's revolving credit line for chassis placed at Utilimaster. As a result of this agreement, there was \$3,916 and \$4,030 outstanding on the Company's revolving credit line at March 31, 2012 and December 31, 2011. Under the terms of the bailment inventory agreement, these chassis never become the property of Utilimaster, and the amount drawn against the credit line will be repaid by a GM dealer at the time an order is placed for a Utilimaster body, utilizing a GM chassis. As such, the chassis, and the related draw on the line of credit, are not reflected in the accompanying Condensed Consolidated Balance Sheets. See Note 4 *Debt* for further information on the Company's revolving line of credit.

Contingent Consideration

In connection with the acquisition of Utilimaster in November, 2009, the Company incurred contingent obligations through 2014 in the form of certain performance-based earn-out payments, up to an aggregate maximum amount of \$7,000. In the first quarter of 2012 the Company made earn out payments totaling \$1,100, leaving an aggregate maximum amount of future payments of \$5,900. The Company has recorded a contingent liability for the estimated fair value of the future consideration of \$2,241 based upon the likelihood of the payments, discounted to March 31, 2012. The contingent liability includes charges of \$490 for the three months ended March 31, 2012 which are recorded within Selling, general and administrative on the Condensed Consolidated Statements of Operations. The increase in estimated fair value of the contingent liability for the first three months of 2012 is primarily due to an expected increase in Utilimaster's revenue for 2012 over the amounts originally projected at the time of the acquisition. Management believes that the Company has sufficient liquidity to fund the contingent obligations as they become due.

Warranty Related

The Company's subsidiaries all provide limited warranties against assembly/construction defects. These warranties generally provide for the replacement or repair of defective parts or workmanship for a specified period following the date of sale. The end users also may receive limited warranties from suppliers of components that are incorporated into the Company's chassis and vehicles.

Certain warranty and other related claims involve matters of dispute that ultimately are resolved by negotiation, arbitration or litigation. Infrequently, a material warranty issue can arise which is beyond the scope of the Company's historical experience. The Company provides for any such warranty issues as they become known and are estimable. It is reasonably possible that additional warranty and other related claims could arise from disputes or other matters beyond the scope of the Company's historical experience.

**SPARTAN MOTORS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in thousands, except per share data)

Changes in the Company's warranty liability during the three months ended March 31, 2012 and 2011 were as follows:

	<b>2012</b>	<b>2011</b>
Balance of accrued warranty at January 1	\$ 5,802	\$ 5,702
Warranties issued during the period	1,287	685
Cash settlements made during the period	(918)	(911)
Changes in liability for pre-existing warranties during the period, including expirations	(318)	421
Balance of accrued warranty at March 31	<u>\$ 5,853</u>	<u>\$ 5,897</u>

**NOTE 7 - BUSINESS SEGMENTS**

The Company operates in two reportable segments: Specialty Vehicles, and Delivery and Service Vehicles.

The Specialty Vehicle segment consists of the Company's Spartan Chassis, Inc., Crimson Fire, Inc., Crimson Fire Aerials, Inc., and Classic Fire, LLC subsidiaries. This segment engineers and manufactures emergency response chassis, motor home chassis, emergency response bodies and defense vehicles and also provides related aftermarket parts and assemblies. The Delivery and Service Vehicles segment consists of the Company's Utilimaster, Inc. subsidiary and focuses on designing and manufacturing walk-in vans for the delivery and service market and the production of commercial truck bodies along with related aftermarket parts and assemblies. Assets and related depreciation expense, along with interest expense, in the column labeled "Other" pertain to capital assets and debt maintained at the corporate level. Appropriate expense amounts are allocated to the two reportable segments and are included in their reported net earnings or loss. Segment loss from operations in the "Other" column contains the related eliminations for the allocation, as well as corporate related expenses not allocable to the operating segments.

**SPARTAN MOTORS INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in thousands, except per share data)

The accounting policies of the segments are the same as those described, or referred to, in Note 1 - *General and Summary of Accounting Policies*. Sales and other financial information by business segment are as follows:

Three Months Ended March 31, 2012

	Business Segments			Consolidated
	Specialty Vehicles	Delivery and Service Vehicles	Other	
Motor home chassis sales	\$ 18,562	\$ --	\$ --	\$ 18,562
Emergency response chassis sales	24,564	--	--	24,564
Emergency response bodies sales	9,322	--	--	9,322
Utilimaster product sales	--	37,114	--	37,114
Other product sales				
Vehicles	1,165	--	--	1,165
Aftermarket parts and assemblies	6,351	21,734	--	28,085
Sales	<u>\$ 59,964</u>	<u>\$ 58,848</u>	<u>\$ --</u>	<u>\$ 118,812</u>
Interest expense	\$ --	\$ 23	\$ 68	\$ 91
Depreciation and amortization expense	1,073	730	589	2,392
Taxes (credit) on income	(981)	509	(817)	(1,289)
Net earnings (loss)	(1,535)	795	(1,275)	(2,015)
Capital expenditures	249	389	477	1,115
Segment assets	90,834	73,408	83,108	247,350

Three Months Ended March 31, 2011

	Business Segments			Consolidated
	Specialty Vehicles	Delivery and Service Vehicles	Other	
Motor home chassis sales	\$ 19,033	\$ --	\$ --	\$ 19,033
Emergency response chassis sales	30,617	--	--	30,617
Emergency response bodies sales	7,945	--	--	7,945
Utilimaster product sales	--	19,339	--	19,339
Other product sales				
Vehicles	4,463	--	--	4,463
Aftermarket parts and assemblies	9,428	4,308	--	13,736
Sales	<u>\$ 71,486</u>	<u>\$ 23,647</u>	<u>\$ --</u>	<u>\$ 95,133</u>
Interest expense	\$ 5	\$ 90	\$ --	\$ 95
Depreciation and amortization expense	1,239	572	586	2,397
Taxes (credit) on income	416	(425)	(433)	(442)
Net earnings (loss)	673	(863)	(708)	(898)
Capital expenditures	480	960	--	1,440
Segment assets	105,214	67,035	73,941	246,190

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

Spartan Motors, Inc. was organized as a Michigan corporation on September 18, 1975, and is headquartered in Charlotte, Michigan. We began development of our first product that same year and shipped our first fire truck chassis in October 1975.

We are known as a leading niche-market engineer and manufacturer in the heavy-duty, specialty vehicles marketplace. We have five wholly-owned operating subsidiaries: Spartan Motors Chassis, Inc., located at our corporate headquarters in Charlotte, Michigan ("Spartan Chassis"); Crimson Fire, Inc., located in Brandon, South Dakota ("Crimson"); Crimson Fire Aerials, Inc., located in Ephrata, Pennsylvania ("Crimson Aerials"); Utilimaster Corporation, located in Wakarusa, Indiana ("Utilimaster"); and, as of April 1, 2011, Classic Fire, LLC ("Classic Fire"), located in Ocala, Florida. Spartan Chassis, Crimson, Crimson Aerials and Classic Fire make up our Specialty Vehicles segment and Utilimaster comprises our Delivery and Service Vehicles segment. Classic Fire was included in our Specialty Vehicles segment beginning with the second quarter of 2011. Our brand names, **Spartan Chassis™**, **Spartan ERV™**, and **Utilimaster™** are known for quality, value, service and innovation.

Spartan Chassis is a leader in the designing, engineering and manufacturing of specialty heavy-duty chassis. The chassis consists of a frame assembly, engine, transmission, electrical system, running gear (wheels, tires, axles, suspension and brakes) and, for emergency response chassis and some specialty chassis applications, a cab. Spartan Chassis customers are original equipment manufacturers ("OEMs") who manufacture the body or apparatus of the vehicle which is mounted on our chassis. Crimson specializes in the engineering and manufacturing of emergency response vehicles built on chassis platforms purchased from either Spartan Chassis or outside sources. Crimson Aerials engineers and manufactures aerial ladder components for fire trucks. Classic Fire specializes in manufacturing emergency response vehicles built on chassis from outside sources and provides strategic sourcing of pump modules. Utilimaster is a leading manufacturer of vehicles made to customer specifications in the delivery and service market, including walk-in and hi-cube vans, truck bodies and the new Reach commercial van.

Our business strategy is to further diversify product lines and develop innovative design, engineering and manufacturing expertise in order to be the best value producer of specialty vehicle products. We have an innovative team focused on building lasting relationships with our customers. This is accomplished by striving to deliver premium specialty vehicles, vehicle components, and services that inspire customer loyalty. Our diversification across several sectors creates numerous opportunities while minimizing overall risk. Additionally, our business model provides the agility to quickly respond to market needs, take advantage of strategic opportunities when they arise and correctly size operations to ensure stability and growth.

### Recent Acquisition

On April 1, 2011, we completed our acquisition of substantially all of the assets of Classic Fire, a manufacturer of fire trucks and fire apparatus, as more fully described in Note 3 - *Acquisition Activities*, of the Notes to Condensed Consolidated Financial Statements appearing in Item 1 of this Form 10-Q. Our acquisition of Classic Fire has allowed us to expand our offerings in the emergency response vehicle market into segments and price points that complement our offerings from Spartan Chassis and Crimson as well as provided strategic sourcing of pump modules and other technology.



## Executive Overview

We reported sales of \$118.8 million for the first quarter of 2012, an increase of 24.9% over the \$95.1 million in sales we reported in the first quarter of 2011. We reported a net loss of \$2.0 million, or \$0.06 per share for the three months ended March 31, 2012, compared to a net loss of \$0.9 million, or \$0.03 per share for the same period in 2011. Excluding the restructuring charges incurred in the first quarter of 2012, we recorded adjusted net income of \$1.3 million or \$0.04 per share. We did not record any restructuring charges in the first quarter of 2011.

Our Delivery and Service Vehicles segment continued its strong performance in the first quarter, with an increase in sales of \$35.2 million or 149.2% to \$58.8 million for the quarter ended March 31, 2012 compared to \$23.6 million for the same period in 2011. These increases were somewhat offset by the continuing softness in our Specialty Vehicles segment, with all of the markets served by that segment, except for emergency vehicle bodies, showing decreases in revenues in the first quarter of 2012 compared to the same period in 2011.

During the first quarter of 2012 we incurred restructuring costs of \$5.4 million as a result of asset impairments and other activities related to the planned move of our delivery and service vehicles operation to Bristol, Indiana, as well as operational changes within our specialty vehicles operations. We expect to incur additional restructuring charges of \$2.5 to \$3.0 million for the remainder of 2012 related to the relocation to Bristol, and other strategic initiatives. We expect that these restructuring actions will result in future savings of approximately \$4 million per year as a result of increased efficiencies in our delivery and service vehicles operations and will allow our specialty vehicles operations to remain competitive in a difficult market environment. These cost savings are expected to be fully realized beginning in early 2013.

Our overall backlog decreased by 1.0% to \$135.7 million at March 31, 2012 compared to \$137.0 million at December 31, 2011, which reflects a seasonal decrease in our delivery and service vehicles backlog. This decrease was largely offset by increases in our backlog for emergency response vehicles and chassis, as a result of a recent upswing in our order intake in those markets.

The current quarter's results reflect the scope of our restructuring plans that we expect will result in increased long term profitability in our delivery and service vehicles business. We continue to experience strong cash flows from operations with the help of tightly managed accounts receivable and inventory balances. This generation of cash will allow us to complete our restructuring initiatives and enact other strategic objectives without incurring additional debt. Our balance sheet remains strong with a healthy cash balance, low debt and an open line of credit.

We believe we are well positioned to take advantage of long-term opportunities, and continue our efforts to bring product innovations to each of the markets that we serve. Some of our recent innovations and strategic developments include:

- The Reach™, a delivery and service van offering up to 35% better fuel economy, which debuted at the 2011 National Truck Equipment Association's "The Work Truck Show". This compelling product establishes a new benchmark for safety, performance and cost-effectiveness and further solidifies Utilimaster's technical leadership in the delivery and service market.

- The consolidation of the Spartan emergency response vehicles business under the Spartan ER™ brand to eliminate brand dilution and ensure focus on one brand: Spartan.
- The introduction of the Spartan Telstar, a 138 foot telescopic and articulated aerial platform, which supplies an “up, over and down” range of motion to navigate over parapets for roof rescues, clear power lines and trees for access and provide for below-grade rescues.
- The expansion of the Crimson Fire product portfolio with the addition of the Classic Series, as a result of our acquisition of Classic Fire. Consisting of eight new product offerings, this product line complements the Legend and Star Series. The Classic Series offers high performance and is already known for durability and unparalleled quality at affordable prices – a critical market position given current economic realities.
- The introduction of the Spartan Intelligent Pump Solution (IPS). This new pumper system offers upgrades to traditional firefighting equipment, including improved storage, overall pump capabilities and functionality and maneuverability of the fire fighting vehicle.
- The award of orders to Spartan Chassis for Metro Star® emergency response chassis for multiple fire departments in China and Chile, representing another step forward in our efforts to expand sales globally.
- The Spartan Advanced Protection System (APS), a pioneering blend of industry-first airbag and safety belt protections that make occupants safer than ever before. The APS offers eight airbags, including officer and driver knee airbags and a rear side curtain which is larger than any other system on the road, along with a restraint control module deploying advanced motion sensors around the cab perimeter and advanced seat belts with pretensioning and load limiting.
- The introduction of the Spartan One-Touch Rapid Compressed Air Foam System (CAFS). Spartan engineering has incorporated smart electronics and developed an exclusive plumbing design to deliver the unique, easy to use, One-Touch Rapid CAFS.
- A new Enterprise Resource Planning (ERP) system that we began implementing in late 2011. This new ERP system will provide information on a more timely and granular basis, which will enable management to make informed decisions using up to the minute information. In addition the new ERP system is expected to result in meaningful cost savings through re-engineered and streamlined processes that will impact all aspects of our operations. The new ERP system is expected to be on-line for the first business units in 2012, with final completion in 2014.
- Growth opportunities in field service solutions for existing customer fleets that will allow improvement in performance, safety and retrofitting with new vocational packages.

The following section provides a narrative discussion about our financial condition and results of operations. The comments should be read in conjunction with our Condensed Consolidated Financial Statements and related Notes thereto included in Item 1 of this Form 10-Q and in conjunction with our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2012.

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the components of the Company's Condensed Consolidated Statements of Operations as a percentage of sales:

	Three Months Ended March 31,	
	2012	2011
Sales	100.0	100.0
Cost of products sold	85.4	86.4
Restructuring charge	3.0	--
Gross profit	11.6	13.6
Operating expenses:		
Research and development	3.2	3.7
Selling, general and administrative	9.8	11.3
Restructuring charge	1.5	--
Operating loss	(2.9)	(1.4)
Other expense, net	0.1	0.0
Loss before taxes	(2.8)	(1.4)
Taxes	(1.1)	(0.5)
Net loss	(1.7)	(0.9)

### *Quarter Ended March 31, 2012 Compared to the Quarter Ended March 31, 2011*

For the three months ended March 31, 2012, we reported consolidated sales of \$118.8 million, an increase of \$23.7 million or 24.9% compared to the same quarter in 2011. These results reflect the continued strength in our Delivery and Service Vehicles segment, along with continued softness in our Specialty Vehicles segment, as most of the markets served by that segment remain challenging. In our Delivery and Service Vehicles segment we expect sales for the remainder of 2012 to decrease somewhat from those experienced in the first quarter, due to an expected decrease in sales of certain aftermarket parts, along with our seasonal fourth quarter decrease in our fleet sales due to the busy holiday delivery season. We expect to see some increase in revenues for the remainder of 2012 in our Specialty Vehicles markets, compared to the previous year, particularly in sales of emergency response vehicle bodies.

Cost of products sold increased by \$22.9 million or 27.9%, to \$105.1 million in the first quarter of 2012 compared to \$82.2 million in the first quarter of 2011. As a percentage of sales, cost of products sold increased to 88.4% in the first quarter of 2012, compared to 86.4% in the first quarter of 2011. This increase is mainly due to restructuring charges of \$3.6 million incurred within cost of products sold during the first quarter of 2012 as a result of the planned move of our Utilimaster operations to Bristol, Indiana, along with restructuring actions undertaken in our specialty vehicle operations. Also contributing to the increase were higher incremental production costs related to our Reach commercial van as that vehicle entered production. This increase was partially offset by favorable margins due to changes in the mix of products sold in the first quarter of 2012 as compared to the same period in 2011, along with increased overhead absorption as a result of higher production volumes for certain product lines in our Delivery and Service Vehicles segment. Excluding restructuring charges, our adjusted cost of products sold increased by \$19.3 million or 23.5% to \$101.5 million, driven by the increase in revenue compared with the first quarter of 2011.

Gross profit increased by \$0.7 million, or 5.40%, to \$13.7 million for the quarter ended March 31, 2012 from \$13.0 million for the same period in 2011. The increase was the result of the higher sales volumes and partially offset by restructuring charges, as discussed above. Consolidated gross margin decreased to 11.5% from 13.6% over the same time period, impacted by the restructuring charges, product mix and overhead absorption as discussed above. Excluding restructuring charges, our adjusted gross profit increased by \$4.4 million, or 33.8% to \$17.4 million, while our adjusted gross margin increased to 14.6% in the first quarter of 2012 compared to 13.6% for the same period in 2011.

Operating expenses increased by \$2.9 million or 20.3% to \$17.2 million for the quarter ended March 31, 2012, compared to \$14.3 million for the same period in 2011, mainly driven by restructuring expense incurred in 2012 related to the planned move of our Utilimaster operations to Bristol, Indiana along with restructuring activities undertaken in our Specialty Vehicles segment. Research and development expenses increased slightly due to increased efforts on product innovation, including the Spartan APS and Reach van, along with the addition of Classic Fire, which was not present in the first quarter of 2011. Selling, general and administrative expenses increased by \$0.9 million or 7.9% to \$11.6 million for the quarter ended March 31, 2012 compared to \$10.7 million in the same period of 2011, driven by higher selling costs due to increased sales volumes and additional provisions for certain earn-out payments associated with the increased revenues at our Utilimaster subsidiary. Also contributing to the year over year increase were operating expenses from our Classic Fire subsidiary, which were not present in the first quarter of 2011. Excluding restructuring charges, our adjusted operating expense increased by \$1.1 million, or 7.7% to \$15.4 million, or 12.9% of sales due to the factors discussed above.

Our effective income tax rate was 39.0% in the first quarter of 2012, compared to 33.0% in the first quarter of 2011. The increase in our effective tax rate in 2012 is primarily attributable to the expiration of the federal research and development tax credit on December 31, 2011.

We recorded a net loss of \$2.0 million, or \$0.06 per share, for the three months ended March 31, 2012, compared to a net loss of \$0.9 million, or \$0.03 per share for the same period in 2011. Driving the change in net loss for the three months ended March 31, 2012 compared with the prior year were the factors mentioned above.

Excluding all restructuring costs incurred in 2012, adjusted net earnings was \$1.3 million or \$0.04 per diluted share for the three months ended March 31, 2012, compared to a net loss of \$0.9 million or \$0.03 per share for the three months ended March 31, 2011, which did not include any restructuring charges.

The aforementioned adjusted non-GAAP (Generally Accepted Accounting Principles) measures (adjusted cost of products sold, adjusted gross profit, adjusted operating expense, adjusted net earnings and adjusted net earnings per share) are not measurements of financial performance under GAAP and should not be considered as an alternative to cost of products sold, gross profit, operating expense, net earnings (loss) or net earnings (loss) per share under GAAP. These adjusted measures have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of results as reported under GAAP. In addition, in evaluating adjusted cost of products sold, adjusted gross profit, adjusted operating expense, adjusted net earnings and adjusted net earnings per share, in the future additional expenses may be incurred similar to the adjustments in this presentation. This presentation of adjusted measures should not be construed as an inference that future results will be unaffected by unusual or infrequent items. These limitations are compensated by providing equal prominence of GAAP results and using adjusted measures only as a supplement.

The following table reconciles cost of products sold to adjusted cost of products sold, gross profit to adjusted gross profit, operating expense to adjusted operating expense, net earnings (loss) to adjusted net earnings and net earnings (loss) per share to adjusted net earnings per share for the periods indicated (dollars in thousands, except per share amounts) (unaudited):

	<b>Three Months Ended March 31,</b>			
	<b>2012</b>	% of Sales	<b>2011</b>	% of Sales
Cost of products sold	\$ 105,068	88.4%	\$ 82,171	86.4%
Less: restructuring charges	3,615	3.0%	-	--
Adjusted cost of products sold	<u>\$ 101,453</u>	85.4%	<u>\$ 82,171</u>	86.4%
Gross profit/Gross margin	\$ 13,744	11.6%	\$ 12,962	13.6%
Add back: restructuring charges	3,615	3.0%	-	--
Adjusted gross profit/Adjusted gross margin	<u>\$ 17,359</u>	14.6%	<u>\$ 10,743</u>	13.6%
Operating expenses	\$ 17,164	14.4%	\$ 14,291	15.0%
Less: restructuring charges	1,793	1.5%	-	--
Adjusted operating expenses	<u>\$ 15,371</u>	12.9%	<u>\$ 14,291</u>	15.0%
Operating loss/Operating margin	\$ (3,420)	-2.9%	\$ (1,329)	-1.4%
Add back: restructuring charges	5,408	4.6%	-	--
Adjusted operating income (loss)/Adjusted operating margin	<u>\$ 1,988</u>	1.7%	<u>\$ (1,329)</u>	-1.4%
Net loss	\$ (2,015)	-1.7%	\$ (898)	-0.1%
Add back: restructuring charges, net of tax	3,298	2.8%	-	--
Adjusted net income (loss)	<u>\$ 1,283</u>	1.1%	<u>\$ (898)</u>	-0.1%
Net loss per share - basic and diluted	\$ (0.06)		\$ (0.03)	
Add back: restructuring charges, net of tax	0.10		-	
Adjusted net earnings (loss) per share - diluted	<u>\$ 0.04</u>		<u>\$ (0.03)</u>	

At March 31, 2012, we had \$135.7 million in backlog compared to \$166.1 million at March 31, 2011, a decrease of \$30.4 million or 18.3%, which is mainly attributable to our Delivery and Service Vehicles segment which decreased by \$32.9 million or 45.1%, along with a decrease of \$7.1 million, or 96.0% in backlog in our defense markets. The decrease in our Delivery and Service Vehicles Segment backlog is attributable to the seasonality of orders in this market. We expect our order intake and backlog in this segment for 2012 to be at levels similar to 2011 for the year as a whole. The decrease in the defense related backlog reflects the continued softness in this market due to Federal Government reductions in spending for defense related vehicles. Partially offsetting these decreases in backlog were increases in our backlog related to emergency response vehicles and emergency response chassis, which increased by a combined \$10.2 million or 14.2%, driven by strong order intake during the first quarter of 2012 for these product lines. Intercompany orders are eliminated from the backlog dollars presented. We anticipate filling our current backlog orders by December, 2012.

While orders in the backlog are subject to modification, cancellation or rescheduling by customers, this has not been a major factor 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.

## Our Segments

We are organized into two reportable segments, Specialty Vehicles and Delivery and Service Vehicles. For certain financial information related to each segment, see Note 7 - *Business Segments*, of the Notes to Condensed Consolidated Financial Statements appearing in Item 1 of this Form 10-Q.

### Specialty Vehicles

Income Statement Data  
(Dollars in thousands)

	Three Months Ended March 31,			
	2012		2011	
	Amount	%	Amount	%
Sales	\$ 59,964	100.0%	\$ 71,486	100.0%
Net earnings (loss)	(1,535)	-2.6%	673	0.9%
Segment assets	90,834		105,214	

### *Comparison of the Three Month Periods Ended March 31*

Sales in our Specialty Vehicles segment decreased by \$11.5 million, or 16.1% to \$60.0 million in the first quarter of 2012 compared to \$71.5 million for the same period of 2011, driven by decreases in sales of emergency response chassis, and defense related sales of vehicles and aftermarket parts. Sales of our emergency response chassis decreased by \$6.4 million, or 20.6% to \$24.6 million as a result of the continued sluggishness of the emergency response market due to tightening government budgets. Our motor home chassis sales decreased only slightly in the first quarter of 2012 compared to the prior year. Sales of aftermarket parts and assemblies related to our Specialty Vehicles segment decreased by \$4.5 million or 49.1%, reflecting a decrease in defense related sales. Partially offsetting these decreases was an increase in our emergency response bodies sales of \$1.4 million or 17.3% to \$9.3 million, compared to \$7.9 million in the first quarter of 2011, mainly due to revenue from our Classic Fire subsidiary, which was acquired in the second quarter of 2011. We enacted pricing increases on certain models of our motor home chassis resulting in approximately \$0.8 million in additional revenue during the first quarter of 2012. Approximately half of this price increase was offset by additional costs related to these motor home chassis. We expect full year 2012 sales in our Specialty Vehicle Segment to increase slightly from 2011 as mild strengthening in our emergency response chassis and bodies markets are offset by weakening in our motor home chassis sales due to the expected loss of a major customer later in 2012.

Net earnings for our Specialty Vehicles segment decreased by \$2.2 million, or 314.3% to a net loss of \$1.5 million in the first quarter of 2012 compared to net income of \$0.7 million for the first quarter of 2011. This decrease was mainly driven by the lower sales volumes across most of the markets served by our Specialty Vehicles segment, resulting in unfavorable absorption of fixed overhead costs and lower overall profitability, along with the after tax impact of restructuring charges of \$0.4 million in 2012. The unfavorable absorption was partially offset by focused cost containment efforts resulting in lower general and administrative and selling costs within our Specialty Vehicles segment.

#### Delivery and Service Vehicles

Income Statement Data  
(Dollars in thousands)

	Three Months Ended March 31,			
	2012		2011	
	Amount	%	Amount	%
Sales	\$ 58,848	100.0%	\$ 23,647	100.0%
Net earnings	795	1.4%	(863)	-3.6%
Segment assets	73,408		67,035	

#### *Comparison of the Three Month Periods Ended March 31*

Sales for the first quarter of 2012 for our Delivery and Service Vehicles segment increased by \$35.2 million or 149.2% to \$58.8 million compared to \$23.6 million for the first quarter of 2011. Increases in aftermarket parts sales and field service work related to our keyless entry system, safe-loading systems and shelving units that were introduced throughout 2011 contributed \$16.4 million to the overall sales increase. Also contributing were higher unit volumes of walk-in van sales and a favorable vehicle product mix, resulting in an increase of \$17.6 million and pricing increases on certain units produced by our Delivery and Service Vehicles segment, which were largely offset by material cost increases, resulting in an increase of approximately \$1.2 million. Approximately \$2.9 million of the additional walk-in van revenue in the first quarter of 2012 was due to the delay of shipments on certain vehicles in the fourth quarter of 2011 in order to affect updates to meet certain regulatory safety requirements.

Net income for our Delivery and Service Vehicles segment for the first quarter of 2012 increased to \$0.8 million, compared to a net loss of \$0.9 million for the same period of 2011. Driving the net income increase was the increase in sales volumes, and a favorable mix that included an increased proportion of higher margin aftermarket parts and assemblies in 2012, which were partially offset by the after tax impact of restructuring charges of \$2.8 million incurred in 2012 as a result of the planned move of our delivery and service operations to a new facility in Bristol, Indiana, along with the unfavorable impact of higher incremental production costs related to the Reach delivery van as that vehicle entered production.

## Financial Condition

### *Balance Sheet at March 31, 2012 compared to December 31, 2011*

Cash increased by \$7.8 million from December 31, 2011 to March 31, 2012, driven by cash flow generated from operations of \$8.8 million, reduced by investments in property and equipment of \$1.1 million.

Accounts receivable at March 31, 2012 increased by \$3.1 million, or 7.2%, to \$43.1 million compared to \$40.0 million at December 31, 2011, due primarily to the \$7.6 million increase in sales volume during the first quarter of 2012 compared to the fourth quarter of 2011. Days sales outstanding decreased to 32 days at March 31, 2012 compared to 33 days at December 31, 2011 due to the mix of products sold, which have various payment terms, and early payments from certain large customers.

Income taxes receivable increased by \$1.5 million or 100.0% to \$3.0 million at March 31, 2012 compared to \$1.5 million at December 31, 2011 due to the tax benefit as a result of the net loss recorded in the first quarter of 2012.

Inventory decreased by \$8.3 million or 14.1% to \$58.7 million at March 31, 2012 compared to \$67.0 million at December 31, 2011, due to the release of delayed shipments of certain walk-in vans from year end 2011 and continuing efforts to manage inventory levels, partially offset by demo units manufactured for a trade show and increases in WIP inventory as a result of increased production rates for certain emergency response bodies in our Specialty Vehicles Segment. Days inventory outstanding decreased to 55 days at March 31, 2012, compared to 63 days at December 31, 2011 due to the decrease in inventory. Assets held for sale of \$3.4 million reflect property and equipment from the Wakarusa, Indiana location held for sale that was reclassified from property plant and equipment as of March 31, 2012.

Accounts payable at March 31, 2012 increased \$0.9 million, or 4.0%, to \$22.5 million compared to the December 31, 2011 balance of \$21.6 million. This increase was driven by the reduction of our accounts payable balance at year end

related to our traditional week long shut down for the year-end holidays, accompanied by an increase in payables activity in the first quarter of 2012 related to the higher production levels in our Delivery and Service Vehicles segment.

Deposits from customers decreased \$1.0 million, to \$6.9 million at March 31, 2012 from \$7.9 million at December 31, 2011, mainly due to the reduction in backlog associated with our Delivery and Service Vehicles segment.

## LIQUIDITY AND CAPITAL RESOURCES

Through March 31, 2012, cash and cash equivalents increased by \$7.8 million to a balance of \$39.4 million compared to \$31.7 million at December 31, 2011. These funds, in addition to cash generated from future operations and available credit facilities, are expected to be sufficient to finance the Company's foreseeable liquidity and capital needs.



For the three months ended March 31, 2012, we generated cash from operating activities of \$8.8 million, which represents a \$7.8 million decrease from the \$16.6 million of cash that was generated from operations for the three months ended March 31, 2011. The primary differences between the three months ended March 31, 2012 and 2011 include decreases in cash generated from accounts receivable and accounts payable, the reduction in inventories, and the non-cash restructuring charges.

Working Capital (In thousands)	March 31, 2012	December 31, 2011	Change
Current assets	\$ 156,936	\$ 149,068	\$ 7,868
Current liabilities	50,411	50,396	15
Working capital	<u>\$ 106,525</u>	<u>\$ 98,672</u>	<u>\$ 7,853</u>

Our working capital showed an increase from December 31, 2011 of \$7.8 million to a balance of \$106.5 million on March 31, 2012. The major change to working capital at March 31, 2012 from December 31, 2011, was an increase in cash due to cash generated from operations. Increases in accounts receivable, income tax receivable and assets held for sale (reclassified from property plant & equipment) were offset by the decrease in inventory.

See the Financial Condition section contained in Item 2 of this Form 10-Q for further information regarding balance sheet line items that drove cash flows for the three month period ended March 31, 2012. Also see the Condensed Consolidated Statements of Cash Flows contained in Item 1 of this Form 10-Q for the other various factors that represented the remaining fluctuation of cash from operations between the periods.

Cash used in investing activities for the three months ended March 31, 2012 was \$1.1 million, compared to cash used of \$6.1 million in the same period of 2011. The main difference in cash used in investing activities between the three months ended March 31, 2012 and March 31, 2011 was the \$4.7 million deposit for the purchase of Classic Fire in 2011.

In 2012, we expect to incur total capital expenditures of \$11 to \$13 million for new strategic initiatives, which include approximately \$8 million for infrastructure for the relocation of our Delivery and Service operations to Bristol, Indiana, investment in our new ERP system and operational improvements to our existing property, plant and equipment. We also expect to expend \$12 to \$16 million in the fourth quarter of 2012 to procure transition engines in preparation of the upcoming 2013 engine emissions change.

#### Contingent Obligations

In connection with our acquisition of Utilimaster in November, 2009, we incurred contingent obligations through 2014 in the form of certain performance-based earn-out payments, up to an aggregate maximum amount of \$7.0 million. In the first quarter of 2012, we made earn-out payments totaling \$1.1 million, leaving an aggregate maximum amount of future payments of \$5.9 million. We recorded a contingent liability for the estimated fair value of the future consideration of \$2.2 million based upon the likelihood of the payments, discounted to March 31, 2012. We believe that we have sufficient liquidity to fund the contingent obligations as they become due.

## Debt

On December 16, 2011, we amended our unsecured revolving credit facility under which we may borrow up to \$70.0 million from a syndicate of lenders, including Wells Fargo Bank N.A. and JPMorgan Chase Bank, N.A., to, among other things, extend the maturity of the credit facility for an additional five years. See Note 4, *Debt*, in the Notes to Condensed Consolidated Financial Statements appearing in Item 1 of this Form 10-Q for further details. Under the terms of the agreement, the Company may request an increase in the facility of up to \$35.0 million in the aggregate, subject to customary conditions. Interest rates on borrowings under the credit facility are based on applicable rates at the time of issuance but are generally an adjusted LIBOR rate plus margin, ranging from 125 to 225 basis points, based on specified leverage ratio tiers from period to period. In addition, commitment fees range from 20 to 35 basis points on the unused portion of the line. The credit facility matures on December 16, 2016. We had no drawings against this credit line as of March 31, 2012. During the period ended March 31, 2012, and in future periods, our revolving credit facility was utilized and will continue to be utilized to finance commercial chassis received by our Utilimaster subsidiary under a chassis bailment inventory agreement with General Motors Company. This funding is reflected as a reduction of up to \$5.0 million on the revolving credit facility available to us. See Note 6, *Commitments and Contingent Liabilities*, in the Notes to Condensed Consolidated Financial Statements appearing in Item 1 of this Form 10-Q for further details about Utilimaster's chassis bailment inventory agreement.

On November 30, 2009, we amended and restated our private shelf agreement with Prudential Investment Management, Inc. Under this private shelf agreement, we issued \$5.0 million of 5.46% Series B Senior Notes, due December 1, 2016. In addition, this agreement established an uncommitted shelf facility up to an additional \$45.0 million. The interest rate is determined based on applicable rates at time of issuance. The total outstanding debt under this agreement was \$5 million at March 31, 2012 and December 31, 2011.

Under the terms of the line of credit and the term notes detailed above, we are required to maintain certain financial ratios and other financial conditions. The agreements prohibit us from incurring additional indebtedness; limit certain acquisitions, investments, advances or loans; and restrict substantial asset sales. At March 31, 2012, we were in compliance with all debt covenants, and, based on our current outlook for the remainder of 2012, we expect to be able to meet these financial covenants over the next twelve months.

We had capital lease obligations outstanding of approximately \$0.1 million as of March 31, 2012 due and payable over the next three years.

## Equity Securities

On October 19, 2011, our Board of Directors authorized the repurchase of up to a total of 1.0 million shares of our common stock in open market transactions, contingent upon market conditions. The repurchase of common stock is contingent upon market conditions. Through March 31, 2012, no shares were repurchased under this authorization.

## Dividends

On April 26, 2012, our Board of Directors declared our semi-annual dividend of \$0.05 per share of common stock payable on June 14, 2012 to shareholders of record at the close of business on May 10, 2012.

On October 19, 2011, our Board of Directors declared our semi-annual dividend of \$0.05 per share of common stock. The dividend was paid December 8, 2011 to shareholders of record at the close of business on November 10, 2011.

On April 26, 2011, our Board of Directors declared our semi-annual dividend of \$0.05 per share of common stock. The dividend was paid on June 9, 2011 to shareholders of record at the close of business on May 12, 2011. The aggregate amount of dividends paid in 2011 was \$3.4 million.

## **CRITICAL ACCOUNTING POLICIES**

The following discussion of critical accounting policies is intended to supplement Note 1 - *General and Summary of Accounting Policies*, of the Notes to Consolidated Financial Statements contained in Item 8 in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2012. These policies were selected because they are broadly applicable within our operating units, and they involve additional management judgment due to the sensitivity of the methods, assumptions and estimates necessary in determining the related income statement, asset and/or liability amounts .

**Revenue Recognition** - We recognize revenue in accordance with authoritative guidelines, including those of the SEC. Accordingly, revenue is recognized when title to the product and risk of ownership passes to the buyer. In certain instances, risk of ownership and title passes when the product has been completed in accordance with purchase order specifications and has been tendered for delivery to the customer. On certain customer requested bill and hold transactions, revenue recognition occurs after the customer has been notified that the products have been completed according to the customer specifications, have passed all of our quality control inspections, and are ready for delivery. All sales are shown net of returns, discounts and sales incentive programs, which historically have not been significant. The collectability of any related receivable is reasonably assured before revenue is recognized.

**Accounts Receivable** - We maintain an allowance for customer accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance for doubtful accounts, we make certain assumptions regarding the risk of uncollectable open receivable accounts. This risk factor is applied to the balance on accounts that are aged over 60 days: generally this reserve has an estimated range from 10-25%. The risk percentage applied to the aged accounts may change based on conditions such as: general economic conditions, industry-specific economic conditions, historical and anticipated customer performance, historical experience with write-offs and the level of past-due amounts from year to year. However, generally our assumptions are consistent year-over-year and there has been little adjustment made to the percentages used. In addition, in the event there are certain known risk factors with an open account, we may increase the allowance to include estimated losses on such "specific" account balances. The "specific" reserves are identified by a periodic review of the aged accounts receivable. If there is an account in question, credit checks are made and there is communication with the customer, along with other means to try to assess if a specific reserve is required. The inclusion of the "specific" reserve has caused the greatest fluctuation in the allowance for doubtful accounts balance historically. Please see Note 1 - *General and Summary of Accounting Policies*, in the Notes to Consolidated Financial Statements contained in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2011 for further details.

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October 1 of each year, or more frequently if an event occurs or conditions change that would more likely than not reduce the fair value of the asset below its carrying value. Goodwill is recorded on the financial statements of our Utilimaster, Crimson and Classic Fire subsidiaries, each of which is considered to be a separate "reporting unit" for impairment testing as defined in Accounting Standards Codification Topic 350 "*Intangibles - Goodwill and Other*".

At our last annual impairment testing date, October 1, 2011, we early adopted Accounting Standards Update 2011-08 "*Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*" ("ASU 2011-08") for goodwill impairment testing for our Utilimaster reporting unit. ASU 2011-08 permits us to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Based on the results of our qualitative assessment for Utilimaster performed as of October 1, 2011, we determined that it was more likely than not that the fair value of Utilimaster exceeded its carrying value. Accordingly, the goodwill of Utilimaster was deemed to be not impaired and no further testing was performed.

For our goodwill impairment testing for our Crimson Fire and Classic Fire reporting units at October 1, 2011, we performed a two-step impairment test, whereby the first step was comparing the fair value of the reporting unit with its carrying amount, including goodwill. The fair value of the reporting unit was determined by estimating the future cash flows of the reporting unit to which the goodwill relates, and then discounting the future cash flows at a market-participant-derived weighted-average cost of capital ("WACC"). Based on the results of the first step of our two-step impairment test we determined that the fair value of our Crimson Fire and Classic Fire reporting units exceeded their carrying costs, and accordingly, there was no impairment of goodwill at the annual testing date.

We performed our annual impairment testing for our indefinite-lived intangible assets, which consist of our Utilimaster and Classic Fire trade names, as of October 1, 2011 by comparing the estimated fair value of the trade name with its carrying value. We estimate the fair value of our trade names based on estimates of future royalty payments that are avoided through our ownership of the trade names, discounted to their present value. Based on the results of our impairment testing, we determined that the fair value of our indefinite-lived intangible assets exceeded their carrying cost at October 1, 2011, and accordingly, there was no impairment at the annual testing date.

Since October 1, 2011, there have been no events or changes in conditions that would more likely than not reduce the fair value of any of our reporting units below their respective carrying costs.

We cannot predict the occurrence of certain events or changes in circumstances that might adversely affect the carrying value of goodwill and indefinite-lived intangible assets. Such events may include, but are not limited to, the impact of the general economic environment; a material negative change in relationships with significant customers; or strategic decisions made in response to economic and competitive conditions; and other risk factors as detailed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011.

See Note 1, *General and Summary of Accounting Policies* and Note 7, *Goodwill and Intangible Assets*, in the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011 for further details on our accounting policies and other information regarding goodwill and indefinite-lived intangible assets.

**Warranties** - Our policy is to record a provision for the estimated cost of warranty-related claims at the time of the sale, and periodically adjust the warranty liability to reflect actual experience. The amount of warranty liability accrued reflects actual historical warranty cost, which is accumulated on specific identifiable units. From that point, there is a projection of the expected future cost of honoring our obligations under the warranty agreements. Historically, the cost of fulfilling our warranty obligations has principally involved replacement parts and labor for field retrofit campaigns and recalls, which increase the reserve. Our estimates are based on historical experience, the number of units involved and the extent of features and components included in product models. Over time, this method has been consistently applied and has proven to be an appropriate approach to estimating future costs to be incurred. See also Note 6 – *Commitments and Contingent Liabilities*, of the Notes to Condensed Consolidated Financial Statements contained in Item 1 of this Form 10-Q, for further information regarding warranties.

#### **EFFECT OF INFLATION**

Inflation affects us in two principal ways. First, our revolving note payable is generally tied to the prime and LIBOR interest rates so that increases in those interest rates would result in additional interest expense. Second, general inflation impacts prices paid for labor, parts and supplies. Whenever possible, we attempt to cover increased costs of production and capital by adjusting the prices of our products. However, we generally do not attempt to negotiate inflation-based price adjustment provisions into our contracts. Since order lead times can be as much as ten months, we have limited ability to pass on cost increases to our customers on a short-term basis. In addition, the markets we serve are competitive in nature, and competition limits our ability to pass through cost increases in many cases. We strive to minimize the effect of inflation through cost reductions and improved productivity.

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

Our primary market risk exposure is a change in interest rates and the effect of such a change on outstanding variable rate short-term and long-term debt. At March 31, 2012, we had no debt outstanding under our variable rate short-term and long-term debt agreements. Therefore, an increase of 1% in interest rates would not have a material adverse effect on our financial position or results of operations. We do not enter into market-risk-sensitive instruments for trading or other purposes.

We do not believe that there has been a material change in the nature or categories of the primary market risk exposures or the particular markets that present the primary risk of loss to us. As of the date of this report, we do not know of or expect any material changes in the general nature of our primary market risk exposure in the near term. In this discussion, “near term” means a period of one year following the date of the most recent balance sheet contained in this report.

Prevailing interest rates and interest rate relationships are primarily determined by market factors that are beyond our control. All information provided in response to this item consists of forward-looking statements. Reference is made to the section captioned “Forward-Looking Statements” before Part I of this Quarterly Report on Form 10-Q for a discussion of the limitations on such statements.

**Item 4. Controls and Procedures.**

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of March 31, 2012. Based on and as of the time of such evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in the reports that we file or submit is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

We have included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, a description of certain risks and uncertainties that could affect our business, future performance or financial condition (the "Risk Factors"). There have been no material changes from the disclosure provided in the Form 10-K for the year ended December 31, 2011 with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to our stock.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Issuer Purchases of Equity Securities

On October 19, 2011, our Board of Directors authorized the repurchase of up to a total of 1.0 million shares of our common stock in open market transactions, contingent upon market conditions. Through March 31, 2012 no shares were repurchased under these authorizations.

During the quarter ended March 31, 2012 there were 4,343 shares delivered by associates in satisfaction of tax withholding obligations that occurred upon the vesting of restricted shares. These shares are not repurchased pursuant to the Board of Directors authorization disclosed above.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 to January 31	--	--	--	1,000,000
February 1 to February 29	--	--	--	1,000,000
March 1 to March 31	4,343	\$ 5.44	--	1,000,000
Total	4,343	\$ 5.44	--	1,000,000

**Item 6. Exhibits.**

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

<u>Exhibit No.</u>	<u>Document</u>
10.1	Lease agreement dated February 13, 2012 between Fruit Hills Investments, LLC and Spartan Motors, Inc.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document



**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.

Date: May 8, 2012

SPARTAN MOTORS, INC.

By /s/ Joseph M. Nowicki  
Joseph M. Nowicki  
Chief Financial Officer and Treasurer, and  
Chief/Corporate Compliance Officer  
(Principal Financial and Accounting Officer)

## EXHIBIT INDEX

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**EXHIBIT 10.1**

**LEASE**

Between

**Fruit Hills Investments, LLC**

And

**Utilimaster Corporation**

**February 13, 2012**  
("Effective Date")

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Exhibit A – Legal Description

Exhibit B – Configuration and Sketch of the Premises

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## LEASE

THIS LEASE is made as of February 13, 2012 ("Effective Date"), by and between **Fruit Hills Investments LLC**, an Indiana limited liability company, whose address is 54915 Colonial Ridge Drive, Bristol, Indiana 46507 ("**Landlord**"), and **Utilimaster Corporation**, a Delaware corporation, whose address is 1541 Reynolds Road, Charlotte, MI 48813 ("**Tenant**").

1. **Definitions.** For the purposes of this Lease, unless the context otherwise requires:

(a) "**Base Building Systems**" shall mean the mechanical, gas, utility, electrical, sanitary, HVAC, elevator, plumbing, sprinkler, fire protection, emergency generation, and cabling and wiring, in, on or under the Premises.

(b) "**Building**", although used in the singular, shall mean all buildings and improvements located on or under the Land (as defined below).

(c) "**Building Parking Area**" shall mean the paved area of the Land intended for parking of vehicles, as shown on the sketch of the Premises attached hereto as **Exhibit B**.

(d) "**Business Days**" shall mean all days except Saturdays, Sundays and Legal Holidays.

(e) "**City**" shall mean Bristol, Indiana.

(f) "**Governmental Authority**" shall mean any federal, state, county, municipal or local government and all departments, commissions, boards, bureaus and offices thereof having or claiming jurisdiction over the Premises.

(g) "**HVAC**" shall mean heating, ventilating and air conditioning.

(h) "**Land**" shall mean that certain parcel or parcels of real property commonly known as 603-605 Earthway Drive, Bristol, Elkhart County, Indiana 46507, consisting of 25.4 acres and more particularly described on **Exhibit A** attached hereto, and on which is situated the Building.

(i) "**Landlord's Representatives**" shall mean the employees, agents, contractors and invitees of Landlord.

(j) "**Lease Year**" shall mean every period of twelve (12) consecutive, full, calendar months during the Term, commencing on March 1, 2012.

(k) "**Legal Holidays**" shall mean New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

(l) "**Legal Requirements**" shall mean every statute, law (including, without limitation, the Americans with Disabilities Act of 1990 (the "**ADA**")), ordinance, code, regulation, order, permit, approval, license, judgment, restriction or rule of any Governmental Authority or other public or quasi-public body, agency, court, department, bureau or authority having jurisdiction over the subject matter, as amended from time to time.

(m) "**Person**" shall mean any individual, partnership, limited liability company, trust, corporation, firm or other person or entity.

(n) **"Premises"** means the aggregate of the Land and the Building, and all appurtenances thereto, including the Building Parking Area but excluding Tenant's Property.

(o) **"Structure"** shall mean the roof, exterior walls, support beams and columns, foundation, and underground structural components of the Building.

(p) **"Tenant's Property"** shall mean all of Tenant's trade and other fixtures, furniture, equipment, personal property and supplies, including without limitation racking, moveable partitions, panels, generators, computers and supplemental HVAC systems provided or installed by or for the benefit of Tenant. Additionally, despite any language in this Lease to the contrary, Tenant's Property shall include all improvements, alterations, additions and installations made to the Premises by or for the benefit of the Tenant during the Term or Renewal Term whether or not they are affixed to the Land or Building or might otherwise be deemed to be fixtures or real property. Tenant shall provide Landlord and Landlord's Mortgagee with periodic reports as Tenant adds any of Tenant's Property to the Premises, including a detailed description of the Tenant's Property and the approximate value thereof. Tenant's Property shall continue to be owned by the Tenant throughout the Term and Renewal Term irrespective of any term of this Lease to the contrary and whether it might be considered to be real property under Indiana law.

(q) **"Tenant's Representatives"** shall mean the employees, agents, contractors and invitees of Tenant.

(r) **"Unavoidable Delays"** shall mean any and all delays beyond a party's reasonable control, including without limitation, delays caused by the other party, governmental restrictions, governmental regulations and controls, order of civil, military or naval authority, governmental preemption, strikes, labor disputes, lock-outs, acts of God, fire, earthquake, floods, explosions, extreme weather conditions, enemy action, and civil commotion, riot or insurrection, but expressly excluding condemnation and casualty covered under Section 21 and Section 23 below.

## **2. Leased Premises; Term; Contingencies.**

(a) Landlord leases to Tenant, and Tenant hires from Landlord, on the terms and subject to the conditions contained herein, the Premises, together with all Base Building Systems whatsoever now owned or hereafter acquired by Landlord and used in connection with the operation and maintenance of the Premises, including by way of illustration and not limitation, all fixtures, equipment, computers, back-up generators and related switch gear, transformers, fans, for a term of 120 months commencing on March 1, 2012 (the **"Commencement Date"**), and ending on February 28, 2022, unless sooner terminated as provided herein (the **"Term"**).

(b) Tenant may occupy the Premises free of any obligation to pay Rent, Additional Rent or any other costs from the Effective Date until the Commencement Date, however, Tenant shall provide the insurance coverage described in Section 24 commencing as of the date Tenant first occupies the Premises. If possession of the Premises shall for any reason not be delivered to Tenant on March 1, 2012, this Lease shall nevertheless continue in full force and effect, and no liability whatsoever shall arise against Landlord out of any delay other than the abatement of rent, at the rate of one-thirtieth (1/30) of the monthly installment of the Rent for each day of delay, until possession of the Premises is delivered to Tenant; provided, however, that the Tenant may at its option terminate the Lease upon written notice to Landlord if possession is not delivered by April 1, 2012.

(c) **Contingencies.** The parties agree to allow 90 days from the Effective Date for the completion of the conditions below. Notwithstanding anything to the contrary contained in this Lease, Tenant shall have the right to terminate this Lease upon written notice to Lender given within 90 days after the Effective Date if all of the following conditions have not been met to Tenant's satisfaction or waived by Tenant in writing:

- (i) Tenant shall, at its expense, secure a survey of the Premises that confirms there are no encumbrances that materially interfere with Tenant's planned use of the Premises;
- (ii) Tenant shall have secured written commitments from the applicable Governmental Authority for Tenant's economic development incentives, including tax abatements; and
- (iii) Landlord has approved Tenant's proposed Alterations.

**3. Rent.**

(a) Tenant shall pay to Landlord monthly installments of Fifty Nine Thousand Five Hundred Eighty Four Dollars (\$59,584.00) (the "**Rent**") throughout the Term of this Lease and the Renewal Term if the option to renew is exercised. Each monthly installment shall be payable in advance, without notice or demand, on or before the first day of each calendar month during the Term at such place as the Landlord shall from time to time designate.

(b) Prior to the Effective Date, Tenant paid one month's Rent (\$59,584.00) to Landlord. Landlord acknowledges receipt of the payment. The payment shall be applied to the last month's rent payable during the initial ten year Term, or to the purchase price for the Premises in the event Tenant exercises its Option under Section 41 or Right of First Refusal under Section 42 below, or to amounts Tenant owes Landlord at the termination of the Lease if such rights are not exercised by Tenant.

**4. Additional Rent.** All sums in addition to Rent due to be paid to Landlord under the terms of this Lease shall constitute Additional Rent. All Additional Rent shall be due and payable immediately upon demand.

**5. Taxes and Other Government Charges.**

(a) Tenant shall be responsible for payment, before any penalty or interest attaches, of all real property taxes ("**Taxes**"), special taxes, lessee-user taxes, water charges, sewer service charges, and other governmental charges of any kind whatsoever levied or assessed against or with respect to the Premises at any time during the Term of this Lease, and shall, upon written request, furnish to Landlord evidence of payment for them. Taxes will be treated as if they cover the calendar year in which they are first billed. Taxes for all years prior to 2012 will be paid by Landlord without proration. Taxes which are billed in the year 2012 and in the last Lease Year shall be prorated among the parties on the basis of the portion of the Lease Year that is in the pertinent calendar year in which the Taxes were first billed. If Tenant does not purchase the Premises, Tenant shall have no liability for any Taxes first billed in the calendar year following the calendar year in which the Term expires, regardless of whether the lien of such Taxes accrued during the Term. If Tenant purchases the Premises, Landlord shall give Tenant a prorated credit at closing for Taxes assessed and accruing in the last Lease Year but due in the following year. Notwithstanding the foregoing, Landlord shall pay Tenant as a refund against the Taxes paid by Tenant hereunder for the first 12 months of the Term an amount equal to the property tax abatement or credit as may be granted by Governmental Authorities for the Taxes which would be first billed in the year 2013. If the refund is not paid to Tenant within 30 days after the amount of the abatement or credit is known, the Tenant shall be entitled to a credit against future rent in that amount. If the abatement declines in any year, the parties shall calculate the Taxes payable under the Lease in any Lease Year by applying the abatement for the following Lease Year to the taxes due in the current Lease Year. These provisions shall apply whether the tax benefits are technically granted in the name of Landlord or Tenant. Notwithstanding the foregoing, it is the intention of the parties that the Tenant shall receive the full benefit of all tax abatements or credits granted by Governmental Authorities, no more or no less. Special assessments which are or become a lien on the Premises on or before the Commencement Date shall be paid by Landlord. If any new special assessments become a lien after the Commencement Date may be paid in installments, the amount of special assessments to be included in Taxes shall be limited to the prorated amount of the installments payable for the Lease Year with respect to which Taxes are being determined. Landlord shall be solely responsible for increases in Taxes resulting from actions of the Landlord. Taxes shall not include income tax, tax on rents, excess profits or revenue tax, excise tax or inheritance tax, gift tax, gains tax, franchise tax, corporation or partnership tax, capital levy transfer, estate, succession or other similar tax or charge that may be chargeable to the Landlord under any Legal Requirement.

(b) At Tenant's option, Tenant may bring appropriate proceedings in Landlord's name or Tenant's name or both for contesting any Tax assessed for any year during the Term. The net amount of Taxes recovered as a result of such proceedings shall be payable to Tenant. Landlord shall cooperate with Tenant with respect to the proceedings so far as reasonably necessary. Landlord hereby names Tenant as its agent and attorney in fact for the purpose of initiating and prosecuting any proceedings that are necessary, appropriate or desirable for the purposes of contesting any Tax or the assessment upon which any Tax is based, including, without limitation, any proceedings before any property tax assessment board of appeals, the State Board of Tax Review, or any court (whether tax, trial, or appellate) having jurisdiction over such proceedings, Tax or contest. Such power of attorney includes, without limitation, the right to file such papers, motions and pleadings as it shall determine to be necessary or appropriate. Such power of attorney shall additionally give Tenant the right to endorse, assign and/or cash any refund checks issued as a result of such appeal. The power of attorney set forth in this Section 5(b) is coupled with an interest and is irrevocable and shall survive the expiration or other termination of the Term.

(c) Tenant shall pay before any penalty or interest attaches all personal property taxes levied or assessed against the personal property of Tenant located upon the Premises, and shall, upon written request, furnish to Landlord evidence thereof.

**6. Utilities.** Tenant shall, at its expense, pay all utility expenses. On May 7, 1969, at Volume 295, Page 13 of Elkhart County Records, an easement was granted to Indiana & Michigan Electric Company for an electric power line (the "**Easement**") over the Premises. The easement does not limit or describe the exact location of the power line easement. At Tenant's option, Tenant may take appropriate action in Landlord's name or Tenant's name or both to have the Easement amended to limit the area of the Easement to the current location of the power line. Landlord agrees that if there is a violation of the easement, it shall work with the power company to correct the violation at Landlord's expense. Landlord shall cooperate with and assist Tenant with respect to the proceedings so far as reasonably necessary. Landlord hereby names Tenant as its agent and attorney in fact for the purpose of initiating and pursuing any actions that are necessary, appropriate or desirable for the purpose of amending the Easement. Such power of attorney includes, without limitation, the right to negotiate with the utility company, file such papers, motions and pleadings as it shall determine to be necessary or appropriate. The power of attorney set forth in this Section 13(c) is coupled with an interest and is irrevocable.

**7. Use of Premises.** Tenant shall use and occupy the Premises for its lawful business purposes, including manufacturing, production and assembling purposes in compliance with applicable Legal Requirements.



**8. Maintenance and Repair.** This is a triple net lease. Except as otherwise provided in this Section 8 and in Section 12 of this Lease, Tenant shall at its expense keep and maintain the Premises, and all of Tenant's Property, in clean condition. Tenant's obligations shall include maintenance of the Premises, including the roof (repair but not replace), exterior walls (repair but not replace), windows, doors, private driveways, parking, landscaping, the replacement of broken glass and the repair and maintenance of the interior portions of the Premises, such as the HVAC, electrical, plumbing, dust collecting and sprinkler systems, any building security system and other interior components. Tenant shall also at its expense remove snow, ice, and rubbish from the Premises. Notwithstanding anything to the contrary in this Lease, the Landlord shall at its expense maintain, repair and replace, as reasonably necessary, the Structure of the Building to place, keep and maintain it in good working condition and repair. However, Landlord's obligation for the roof and exterior walls of the Structure is for replacement as Tenant shall makes repairs.

Tenant agrees that upon 24 hours advance notice the Landlord or its agents may enter the Premises during regular business hours in order to examine the Premises, show the Premises to prospective purchasers or tenants, or make such repairs, alterations, or improvements that the Landlord is obligated to make under this Lease. During the ninety (90) days prior to the termination or expiration of this Lease, Landlord may display on the Premises notices that the premises are for rent and/or for sale, and Tenant agrees not to disturb such notices in any way.

**9. Alterations.**

(a) It is understood and agreed that Tenant, at its option and in its sole discretion, intends to make significant alterations to the Premises. As soon as reasonably possible after the Effective Date of this Lease, Tenant shall have the right to enter the Premises to develop plans and specifications for its alterations and commence the alterations. The plans and specifications which alter the Base Building Systems or the Structure shall be subject to Landlord's reasonable approval. Landlord shall not withhold, condition or delay its approval unless Tenant's proposal would be detrimental to the long-term value of the Premises. All such improvements, alterations, additions and installations shall be made at Tenant's sole expense and shall remain as Tenant's Property.

(b) Tenant shall, before making any improvements, alterations, additions or installations, at its expense, obtain all permits, approvals and certificates required by any governmental or quasi-governmental bodies and (upon completion) certificates of final approval for them and shall deliver promptly copies of all such permits, approvals and certificates to Landlord. Landlord shall cooperate with Tenant in connection with any reasonable requirements to accomplish the foregoing. Tenant agrees to carry and will cause Tenant's contractors and subcontractors to carry appropriate worker's compensation, general liability, personal and property damage insurance.

**10. Covenant Against Liens.** Nothing in this Lease shall authorize Tenant to, and Tenant shall not, do any act which will in any way encumber the title of Landlord in and to the Premises, nor shall the interest or estate of Landlord in the Premises be in any way subject to any claim whatsoever by virtue of any act or omission of Tenant. Any claim to a lien upon the Premises arising from any act or omission of Tenant shall be valid only against Tenant and shall in all respects be subordinate to the title and rights of Landlord, and any person claiming through Landlord, in and to the Premises. Tenant shall remove any lien or encumbrance on its interest in the Premises within ten (10) days after notice from Landlord; provided, however, that Tenant may in good faith contest any such item if it posts a bond or other adequate security with the applicable court or the Landlord.

**11. Compliance with Laws.**

(a) **Obligations of Landlord.**

Landlord shall comply, at Landlord's sole cost and expense, with all Legal Requirements that relate to the performance by Landlord of any duties or obligations to be performed by Landlord under this Lease.

(b) **Obligations of Tenant.** Notwithstanding the foregoing, Tenant shall comply, at Tenant's sole cost and expense, with all Legal Requirements: (i) that are applicable to Tenant's use of the Premises; and (ii) in connection with any alterations as described in Section 9 above. Nothing herein shall be deemed to impose any obligation upon Tenant for any elements of the Structure or for any obligations of the Landlord under this Lease.

**12. Environmental.**

(a) **Tenant's Environmental Obligations.**

Tenant covenants that no Hazardous Materials (as hereinafter defined) will be brought onto or stored or used in the Premises by Tenant or Tenant's Representatives, except in compliance with all Legal Requirements.

Tenant shall hold harmless, indemnify and defend Landlord from and against any Environmental Damages (as hereinafter defined) resulting from events occurring on the Premises during the Term caused by Tenant or Tenant's Representatives, agents or invitees.

(b) **Landlord's Environmental Obligations.**

Landlord represents and warrants that to its knowledge there are currently no Hazardous Materials on, in, at or affecting the Premises in violation of any Legal Requirement. Landlord represents and warrants that it has no knowledge or reason to believe, and has not received any notices or communications from any Governmental Authority, that any Person at the Premises has violated any Legal Requirement with respect to the acquisition, handling, storage, treatment, shipment or disposal of, or any other matters pertaining to, Hazardous Materials. Landlord represents and warrants that neither it nor the Premises is subject to any decree, order or judgment relating to environmental Legal Requirements. Landlord represents and warrants that to its knowledge there are no underground storage tanks on the Land, and the Land has never been used as a landfill or waste disposal site.

Landlord shall hold harmless, indemnify and defend Tenant from and against any Environmental Damages resulting from events occurring on or about the Premises, except for Environmental Damages caused by Tenant or Tenant's Representatives, agents or invitees.

(c) **Indemnification Obligations.**

If either Landlord or Tenant receives notice of any claim giving rise to the other party's obligation to indemnify under this Article, the indemnified party shall promptly notify the other in writing of such claim. The indemnifying party shall have the right and option in the first instance, through counsel of its own choosing and at its own expense, to deal with, defend, settle or compromise any such claim.

If the indemnifying party fails to appoint counsel to deal with, defend, settle or compromise any such claim within thirty (30) days after receiving notice thereof, the indemnified party may, but shall not be obligated to, deal with, defend, settle or compromise any such claim through counsel of its own choosing, at the expense of the indemnifying party. In such event, any settlement or compromise shall not be made without prior notice to the indemnifying party. The parties shall cooperate with each other in the defense of any such claim or litigation, at the indemnifying party's expense.

(d) **Definitions.**

**“Environmental Damages”** shall mean all claims, judgments, damages (excluding consequential and punitive damages), losses, penalties, fines, liabilities (including strict liability), encumbrances and liens, and any other costs and expenses, resulting from the existence on or in, or release to the ground or air, of Hazardous Materials in violation of, or alleged to be in violation of, the Legal Requirements applicable thereto, including, without limitation, any attorneys’ fees, disbursements, clean-up costs, testing, engineer’s fees, consultant’s fees and other costs resulting from: (i) investigation, defense and required remediation of any alleged claim; (ii) a directive of any Governmental Authorities, whether or not the claims or directives are groundless, false or fraudulent, or are ultimately defeated; and (iii) any settlement or judgment.

**“Hazardous Materials”** shall mean any hazardous or toxic substance, material or waste (including constituents thereof) that is or becomes regulated by one or more Governmental Authorities. The words “Hazardous Materials” include, without limitation: (i) any material or substance listed or defined as a “hazardous waste,” “extremely hazardous waste,” “restricted hazardous waste,” “hazardous substance” or “toxic substance” under any Legal Requirement; (ii) petroleum and its byproducts; (iii) asbestos, radon gas and urea formaldehyde foam insulation; (iv) polychlorinated biphenyl; (v) any substance designated as a hazardous or toxic waste or substance (or words of similar import) pursuant to the Federal Water Pollution Control Act, as amended (33 U.S.C. §1317), the Federal Resource Conservation and Recovery Act, as amended (42 U.S.C. §6903), the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §§9601 et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. §§2601 et seq.), or the Hazardous Materials Transportation Act, as amended (49 U.S.C. §§1801 et seq.); or (vi) any other chemical, material, gas or substance, the exposure to or release of which is or may hereafter be prohibited, limited or regulated by any governmental or quasi-governmental entity having jurisdiction over the Premises or the operations or activity at the Premises, or any chemical, material, gas or substance that does or may pose a hazard to the health or safety of the occupants of the Premises or the occupants of property adjacent to the Premises.

(e) **Survival.** This Section 12 on Environmental shall survive the expiration or earlier termination of this Lease.

**13. Landlord’s Representations and Warranties.**

(a) **Landlord’s Representations Regarding Title And Use.** Landlord represents and warrants as a condition of this Lease that: (i) it possesses good marketable fee simple title to the Premises, subject only to matters described in Section 13(c); (ii) it is authorized to make this Lease for the Term and Renewal Term; (iii) the provisions of this Lease do not conflict with or violate the provisions of existing agreements between Landlord and third parties; and (iv) Landlord will deliver to Tenant the Premises free of all tenants and occupants and claims thereto.

(b) **Landlord’s Representations Regarding Legal Proceedings .** Landlord represents and warrants that, as of the Effective Date: (i) there are no pending, or, to the best of its knowledge, threatened, claims, causes of action, foreclosure proceedings, filings of involuntary or voluntary bankruptcy or insolvency petitions, appointments of receivers, assignments for the benefit of creditors, lawsuits or judgments against the Premises or Landlord; (ii) Landlord is not a principal or surety on any bond payable to the State of Indiana; and (iii) none of the foregoing affecting other properties controlled by or under common control with Landlord or a Person, directly or indirectly, through one or more intermediaries, controlled by Landlord or under common control with Landlord, exist if the same may affect title to the Premises, Landlord’s ability to comply with its obligations under this Lease, or Tenant’s use of the Premises as herein provided. If, after the Effective Date, any such actions, petitions, appointments, assignments or other proceedings are filed or threatened, Landlord shall notify Tenant within fifteen (15) days of Landlord’s knowledge thereof.

(c) **Title Matters.** Landlord represents and warrants that all encumbrances, restrictions, covenants, declarations, easements and other matters affecting title to the Premises do not interfere with Tenant's proposed use of the Premises as relayed to the Landlord. Landlord represents that as of the Effective Date and on the Commencement Date the only mortgagee of the Premises is Lake City Bank ( "**Landlord's Mortgagee**") under mortgages dated April 11, 2001, July 6, 2001, January 15, 2002, October 22, 2004, February 3, 2006 and May 16, 2006 ( "**Mortgages**"). Landlord represents that none of the mortgages are in default. Landlord also represents that on May 16, 2006 it granted Landlord's Mortgagee an Assignment of Rents ( "**Assignment of Rents**") relating to the Premises.

(d) **Base Building Systems; Roof.** Landlord represents and warrants that, as of the Effective Date and the Commencement Date, the Base Building Systems are in good working order and the roof of the Building is in watertight condition.

(e) **Survival.** The Landlord's Representations and Warranties of (a), (b) and (c) shall survive the execution of this Lease.

**14. Indemnification; Tenant's Property.**

(a) Except as otherwise prohibited by law, Landlord shall not be liable for any damage, either to person or property, sustained by any person not due directly to the act or omission of Landlord. Tenant shall indemnify and hold Landlord harmless from and against any and all liabilities, obligations, damages, penalties, claims, costs and expenses, including reasonable attorneys' fees, paid or incurred as a result of or in connection with Tenant's use or occupancy of the Premises, any breach by Tenant, Tenant's agents, contractors, employees, customers, invitees, or licensees, of any covenant or condition of this Lease, or the carelessness, negligence or improper conduct of the Tenant, Tenant's agents, contractors, employees, customers, invitees or licensees. Tenant's liability under this Lease extends to the acts and omissions of any subtenant, and any agent, contractor, employee, customer, invitee or licensee of any subtenant. In case any action or proceeding is brought against Landlord by reason of any such claim, Tenant, upon written notice from Landlord, will, at Tenant's expense, resist or defend such action or proceeding by counsel approved by Landlord in writing.

(b) Tenant shall bring or keep property upon the Premises solely at its own risk, and Landlord shall not be liable for any damages thereto or any theft thereof. Tenant shall maintain a policy of insurance with a responsible insurance company satisfactory to Landlord against risk of loss from any cause whatsoever to all such property and to all of Tenant's alterations, improvements or additions to the Premises, to the full extent of their replacement cost, which policy of insurance shall contain a clause or endorsement under which the insurer waives, or permits the waiver by Tenant of, all right of subrogation against Landlord, and its agents, employees, customers, invitees, guests, or licensees, with respect to losses payable under such policy, and Tenant hereby waives all right of recovery which it might otherwise have against Landlord, and its agents, employees, customers, invitees, guests, or licensees, for any damage to Tenant's Property, notwithstanding that such damage may result from the negligence or fault of Landlord, or its agents, employees, customers, invitees, guests, or licensees. Any deductible amount included in such policy shall be treated as though it were recoverable under the policy.

**15. Assignment and Subletting.**

(a) Tenant may, without the prior consent of Landlord, assign this Lease or sublet all or part of the Premises to: (i) an entity controlled by, controlling or under common control with Tenant; or (ii) an entity acquiring or succeeding to substantially all of the business, or substantially all of a business unit, of Tenant, by merger, spin-off, reorganization, consolidation, acquisition (of assets or equity) or otherwise on the condition that such acquirer or successor entity has a net worth of not less than the greater of (x) the net worth of Utilimaster Corporation or (y) \$1,000,000. For this purpose "control" shall mean that a person or entity possesses the power to direct or cause the direction of the management and policies of such other entity, whether through the beneficial ownership of 50% or more of voting securities, by contract or otherwise.

(b) Except as set forth above, neither this Lease, nor the Term and estate hereby granted, nor any part hereof or thereof shall be assigned or otherwise transferred by Tenant by operation of law or otherwise, and neither the Premises, nor any part thereof, shall be sublet, used, occupied or permitted to be used or occupied, by anyone other than Tenant or for any purpose other than as permitted by this Lease, without the prior written consent of Landlord in each case. Landlord's consent to a proposed Transfer shall not be unreasonably withheld, delayed or conditioned.

**16. Tenant's Default.** Tenant shall be deemed in default of this Lease (a "*Tenant Default*") if:

(a) Tenant fails to pay any installment of Rent when due;

(b) Tenant fails to perform any term, covenant or condition of this Lease on Tenant's part to be observed or performed (other than the covenants for the payment of Rent), and Tenant fails to remedy such default within thirty (30) days after Tenant's receipt of notice from Landlord specifying such default, or if such default is of such a nature that it cannot be completely remedied within such thirty (30)-day period, if Tenant does not promptly institute and thereafter diligently prosecute to completion all steps necessary to remedy the default after Landlord's notice of default;

(c) Tenant files a voluntary petition in bankruptcy or insolvency, or is adjudicated a bankrupt or insolvent or files any petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy act or any other present or future applicable federal, state or other statute or law, or makes an assignment for the benefit of creditors or seeks or consents to acquiesce in the appointment of any trustee, receiver or liquidator of Tenant or of all or any part of Tenant's Property; or

(d) Within ninety (90) days after the commencement of any proceeding described in subsection (c) above against Tenant, such proceeding has not been dismissed, or if, within ninety (90) days after the appointment of any trustee, receiver or liquidator of Tenant or of all or any part of Tenant's Property, with or without the consent or acquiescence of Tenant, such appointment has not been vacated or otherwise discharged, or if any execution or attachment has been issued against Tenant or any of Tenant's Property pursuant to which part or all of the Building has been taken or occupied or attempted to be taken or occupied.

**17. Landlord's Remedies for Tenant's Default.**

(a) Upon a Tenant Default, Landlord may: (i) terminate this Lease after giving Tenant at least thirty (30) days' written notice of its intention to do so and, and Tenant shall then surrender the Premises to Landlord; or (ii) enter and take possession of the Premises, in accordance with any Legal Requirements governing such repossession, and remove Tenant, with or without having terminated this Lease. Landlord's exercise of any of its remedies or its receipt of Tenant's keys shall not be considered an acceptance or surrender of the Premises by Tenant. A surrender must be agreed to in writing and signed by both parties.

(b) If Landlord terminates this Lease or terminates Tenant's right to possess the Premises because of a Tenant Default, Landlord may hold Tenant liable for, but subject to the terms of this subsection: (i) Rent and other indebtedness that otherwise would have been payable by Tenant to Landlord prior to the expiration of the Term, less any amount that Landlord receives from reletting the Premises after all of Landlord's costs and expenses incurred in such reletting have been subtracted; (ii) any reasonable amounts Landlord incurs in reletting the Premises during the remainder of the Term; and (iii) other necessary and reasonable expenses incurred by Landlord in enforcing its remedies, including reasonable attorney's fees. Tenant shall be liable for only those actual damages suffered by Landlord. Tenant shall pay any such sums due within thirty (30) days of receiving Landlord's itemized invoice for the amounts. Landlord shall mitigate any damage, for example by making best efforts to relet the Premises on reasonable terms.

**18. Landlord's Default; Tenant's Remedies**

(a) **Landlord's Default.** Landlord shall be deemed in default of this Lease (a "**Landlord Default**") if Landlord fails to perform any term, covenant or condition of Landlord under this Lease and fails to cure such default within a period of thirty (30) days after notice from Tenant specifying such default (or if the default specified by Tenant is not capable of cure within such thirty (30)-day period, if Landlord fails immediately after notice from Tenant to commence to cure such default and diligently to pursue completion of such cure during and within a reasonable time after such thirty (30)-day period). Nothing in this Section shall limit Tenant's rights of abatement or self-help expressly set forth herein. Tenant shall provide Landlord's Mortgagee a copy of any notice of a default by Landlord at the same time as provided to Landlord.

(b) **Tenant's Remedies.** Upon a Landlord Default, Tenant shall have the right to pursue all remedies at law or in equity. In addition, Tenant may: (i) upon the first (1st) and any subsequent occurrence of any Landlord Default, correct the Landlord Default and deduct the cost from Rent and other sums payable to Landlord, or withhold payment of Rent and other sums, if any, due to Landlord until Landlord has corrected the specified Landlord Default, or pursue the judicial remedy of specific performance or sue for damages; and (ii) upon the third (3rd) occurrence of any Landlord Default or upon the failure of Landlord to cure any Landlord Default within ninety (90) days, terminate this Lease by providing Landlord with written notice of such termination.

**19. Termination; Surrender of Possession.** On the last day of the Term or Renewal Term, as the case may be, Tenant shall quit and surrender the Premises to Landlord broom clean, in substantially the same order, condition and repair as on the Commencement Date, except for ordinary wear and tear and casualty and condemnation, and except for obligations of Landlord. At Tenant's option, it may remove all or part of Tenant's Property, provided, however, it shall repair all damages resulting from the removal. Tenant shall remove from the Building all personal property and personal effects of all persons claiming through or under Tenant, and shall pay the cost of repairing all damage to the Building occasioned by such removal. Nothing in this Lease shall be construed to prevent Tenant's removal of Tenant's Property at any time. Notwithstanding anything to the contrary herein, Tenant shall not remove any of Tenant's Property that consists of an alteration of the Structure.

**20. Holding Over.** If Tenant shall remain in possession of the Premises, or any part thereof, after the termination or expiration of this Lease, Tenant's continued occupancy shall result in the creation of a month-to-month tenancy at a monthly rate equal to 125% of the Rent. (in addition to the Additional Rent, which would have been due for a like period of occupancy during the Term). The hold over tenancy shall be cancelable by either party upon thirty (30) days prior written notice.

**21. Eminent Domain.**

**(a) Termination, Abatement and Restoration.**

If the whole of the Premises, or such part thereof as will render the remainder inadequate for the conduct of Tenant's business in Tenant's reasonable judgment, shall be acquired or condemned for any public or quasi-public use or purpose, this Lease shall end as of the date of the vesting of title in the condemning authority (either through court order or by voluntary conveyance by Landlord in lieu of condemnation).

If only a part of the Premises shall be so acquired or condemned and the remaining part of the Premises remains adequate for the conduct of Tenant's business in the Tenant's reasonable judgment, then, except as otherwise provided in this Article, this Lease and the Term shall continue in full force and effect, but, from and after the date of the vesting of title, Rent shall be an amount that bears the same ratio to the Rent payable immediately prior to such condemnation pursuant to this Lease, as the value of the untaken portion of the Premises (appraised after the taking and repair of any damage to the Building pursuant to this Section) bears to the value of the entire Premises immediately before the taking, and Tenant's Share and any Additional Rent payable or credits receivable shall be adjusted to reflect the diminution of the Premises or the Building, as applicable. The value of the Premises before and after the taking shall be determined for the purposes of this Section by an independent appraiser selected by Landlord, subject to Tenant's reasonable approval.

If this Lease is not terminated pursuant to the provisions of this Section, Landlord, at Landlord's expense, shall diligently restore that part of the Premises not so acquired or condemned to a self-contained rental unit, to at least substantially the condition of the Premises existing prior to the condemnation; provided, however, Landlord shall not be required to repair or replace any of Tenant's Property. In the event of any termination of this Lease pursuant to the provisions of this Section, Rent shall be apportioned as of the date of such termination, and any prepaid portion of Rent for any period after such date shall be promptly refunded by Landlord to Tenant.

**(b) Condemnation Award.** In the event of any such acquisition or condemnation of all or any part of the Premises, Tenant shall have no claim against Landlord or the condemning authority for the value of any unexpired portion of the Term, and Tenant hereby expressly assigns to Landlord all of its right, title and interest in and to any such award, and also agrees to execute any and all further documents that may be required in order to facilitate the collection thereof by Landlord. Nothing contained in this Section shall be deemed to prevent Tenant from making a claim in any condemnation proceedings for any moving expenses, interruption of or damage to Tenant's business, any unamortized leasehold improvements paid for by Tenant (regardless of whether such improvements are part of the Building or Landlord's property pursuant to this Lease) and the value of any Tenant's Property, provided such claim does not reduce Landlord's award. Neither Tenant nor Landlord shall have any rights in any award made to the other by the condemning authority.

**22. No Waiver.** The failure of either party to enforce any covenant or condition of this Lease shall not be deemed a waiver thereof or of the right of either party to enforce each and every covenant and condition of this Lease. No provision of this Lease shall be deemed to have been waived unless such waiver shall be in writing and signed by the person against whom the waiver is claimed. All rights and remedies of Landlord under this Lease shall be cumulative, and none shall exclude any other rights or remedies allowed by law.

**23. Destruction--Fire or Other Cause.**

Except as otherwise provided herein, if the Premises shall be rendered untenable by fire or other casualty, Tenant shall at its sole cost and expense (to the extent of available insurance proceeds, as provided in Section 24 below) restore them and make them tenable as soon as possible, and rent shall be abated, in whole or in part, during the period of untenability. All such restoration shall be performed under the supervision of the Tenant by contractors approved in advance by Landlord. Tenant shall immediately notify Landlord and Landlord's Mortgagee of the occurrence of a fire or other casualty at the Premises. If Legal Requirements do not permit the restoration of the Premises, the Lease shall terminate as of the date of the fire or casualty rendering the Premises untenable. Provided, however, if the Lease is terminated upon the occurrence of a fire or other casualty, the insurance proceeds shall be distributed pursuant to Section 31(a)(iii) of this Lease.

**24. Insurance.**

(a) Landlord and Tenant intend that the risk of loss or damages as described shall be borne by insurance carriers with an A.M. Best Rating of A- or better to the extent provided.

(b) Tenant shall, at its expense, insure the Premises, including all fixtures, against loss or damage under a policy or policies of "special form" fire and casualty coverage insurance, to the full extent of their replacement cost. Landlord shall be named as an additional insured in such policy or policies. Landlord's Mortgagee shall also be named as an additional named insured.

(c) Tenant shall maintain workers' compensation insurance covering all of its employees to at least the statutory limit set forth under Indiana law, and a policy of general public liability insurance in an amount at least equal to Two Million Dollars (\$2,000,000) single-limit coverage for property damage, bodily injury or death. Such policy of general public liability insurance shall name Landlord and Landlord's Mortgagee as an additional insured.

(d) All policies of insurance shall provide, by endorsement or otherwise, that such insurance may not be canceled, terminated, amended or modified for any reason whatsoever, except upon ten (10) days' prior written notice to Landlord. Prior to the time such fire and casualty, workers' compensation and general public liability insurance is first required to be carried by Tenant, and thereafter, prior to the expiration of any such policy, Tenant agrees to deliver to Landlord either a duplicate original of the aforesaid policy or a certificate evidencing each such insurance coverage, together with evidence of payment for the policies. If a certificate is provided, it shall contain a statement substantially in the form of the first sentence of this subsection (d). Tenant's failure to provide and keep in force the aforementioned insurance shall be regarded as a material default hereunder, entitling Landlord to exercise any or all of the remedies as provided in this Lease in the event of Tenant's default.

**25. Signs.** Tenant may erect, maintain and remove such signs as it deems necessary, appropriate or desirable to its business operations in, on or about the Premises, provided that the signs are in compliance with all governmental regulations and that they do not cause structural damage to the Premises. All signs shall be removed by Tenant at the termination of this Lease. Tenant shall repair any damage to the Premises caused by the sign and its removal.

**26. Brokerage Commission.** Tenant represents and warrants that it has dealt directly with and only with J.M. Mullis, Inc. as a broker in connection with this Lease. Tenant agrees to pay J.M. Mullis its previously agreed fees in connection with this Lease, except for the \$75,075.84 finder's fee payable to J.M. Mullis from FM Stone Commercial. Tenant shall indemnify and hold Landlord harmless from all claims of any other brokers claiming to have represented Tenant in connection with this Lease, including in connection with any exercise by the Tenant of the Option or Right of First Refusal under this Lease. Landlord agrees to indemnify and hold Tenant harmless from all claims of any brokers claiming to have represented Landlord in connection with this Lease, including in connection with any exercise by the Tenant of the Option or Right of First Refusal under this Lease. Landlord shall pay the commissions in accordance with a separate written agreement, and Tenant shall have no liability for it.



27. **Option to Renew.** So long as Tenant is not then in default, Tenant shall have the option to renew the Term for one additional period of sixty (60) months (the "**Renewal Term**"). If Tenant desires to exercise such option, it shall do so by giving Landlord written notice thereof not later than one hundred twenty (120) days prior to the expiration of the Term. Rent for the Renewal Term shall be as specified in Section 3 above. The other terms and conditions of this Lease shall remain in full force and effect during any such renewal term, except that this Lease shall not be further renewed.

28. **Notices.** Any notice, request or demand under this Lease shall be in writing, considered properly delivered when actually received by the other party, addressed as hereinafter provided, and delivered personally or sent by: (i) a nationally-recognized overnight courier with return receipt; or (ii) the United States Postal Service, registered or certified mail (return receipt requested). Any notice, request or demand by Tenant to Landlord shall be addressed to Landlord at the address for Landlord set forth in the first paragraph of this Lease, until otherwise directed in writing. Notwithstanding the foregoing, any change to Landlord's address for payment of Rent shall not be effective until thirty (30) days after Tenant's receipt of notice of such change. Any notice, request or demand by Landlord to Tenant shall be addressed to Tenant at the address for Tenant set forth in the first paragraph of this Lease but to the attention of its President (not to the Premises), until otherwise directed in writing by Tenant, and shall include the complete address of the Premises. Notices to either party may be given by the attorney for the other party acting on behalf of such other party. Notice to Landlord's Mortgagee shall be addressed as follows: Lake City Bank, Attention: Rocky Meyer, 864 East Beardsley Avenue, Elkhart, Indiana 46514

29. **Heirs and Assigns.** The covenants, conditions, and agreements contained in this Lease shall bind and inure to the benefit of Landlord and Tenant and their respective heirs, distributees, executors, administrators, successors, and assigns.

30. **Quiet Enjoyment.**

Tenant shall have the peaceful and quiet enjoyment and possession of the Premises and its parking and other rights hereunder without hindrance or molestation by Landlord or any party claiming under or through Landlord, subject to the terms, covenants and conditions of this Lease.

31. **Subordination, Nondisturbance and Attornment.**

(a) **Subordination; Non-Disturbance.** This Lease shall be subordinate and subject to the lien of the Mortgages and the Assignment of Rents, and to all renewals, modifications or replacements thereof, as well as any other first mortgage covering the fee of the Premises; provided, however, with respect to the Mortgages, no later than the date Tenant executes and delivers this Lease, and, with respect to any other mortgage, on or before the effective date of the mortgage, at Landlord's cost Landlord shall obtain from Landlord's Mortgagee, or other mortgagee, and cause to be filed on the public record a memorandum thereof, a written agreement among Landlord's Mortgagee (or other mortgagee), Landlord and Tenant that shall be binding on the parties thereto and their respective legal representatives, successors and assigns, and provide, among other provisions, that, so long as this Lease is in full force and effect and there is no Tenant Default and subject to the terms of the subordination, nondisturbance and attornment agreement executed by Landlord, Tenant and Landlord's Mortgagee (or other mortgagee): (i) Tenant shall not be joined as a defendant in any proceeding that may be instituted to foreclose or enforce the mortgage(s); (ii) Tenant's possession and use of the Premises in accordance with the provisions of this Lease shall not be affected or disturbed by reason of the subordination to or any modification of or default under the mortgage(s); (iii) Landlord's Mortgagee (or other mortgagee) will make available to Tenant any insurance proceeds or condemnation awards payable for the purpose of restoration of the Premises as provided in this Lease; and (iv) the Landlord's Mortgagee's (or other mortgagee's) current or future interest in the Premises shall be subject to the Tenant's Option and Right of First Refusal under Sections 41 and 42 of this Lease.

The insurance proceeds or condemnation awards to be made available to Tenant in accordance with (iii) above, shall be deposited with a title insurance company or agency acceptable to Landlord's Mortgagee and Tenant having an office in Elkhart County to act as third party escrow agent. The escrow agent shall disburse funds as needed to pay for the restoration in a manner as typically done for commercial construction lending. If Tenant does not diligently commence restoration of the Premises within 90 days of a fire or other casualty as provided in the Lease, Lender may apply its portion of the insurance proceeds or condemnation award as provided in the Mortgages. Provided, however, if the Lease is terminated upon the occurrence of a casualty or condemnation, the insurance or condemnation proceeds attributable to the Tenant's Property will be paid to Tenant and the proceeds relating to the remainder of the Premises may be applied by Lender as provided in the Mortgages.

(b) ***Attornment.***

If Landlord's Mortgagee, or its successors or assigns, shall succeed to the rights of Landlord under this Lease, whether through possession, surrender, assignment, subletting, judicial or foreclosure action, delivery of a deed or otherwise, Tenant will attorn to and recognize such successor-landlord as Tenant's landlord, provided the successor-landlord accepts such attornment and recognizes Tenant's rights of possession and use of the Premises in accordance with the provisions of this Lease.

Landlord expressly authorizes Tenant to rely on any notice from such successor-landlord or from Landlord's Mortgagee made in accordance with the notice provision contained herein that appears on its face to be genuine, and Tenant shall have no duty to make any inquiry into the existence of a default or the genuineness or validity of any such notice as a condition to acting and relying on such notice. This shall include any notice from the successor-landlord or Landlord's Mortgagee notifying Tenant of a default under the mortgage or lease and instructing Tenant to pay all Rent to such successor-landlord or Landlord's Mortgagee. All payments made in good faith and in reliance on such notice shall be deemed to have been made to or on behalf of Landlord and shall not be a breach under this Lease.

**32. *Estoppel Certificates.***

(a) At any time, and from time to time upon no less than twenty (20) days' prior written notice by Landlord to Tenant, but no more than once each Lease Year, Tenant shall execute, acknowledge and deliver to Landlord a statement, in writing, certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that this Lease is in full force and effect as modified and stating the modifications), the dates to which Rent has been paid in advance, if any, stating whether, to Tenant's knowledge, there are any offsets to Tenant's obligation to pay Rent hereunder and describing them, if any, and stating whether, to Tenant's knowledge, Landlord is in default in performance of any term, covenant or condition contained in this Lease and, if so, specifying each such default of which Tenant may have knowledge, it being intended that any such statement delivered pursuant hereto may be relied upon by any prospective purchaser of the Premises or any part thereof, or of the interest of Landlord in any part thereof, by any mortgagee or prospective mortgagee thereof, by any landlord or prospective landlord thereof, or by any prospective assignee of any mortgage thereof.

(b) At any time, and from time to time upon no less than twenty (20) days' prior written notice by Tenant to Landlord, but no more than once each Lease Year, Landlord shall execute, acknowledge and deliver to Tenant a statement, in writing, certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), and dates to which Rent has been paid in advance, if any, stating whether, to Landlord's knowledge, there are any offsets to Tenant's obligation to pay Rent hereunder and describing them, if any, and stating whether or not to the best knowledge of the signer of such certificate (who shall be a duly authorized officer or signatory of Landlord) either party is in default in performance of any term, covenant or condition contained in this Lease and, if so, specifying each such default of which the signer may have knowledge, it being intended that any such statement delivered pursuant hereto may be relied upon by any third party.

**33. *Entire Agreement.*** This Lease contains the entire agreement between the parties, and all prior negotiations and agreements are merged in this Lease. This Lease may not be changed, modified or discharged, in whole or in part, except by a written instrument expressly referring to this Lease and executed by the party against whom enforcement of the change, modification or discharge is sought.

**34. *Pronouns.*** Whenever in this Lease words, including pronouns, are used in the masculine, they shall be read in the feminine or neuter whenever they would so apply and vice versa, and words in this Lease that are singular shall be read as plural whenever the latter would so apply and vice versa.

**35. *Choice of Law.*** This Lease shall be governed by and construed in accordance with the laws of the State of Indiana that are applied to leases made and to be performed in that state. The invalidation of one or more terms of this Lease shall not affect the validity of the remaining terms.

**36. *Third Parties.*** Landlord and Tenant acknowledge, and warrant and represent to each other, that there are no third-party beneficiaries to this Lease.

**37. *Headings.*** The headings contained herein are for convenience only and shall not be used to define, explain, modify or aid in the interpretation or construction of the contents hereof.

**38. *Accord and Satisfaction.*** Landlord may accept any check or payment of less than the full amount it is owed without prejudice to its right to recover the balance or to pursue any other remedy in this Lease as provided.

**39. *Counterparts.*** This Lease may be executed in any number of counterparts, each of which upon execution and delivery shall be considered an original for all purposes; provided, however, all such counterparts shall, together, upon execution and delivery, constitute one and the same instrument.

**40. *Agreement To Not Record.*** This Lease shall not be filed on the public record by either Landlord or Tenant. However, a memorandum of this Lease shall be filed in a form reasonably acceptable to both parties. Landlord and Tenant shall execute and deliver a memorandum of this Lease in proper form for recording within ten (10) days following the Effective Date of this Lease.

**41. *Option to Buy.*** In consideration of the terms of this Lease and Tenant's ownership of the Tenant's Property, provided that this Lease has been in effect for five years and is then in full force and effect and the Tenant is not then in default, Tenant (including its assignee or subtenant) shall have the option (the "*Option*") to purchase the Premises upon the following terms:

(a) **Term of Purchase Option.** This Option shall continue in effect through the Term and Renewal Term of this Lease. It may be exercised by the Tenant at any time before its expiration by written notice sent to the Landlord.

(b) **Exercise of Option.** The Option may be exercised by written notice to Landlord at any time during the Lease Term or Renewal Term after the fifth anniversary of the Effective Date.

(c) **Purchase Price.** The purchase price shall be the fair market value of the Effective Date Configuration of the Premises, at the time of exercise of the Option. The term "**Effective Date Configuration**" means the state of the Premises as of the Effective Date excluding all of Tenant's Property, as defined in Section 1(p) of the Lease. The purchase price shall be determined as follows:

The date on which Landlord receives the Tenant's written notice of exercise of the Option is hereinafter referred to as the "**Notice Date.**"

Upon exercise of the Option, the parties shall make a good faith effort to reach a mutually acceptable purchase price. If the parties are unable to agree on a purchase price, Tenant shall, within thirty (30) days of the Notice Date, designate an appraiser to value the Effective Date Configuration of the Premises. The appraiser shall have thirty (30) days to complete the appraisal and provide a copy of the complete appraisal to both Tenant and Landlord. Such appraisal shall hereinafter be referred to as "**Tenant's Appraisal**" and the date on which the parties receive such appraisal is hereinafter referred to as "**Tenant's Appraisal Date.**" Tenant must offer to pay the Tenant's Appraisal price for the Premises. If the Tenant's Appraisal value is higher than Landlord's last offering price, the Landlord shall be obligated to close with the Tenant's Appraisal value as the purchase price and the Tenant shall pay the cost of the appraisal.

If the Tenant's Appraisal value is less than the Landlord's last offer price and the Landlord does not accept the price set by the Tenant's Appraisal within ten (10) days after the Tenant's Appraisal Date, Landlord shall, within ten (10) days of Tenant's Appraisal Date, designate a new appraiser. The new appraiser shall have thirty (30) days to complete the appraisal of the Effective Date Configuration of the Premises and provide a copy of the complete appraisal to both parties. Such appraisal is hereinafter referred to as "**Landlord's Appraisal**" and the date on which the parties receive such appraisal is hereinafter referred to as "**Landlord's Appraisal Date.**" Landlord shall offer the Premises for sale to the Tenant for the Landlord's Appraisal value. Upon receipt of Landlord's Appraisal, the parties agree that:

(i) If Tenant's Appraisal and Landlord's Appraisal are within 10% of each other, the prices set by the two appraisals shall be averaged together, with the resulting average being the purchase price, and the parties shall be obligated to close the purchase at that purchase price; or

(ii) If Tenant's and Landlord's appraisals are not within 10% of each other, and if Tenant does not accept the price set by Landlord's Appraisal within ten (10) days after the Landlord's Appraisal Date, the parties shall promptly notify the two appraisers and the two appraisers shall appoint a third appraiser (the "**Independent Appraiser**") within ten (10) days. The Independent Appraiser shall have thirty (30) days to complete an appraisal of the Effective Date Configuration of the Premises and provide a copy of the complete appraisal (the "**Independent Appraisal**") to both parties. The purchase price shall then become the price set by either Tenant's Appraisal or Landlord's Appraisal which is closest to the price set by the Independent Appraisal (the "**Final Price**"), and both parties shall be obligated to proceed to close the transaction at the Final Price. The cost of the Independent Appraisal shall be paid by the party whose appraisal is not chosen as the Final Price.

Any appraisal under this subsection shall be made by an appraiser that is licensed to perform commercial appraisals in the State of Indiana.

(d) **Terms of Purchase.** The entire purchase price shall be paid in immediately available funds at the Closing.

(e) **Title Insurance.** At the Closing, the Landlord shall provide the Tenant with an ALTA owner's policy of title insurance (or a marked commitment to issue a policy) without standard exceptions in the amount of the purchase price showing good and marketable title to be in the Landlord.

(f) **Closing.** The sale shall be closed (the "**Closing**") within one hundred eighty (180) days after the Notice Date even if such date extends beyond the expiration of the Term of this Lease as extended by exercise of the renewal option. If the Closing occurs after the expiration of the Lease, the Lease shall be deemed extended and Tenant shall owe Rent for such extension until the Closing. At the Closing, the Landlord shall convey the Premises by delivery of a warranty deed. Landlord shall pay all transfer taxes, if any.

(g) **Possession.** The Tenant shall have possession of the Premises at the Closing.

(h) **Prorations.** All Taxes, Rent, utilities, and operating expenses shall be prorated as of the date of closing using a 365 day year. The proration for Taxes shall be on the same basis as prorated for purposes of Additional Rent under the Lease.

(i) **Notices.** Notices shall be governed by Section 28 of this Lease

**42. Right of First Refusal.** In consideration of the terms of this Lease and Tenant's ownership of the Tenant's Property, and provided that the Lease is then in full force and effect, Landlord grants Tenant a right of first refusal to purchase the Premises (the "**Right of First Refusal**"). The Right of First Refusal shall be subject to the following conditions:

(a) Within ten (10) days of receiving a bona fide offer to purchase the Premises which Landlord desires to accept (the "**Offer**"), Landlord shall deliver to Tenant a copy of such Offer.

(b) Tenant shall have forty-five (45) days from the receipt of an Offer from Landlord to exercise the Right of First Refusal. Tenant shall exercise the Right of First Refusal by delivering to Landlord a written notice indicating that Tenant agrees to purchase the Premises on the same terms and conditions as stated in the Offer.

(c) In the event that Tenant fails to exercise the Right of First Refusal within the time period stated above, then Landlord shall have the right to sell the Premises to the individual or entity that made the Offer, provided that the sale is made on the same terms and conditions as communicated to Tenant in the Offer. In the event that Landlord does not complete the transaction with the individual or entity that made the Offer, pursuant to the terms and timelines of the Offer, then the Premises shall again become subject to the Right of First Refusal.

(d) This Right of First Refusal shall be binding upon the Landlord, its successors, heirs, personal representatives, transferees and assigns.

(e) This Right of First Refusal is in addition to the Tenant's Option. If the Tenant does not exercise the Right of First Refusal, the Tenant's Option shall continue pursuant to Section 41 of this Lease. Furthermore, (i) Tenant's Option and (ii) the Right of First Refusal shall both survive any sale or transfer of the Premises by the Landlord or any subsequent owner of the Premises and the Premises shall continue to be subject to these rights of the Tenant for the Term and any Renewal Term of this Lease.

(f) Notices shall be governed by Section 28 of this Lease.

Notwithstanding anything to the contrary in this Lease, or in any Offer the Landlord accepts or intends to accept, any sale of the Premises pursuant to Section 42 shall remain subject to the parties' obligations under Section 12, and the Tenant shall have the right to conduct environmental due diligence during the forty-five (45) day period after Tenant's receipt of the Offer, and shall also have thirty (30) days after the expiration of said forty-five (45) day period to close the purchase of the Premises.

**43. Attorney Fees.** In the event of any dispute concerning this Lease, the substantially prevailing party shall recover its attorney's fees from the nonprevailing party.

IN WITNESS OF THIS AGREEMENT, the parties have executed this Lease as of the Effective Date stated in the first paragraph of this Lease.

**Fruit Hills Investments LLC**

By \_\_\_\_\_  
Lindsey Stults  
Its Secretary and a Member

By \_\_\_\_\_  
Gerald R. Stults  
Its Managing Member

**Utilimaster Corporation**

By \_\_\_\_\_  
Joseph M. Nowicki  
Its Treasurer

**Exhibit A**  
**To**  
**Lease Between Fruit Hills Investments, LLC and Utilimaster Corporation**

**Legal Description**

The Premises consists of 25.4 acres and is made up of three (3) parcels situated in Elkhart County, Indiana described as follows:

**PARCEL I:**

A PART OF THE SOUTHEAST QUARTER OF SECTION 28, TOWNSHIP 38 NORTH, RANGE 6 EAST, WASHINGTON TOWNSHIP, ELKHART COUNTY, INDIANA, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE SOUTHEAST CORNER OF SAID SOUTHEAST QUARTER; THENCE SOUTH 89°32'38" WEST ALONG THE SOUTH LINE OF SAID SOUTHEAST QUARTER 583.87 FEET; THENCE NORTH 0°51'03" WEST 122.55 FEET; THENCE NORTHEASTERLY 251.95 FEET ALONG AN ARC TO THE RIGHT HAVING A RADIUS OF 160.00 FEET AND SUBTENDED BY A LONG A CHORD HAVING A BEARING OF NORTH 44°15'38" EAST AND A LENGTH OF 226.71 FEET; THENCE NORTH 89°22'19" EAST 423.24 FEET TO THE EAST LINE OF SAID SOUTHEAST QUARTER; THENCE SOUTH 0°51'03" EAST ALONG SAID EAST LINE 284.92 FEET TO THE POINT OF BEGINNING OF THIS DESCRIPTION.

**PARCEL II:**

A PART OF THE NORTHEAST QUARTER OF SECTION 33, TOWNSHIP 38 NORTH, RANGE 6 EAST, WASHINGTON TOWNSHIP, ELKHART COUNTY, INDIANA, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHEAST CORNER OF SAID NORTHEAST QUARTER; THENCE SOUTH 0°14'50" EAST ALONG THE EAST LINE OF SAID NORTHEAST QUARTER 296.56 FEET; THENCE SOUTH 89°37'44" WEST 558.94 FEET; THENCE NORTH 23°33'50" WEST 4.28 FEET; THENCE NORTHWESTERLY 103.07 FEET ALONG AN ARC TO THE RIGHT HAVING A RADIUS OF 260.00 FEET AND SUBTENDEI BY A LONG CHORD HAVING A BEARING OF NORTH 12°12'26" WEST AND A LENGTH OF 102.40 FEET; THENCE NORTH 0°51'03" WEST 191.55 FEET TO THE NORTH LINE OF SAID NORTHEAST QUARTER; THENCE NORTH 89°32'38" EAST 583.87 FEET TO THE POINT OF BEGINNING OF THIS DESCRIPTION.

**PARCEL III:**

LOTS NUMBERED TWO (2) AND THREE (3) AS SHOWN ON THE PLAT OF EARTHWAY PARK, A SUBDIVISION IN WASHINGTON TOWNSHIP, RECORDED MARCH 7, 2001 IN THE OFFICE OF THE RECORDER OF ELKHART COUNTY, INDIANA IN PLAT BOOK 26, PAGE 81.

**Exhibit B**

**Configuration and Sketch of the Premises**



## EXHIBIT 31.1

### CERTIFICATION

I, John E. Szykiel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spartan Motors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2012

/s/ John E. Szykiel

John E. Szykiel  
President and Chief Executive Officer  
Spartan Motors, Inc.

**EXHIBIT 31.2**

**CERTIFICATION**

I, Joseph M. Nowicki, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spartan Motors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2012

/s/ Joseph M. Nowicki  
\_\_\_\_\_  
Joseph M. Nowicki  
Chief Financial Officer and Treasurer  
Spartan Motors, Inc.

**EXHIBIT 32**

**CERTIFICATION**

Each of the undersigned hereby certifies in his capacity as an officer of Spartan Motors, Inc. (the "Company"), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that:

1. The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2012 (the "Report") fully complies with the requirements of Section 13(a) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition at the end of such period and results of operations of the Company for such period.

Dated: May 8, 2012

/s/ John E. Szykiel  
John E. Szykiel  
President and Chief Executive Officer

Dated: May 8, 2012

/s/ Joseph M. Nowicki  
Joseph M. Nowicki  
Chief Financial Officer and Treasurer

