

SPARTAN MOTORS INC  
Form 10-Q  
November 03, 2016

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

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2016.

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>	<u>Outstanding at</u> <u>October 31, 2016</u>
Common stock, \$.01 par value	34,403,373 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:

**Changes in economic conditions, including changes in interest rates, credit availability, financial market performance and our industries can have adverse effects on its earnings and financial condition, as well as our customers, dealers and suppliers.**

**Changes in relationships with major customers and suppliers could significantly affect our revenues and profits.**

**Constrained government budgets may have a negative effect on our 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 start-up and recall expenses, resulting in reduced earnings.**

**Amendments of the laws and regulations governing our businesses, or the promulgation of new laws and regulations, could have a material impact on our 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, 2015, 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)

	<b>September 30, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 39,986	\$ 32,701
Accounts receivable, less allowance of \$412 and \$130	70,482	56,617
Inventories, net	67,960	60,558
Income taxes receivable	696	1,755
Other current assets	3,044	3,506
<b>Total current assets</b>	<b>182,168</b>	<b>155,137</b>
<b>Property, plant and equipment, net</b>	<b>50,998</b>	<b>47,320</b>
<b>Goodwill</b>	<b>15,961</b>	<b>15,961</b>
<b>Intangible assets, net</b>	<b>6,562</b>	<b>7,093</b>
<b>Deferred income taxes, net</b>	<b>3,313</b>	<b>644</b>
<b>Other assets</b>	<b>2,246</b>	<b>1,996</b>
<b>TOTAL ASSETS</b>	<b>\$ 261,248</b>	<b>\$ 228,151</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 44,140	\$ 27,318
Accrued warranty	18,673	16,610
Accrued customer rebates	1,760	2,681
Accrued compensation and related taxes	12,217	8,684
Deposits from customers	17,546	13,095
Other current liabilities and accrued expenses	5,719	3,922
Current portion of long-term debt	5,065	63
<b>Total current liabilities</b>	<b>105,120</b>	<b>72,373</b>
<b>Long-term debt, less current portion</b>	<b>90</b>	<b>5,124</b>
<b>Other non-current liabilities</b>	<b>2,467</b>	<b>2,163</b>
<b>Total liabilities</b>	<b>107,677</b>	<b>79,660</b>
Commitments and contingencies		
<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; 34,419 and 34,271 outstanding	344	343

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Additional paid in capital	76,678	76,472
Retained earnings	77,205	72,326
<b>Total Spartan Motors, Inc. shareholders' equity</b>	154,227	149,141
Non-controlling interest	(656 )	(650 )
<b>Total shareholders' equity</b>	153,571	148,491
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 261,248</b>	<b>\$ 228,151</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</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Sales	\$ 148,664	\$ 136,572	\$ 444,927	\$ 409,767
Cost of products sold	130,571	123,755	390,206	367,520
Restructuring charges	83	9	83	464
<b>Gross profit</b>	<b>18,010</b>	<b>12,808</b>	<b>54,638</b>	<b>41,783</b>
Operating expenses:				
Research and development	1,377	454	4,408	3,087
Selling, general and administrative	13,820	12,359	41,782	39,202
Restructuring charges	221	453	788	1,965
Total operating expenses	15,418	13,266	46,978	44,254
<b>Operating income (loss)</b>	<b>2,592</b>	<b>(458 )</b>	<b>7,660</b>	<b>(2,471 )</b>
Other income (expense):				
Interest expense	(112 )	(91 )	(314 )	(293 )
Interest and other income (expense)	151	(36 )	305	121
Total other income (expense)	39	(127 )	(9 )	(172 )
Income (loss) before taxes	2,631	(585 )	7,651	(2,643 )
Taxes	(113 )	5,234	(11 )	4,896
Net income (loss)	2,744	(5,819 )	7,662	(7,539 )
Less: net loss attributable to non-controlling interest	(1 )	(1 )	(6 )	(17 )
<b>Net income (loss) attributable to Spartan Motors Inc.</b>	<b>\$ 2,745</b>	<b>\$(5,818 )</b>	<b>\$ 7,668</b>	<b>\$(7,522 )</b>
<b>Basic net earnings (loss) per share</b>	<b>\$ 0.08</b>	<b>\$(0.17 )</b>	<b>\$ 0.22</b>	<b>\$(0.22 )</b>
<b>Diluted net earnings (loss) per share</b>	<b>\$ 0.08</b>	<b>\$(0.17 )</b>	<b>\$ 0.22</b>	<b>\$(0.22 )</b>
Basic weighted average common shares outstanding	34,439	33,885	34,406	33,806

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Diluted weighted average common shares outstanding	34,439	33,885	34,406	33,806
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See Accompanying Notes to Condensed Consolidated Financial Statements.

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

(In thousands)

(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$7,662	\$(7,539 )
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,742	5,447
Gain on disposal of assets	(24 )	(22 )
Impairment of assets	406	2,234
Accruals for warranty	9,790	7,299
Tax benefit related to stock incentive plan transactions	1	-
Deferred income taxes	(2,670 )	3,150
Stock based compensation related to stock awards	1,280	1,050
Decrease (increase) in operating assets:		
Accounts receivable	(13,865)	(20,159)
Inventories	(7,402 )	(7,370 )
Income taxes receivable	1,059	1,696
Other assets	462	760
Increase (decrease) in operating liabilities:		
Accounts payable	16,822	16,161
Cash paid for warranty repairs	(7,727 )	(5,297 )
Accrued customer rebates	(921 )	1,367
Accrued compensation and related taxes	3,533	957
Deposits from customers	4,451	(479 )
Other current liabilities and accrued expenses	1,797	(2,117 )
Taxes on income	58	932
<b>Total adjustments</b>	<b>12,792</b>	<b>5,609</b>
<b>Net cash provided by (used in) operating activities</b>	<b>20,454</b>	<b>(1,930 )</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(9,299 )	(3,603 )
Proceeds from sale of property, plant and equipment	25	205
<b>Net cash used in investing activities</b>	<b>(9,274 )</b>	<b>(3,398 )</b>
<b>Cash flows from financing activities:</b>		
Borrowings under credit facilities	-	15,244
Payments on credit facilities	-	(15,244)

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Purchase and retirement of common stock	(2,000 )	-
Payment of dividends	(1,725 )	(1,713 )
Proceeds from long-term debt	10	-
Payments on long-term debt	(42 )	(44 )
Net cash used in the exercise, vesting or cancellation of stock incentive awards	(137 )	(436 )
Cash related to tax impact of stock incentive plan transactions	(1 )	-
Payment of contingent consideration on acquisition	-	(162 )
<b>Net cash used in financing activities</b>	<b>(3,895 )</b>	<b>(2,355 )</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>7,285</b>	<b>(7,683 )</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>32,701</b>	<b>28,570</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$39,986</b>	<b>\$20,887</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>Non-Controlling Interest</b>	<b>Total Shareholders' Equity</b>
Balance at December 31, 2015	34,271	\$ 343	\$ 76,472	\$ 72,326	\$ (650)	) \$ 148,491
Issuance of common stock and the tax impact of stock incentive plan transactions	13	-	(137 )	-	-	(137 )
Issuance of restricted stock, net of cancellation	557	5	(5 )	-	-	-
Stock based compensation expense related to restricted stock	-	-	1,280	-	-	1,280
Purchase and retirement of common stock	(422 )	(4 )	(932 )	(1,064 )	-	(2,000 )
Dividends declared and paid (\$0.05 per share)	-	-	-	(1,725 )	-	(1,725 )
Net income (loss)	-	-	-	7,668	(6 )	) 7,662
Balance at September 30, 2016	34,419	\$ 344	\$ 76,678	\$ 77,205	\$ (656)	) \$ 153,571

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”, “we”, “our” or “us”) consolidated financial statements for the year ended December 31, 2015, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 9, 2016. There have been no changes in such accounting policies as of the date of this report.

Spartan Motors, Inc. is a custom engineer and manufacturer of specialized motor vehicle chassis and bodies. Our principal chassis markets are emergency response vehicles, motor homes and other specialty vehicles. We also manufacture bodies for various markets including emergency response vehicles and delivery and service vehicles.

Our operating activities are conducted through our wholly-owned operating subsidiary, Spartan Motors USA, Inc. (“Spartan USA”), with locations in Charlotte, Michigan; Brandon, South Dakota; Ephrata, Pennsylvania; and Bristol, Indiana; as well as contract manufacturing in Kansas City, Missouri; and Saltillo, Mexico. Spartan USA is the result of a consolidation of several of our subsidiaries, including Crimson Fire, Inc., Spartan Motors Chassis, Inc., and Utilimaster Corporation, into a single business entity.

Our Charlotte, Michigan location manufactures heavy duty chassis and vehicles and supplies aftermarket parts and services under the Spartan Chassis and Spartan ERV brand names. Our Brandon, South Dakota and Ephrata, Pennsylvania locations manufacture emergency response vehicles under the Spartan ERV brand name. Our Bristol, Indiana location manufactures delivery and service vehicles and supplies related aftermarket parts and services under the Utilimaster brand name, while our Kansas City, Missouri and Saltillo, Mexico locations sell and install equipment used in delivery vehicles. Spartan USA is also a participant in Spartan-Gimaex Innovations, LLC (“Spartan-Gimaex”), a 50/50 joint venture with Gimaex Holding, Inc. Spartan-Gimaex is reported as a consolidated subsidiary of Spartan Motors, Inc. In February 2015, Spartan USA and Gimaex Holding, Inc. mutually agreed to begin discussions regarding the dissolution of the joint venture. In June 2015, Spartan USA and Gimaex Holding, Inc. entered into court proceedings to determine the terms of the dissolution. The terms of the dissolution have not yet been determined, pending the outcome of the court proceedings.

These unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all normal and recurring adjustments that are necessary for the fair presentation of our financial position as of September 30, 2016, the results of operations for the three and nine month periods ended September 30, 2016 and the cash flows for the nine month period ended September 30, 2016, and should be read in conjunction with the audited consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2015.

The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year.

We are required to disclose the fair value of our 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 our fixed and variable rate debt instruments approximate their fair value at September 30, 2016 and December 31, 2015.

**SPARTAN MOTORS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in thousands, except per share data)**

Recently issued accounting standards

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230)* (“ASU 2016-15”). ASU 2016-15 is intended to reduce diversity in current practice regarding the manner in which certain cash receipts and cash payments are presented and classified in the cash flow statement. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-15 on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation – Stock Compensation* (“ASU 2016-09”). ASU 2016-09 simplifies the accounting for a stock payment’s tax consequences by requiring the recognition of the income tax effects of awards in the income statement when the awards vest or are settled. It also allows a company to elect to account for forfeitures as they occur rather than on an estimated basis and revises the classification of certain tax payments related to stock compensation on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of our pending adoption of ASU 2016-09 on our consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* (“ASU 2016-02”). ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of our pending adoption of ASU 2016-02 on our consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes* (“ASU 2015-17”). ASU 2015-17 requires net deferred tax assets and liabilities to be classified as non-current on the Consolidated Balance Sheets. Prior to adoption of the new standard, net deferred tax assets and liabilities were presented separately as current and non-current on the Consolidated Balance Sheets. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is permitted. We retrospectively adopted ASU



2015-17 as of the second quarter of 2016. As a result, we reclassified \$3,164 of Deferred income tax assets (current) to Deferred income taxes, net (non-current) and \$2,520 from Deferred income tax liabilities to Deferred income taxes, net. The December 31, 2015 balances in Total current assets decreased by \$3,164, Other assets increased by \$644 and Total assets and Total liabilities both decreased by \$2,520.

In July 2015, the FASB issued Accounting Standards Update 2015-11, *Inventory (Topic 330) – Simplifying the Measurement of Inventory* (“ASU 2015-11”). ASU 2015-11 requires entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost or net realizable value to more closely align the measurement of inventory in Generally Accepted Accounting Practices with International Financial Reporting Standards. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal. ASU 2015-11 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. We do not believe the adoption of ASU 2015-11 will have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2015, the FASB issued Accounting Standards Update 2015-02 *Consolidation (Topic 810), Amendments to the Consolidation Analysis* (“ASU 2015-02”). ASU 2015-02 modifies the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments under the new guidance modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership and affect the consolidation analysis of reporting entities that are involved with VIEs. ASU 2015-02 is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption of the provisions of ASU 2015-02 did not have an impact on our consolidated financial position, results of operations or cash flows.

## SPARTAN MOTORS, INC. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share data)

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). ASU 2014-09 is based on the principle that revenue should be recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Early adoption for annual reporting periods beginning after December 15, 2016 is permitted. On August 12, 2015, FASB delayed the effective date to give companies an extra year to implement the standard. The standard will be effective in 2018, but companies will have the option of adopting it as of the original 2017 effective date. We are currently evaluating the adoption method and the impact of the adoption of the new revenue recognition standard.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* (“ASU 2016-08”). ASU 2016-08 clarifies the implementation guidance for principal-versus-agent considerations in the revenue recognition standard. A principal-versus-agent consideration applies to sales that involve two or more suppliers to a customer. Each participant in the sale must determine whether they control the good or service and are entitled to the gross amount of the transaction or are acting as an agent and should collect only a fee or commission for arranging the sale. ASU 2016-08 will go into effect when the revenue standard issued in ASU 2014-09 becomes effective.

In April 2016, the FASB issued Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing* (“ASU 2016-10”). ASU 2016-10 clarifies the implementation guidance in Topic 606 for identifying performance obligations and determining when to recognize revenue on licensing agreements for intellectual property. ASU 2016-10 removes the requirement to assess whether promised goods or services are performance obligations if they are immaterial to the contract with the customer and allows an entity to elect to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good rather than as an additional promised service. ASU 2016-10 also includes implementation guidance on determining whether a license granted by an entity provides a customer with a right to use the intellectual property, which is satisfied at a point in time, or a right to access the intellectual property, which is satisfied over time. ASU 2016-10 will go into effect when the revenue standard issued in ASU 2014-09 becomes effective.

In May 2016, the FASB issued Accounting Standards Update No. 2016-12, *Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”). ASU 2016-12 clarifies the implementation guidance on assessing collectability, presentation of sales taxes, non-cash consideration and completed contracts and contract modifications at transition. ASU 2016-12 will go into effect when the revenue standard issued in ASU 2014-09 becomes effective.

**NOTE 2 – INVENTORIES**

Inventories are summarized as follows:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Finished goods	\$ 11,263	\$ 16,812
Work in process	19,235	11,691
Raw materials and purchased components	40,801	35,285
Reserve for slow-moving inventory	(3,339 )	(3,230 )
Total inventory	\$ 67,960	\$ 60,558

We have a number of demonstration units as part of our sales and training program. These demonstration units are included in the “Finished goods” line item above. The net carrying amount was \$4,125 and \$2,857 at September 30, 2016 and December 31, 2015.

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

(Amounts in thousands, except per share data)

**NOTE 3 – RESTRUCTURING**

During the three and nine months ended September 30, 2016 and 2015, we incurred restructuring charges related to efforts undertaken to upgrade production processes at our Brandon, South Dakota and Ephrata, Pennsylvania locations. Restructuring charges incurred in 2015 also included costs related to the relocation of our Ocala, Florida manufacturing operations to our Charlotte, Michigan and Brandon, South Dakota facilities.

Restructuring charges included in our Consolidated Statements of Operations for the three and nine month periods ended September 30, 2016 and 2015, which were all related to our Emergency Response Vehicles segment, are as follows:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Cost of products sold				
Inventory impairment	\$-	\$9	\$-	\$290
Production relocation	83	-	83	174
Total cost of products sold	83	9	83	464
General and Administrative				
Manufacturing process reengineering	221	453	788	1,965
Total restructuring	\$304	\$462	\$871	\$2,429

**NOTE 4 - COMMITMENTS AND CONTINGENT LIABILITIES**

Under the terms of our credit agreement with our banks, we have the ability to issue letters of credit totaling \$20,000. At September 30, 2016 and December 31, 2015, we had outstanding letters of credit totaling \$1,150 and \$1,337 related to certain emergency response vehicle contracts and our workers compensation insurance.

At September 30, 2016, we and our subsidiaries were parties, both as plaintiff and defendant, to a number of lawsuits and claims arising out of the normal course of our businesses. In the opinion of management, other than the Spartan-Gimaex dissolution discussion below, our financial position, future operating results or cash flows will not be materially affected by the final outcome of these legal proceedings.

Chassis Agreements

We are party to chassis bailment inventory agreements with General Motors Company (“GM”) and Chrysler Group, LLC (“Chrysler”) which allow GM and Chrysler to draw up to \$10,000 against our revolving credit line for chassis placed at our facilities. As a result of these agreements, there was \$3,043 and \$3,795 outstanding on our revolving credit line at September 30, 2016 and December 31, 2015. Under the terms of the bailment inventory agreements, these chassis never become our property, and the amount drawn against the credit line will be repaid by a GM or Chrysler dealer at the time an order is placed for one of our bodies, utilizing a GM or Chrysler chassis. As such, the chassis, and the related draw on the line of credit, are not reflected in the accompanying Condensed Consolidated Balance Sheets.

Warranty Related

We 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 our chassis and vehicles.

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

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 our historical experience. We provide 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 our historical experience.

Changes in our warranty liability during the nine months ended September 30, 2016 and 2015 were as follows:

	<b>2016</b>	<b>2015</b>
Balance of accrued warranty at January 1	\$16,610	\$9,237
Warranties issued during the period	3,733	3,413
Cash settlements made during the period	(7,727 )	(5,297 )
Changes in liability for pre-existing warranties during the period, including expirations	6,057	3,886 )
Balance of accrued warranty at September 30	\$18,673	\$11,239

Changes in liability for pre-existing warranties during the nine months ended September 30, 2016 include \$3,968 for campaigns and recalls outside of our normal warranty programs and \$2,089 for changes in the estimated liability for existing warranties resulting from newly available claim data.

*Spartan-Gimaex joint venture*

In February 2015, Spartan USA and Gimaex Holding, Inc. mutually agreed to begin discussions regarding the dissolution of the Spartan-Gimaex joint venture. In June 2015, Spartan USA and Gimaex Holding, Inc. entered into court proceedings to determine the terms of the dissolution. Through December 31, 2015, we recorded charges totaling \$1,217 to write down certain inventory items associated with this joint venture to their estimated fair values. There were no further charges recorded during the nine months ended September 30, 2016. Costs associated with the wind-down will be impacted by the final dissolution agreement. In accordance with accounting guidance, the costs we have accrued so far represent the low end of the range of the estimated total charges that we believe we may incur related to the wind-down. While we are unable to determine the final cost of the wind-down with certainty at this time, we may incur additional charges, depending on the final terms of the dissolution, and such charges could be material to our future operating results.

**NOTE 5 – EARNINGS (LOSS) PER SHARE**

The following table presents a reconciliation of the weighted average shares outstanding used in the Net earnings (loss) per share (“EPS”) calculation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic weighted average common shares outstanding	34,439	33,885	34,406	33,806
Effect of dilutive stock options	-	-	-	-
Diluted weighted average common shares outstanding	34,439	33,885	34,406	33,806
Anti-dilutive stock awards:				
Restricted stock	-	405	-	408
Stock options	-	-	-	-
	-	405	-	408

Stock awards noted as anti-dilutive were not included in the basic (Restricted stock awards) and diluted (Stock option awards) weighted average common shares outstanding.

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

(Amounts in thousands, except per share data)

**NOTE 6 – TAXES**

Our effective tax rate was -4.3% and -0.1% for the three and nine month periods ended September 30, 2016. Our effective tax rate in 2016 was impacted by a valuation allowance recorded in 2015 against substantially all of our deferred tax assets. We continue to anticipate the need for this valuation allowance in 2016. We expect that any tax provision or benefit that we record in 2016 based upon taxable income or loss will be offset by an equal adjustment to our valuation allowance. As a result, our tax provision for the three and nine months ended September 30, 2016 does not include a current year federal tax expense, but consists of state income taxes, adjustments to reserves for uncertain tax positions and a true-up of certain prior year tax provisions to the amount of tax anticipated to be paid based on the actual filing. Our effective rates for the three and nine months ended September 30, 2015 were -894.5% and -185.2%, and differed from the statutory rates due to the valuation allowance recorded during the quarter ended September 30, 2015.

**NOTE 7 – SHAREHOLDERS' EQUITY**

In October 2011, our Board of Directors authorized the re-purchase of up to 1,000 shares of the Company's common stock. In April 2016, our Board of Directors authorized the re-purchase of up to 1,000 additional shares of our common stock, and terminated the October 2011 authorization effective June 30, 2016. The following tables represent our open market purchases of our common stock during the three and nine months ended September 30, 2016.

Share purchase programs	Authorized amount (shares)	Date approved by board	Program termination date	Three months ended September 30,			
				2016		2015	
				Shares purchased	Cost	Shares purchased	Cost
	1,000	October, 2011	June 30, 2016	-	\$ -	-	\$ -
	1,000	April, 2016	N/A	-	\$ -	-	\$ -



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Share purchase programs			Nine months ended September 30,			
			2016		2015	
Authorized amount (shares)	Date approved by board	Program termination date	Shares purchased	Purchase price	Shares purchased	Purchase price
1,000	October, 2011	June 30, 2016	422	\$ 2,000	-	\$ -
1,000	April, 2016	N/A	-	\$ -	-	\$ -

**SPARTAN MOTORS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in thousands, except per share data)**

**NOTE 8 - BUSINESS SEGMENTS**

We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision makers to assess segment performance and allocate resources among our operating units. We have three reportable segments: Emergency Response Vehicles, Fleet Vehicles and Services, and Specialty Chassis and Vehicles. Previously, we reported sales of aftermarket parts and accessories related to our emergency response vehicles, motor home chassis and defense vehicles as part of our Specialty Chassis and Vehicles segment. As a result of a realignment of our operating segments completed during the second quarter of 2016, aftermarket parts and accessories related to emergency response vehicles are now included in the Emergency Response Vehicles segment. Segment results from prior periods are shown reflecting the change.

Our Emergency Response Vehicles segment consists of the emergency response chassis operations at our Charlotte, Michigan location and our operations at our Brandon, South Dakota and Ephrata, Pennsylvania locations, along with our Spartan-Gimaex joint venture. This segment engineers and manufactures emergency response chassis and vehicles and distributes related aftermarket parts and accessories.

Our Fleet Vehicles and Services segment consists of our operations at our Bristol, Indiana location, along with our operations at our up-fit centers in Kansas City, Missouri and Saltillo, Mexico, and focuses on designing and manufacturing walk-in vans for the delivery and service market, the production of commercial truck bodies and the distribution of related aftermarket parts and accessories. This segment was formerly referred to as Delivery and Service Vehicles; however, there has been no change in the operations contained within this segment.

Our Specialty Chassis and Vehicles segment consists of our Charlotte, Michigan operations that engineer and manufacture motor home chassis, defense vehicles and other specialty chassis and distribute related aftermarket parts and accessories.

Appropriate expense amounts are allocated to the three reportable segments and are included in their reported operating income or loss.



**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. Assets and related depreciation expense in the column labeled "Other" pertain to capital assets maintained at the corporate level. Segment loss from operations in the "Other" column contains corporate related expenses not allocable to the operating segments. Interest expense and Taxes on income are not included in the information utilized by the chief operating decision makers to assess segment performance and allocate resources, and accordingly, are excluded from the segment results presented below. Intercompany transactions between operating segments were immaterial in all periods presented.

**Three Months Ended September 30, 2016**

	Emergency Response Vehicles	Fleet Vehicles & Services	Specialty Chassis & Vehicles	Other	Consolidated
Emergency response vehicle sales	\$ 40,185	\$-	\$-	\$-	\$ 40,185
Fleet vehicle sales	-	57,422	-	-	57,422
Motor home chassis sales	-	-	22,344	-	22,344
Other specialty chassis and vehicle sales	-	-	4,091	-	4,091
Aftermarket parts and accessories sales	1,934	20,537	2,151	-	24,622
<b>Total sales</b>	<b>\$ 42,119</b>	<b>\$ 77,959</b>	<b>\$ 28,586</b>	<b>\$-</b>	<b>\$ 148,664</b>
Depreciation and amortization expense	\$ 217	\$ 874	\$ 125	\$ 962	\$ 2,178
Operating income (loss)	(3,837 )	9,598	852	(4,021)	2,592
Capital expenditures	387	140	2,439	539	3,505

**Three Months Ended September 30, 2015**

	Emergency Response Vehicles	Fleet Vehicles & Services	Specialty Chassis & Vehicles	Other	Consolidated
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Emergency response vehicle sales	\$ 42,030	\$-	\$-	\$-	\$ 42,030
Fleet vehicle sales	-	45,526	-	-	45,526
Motor home chassis sales	-	-	32,367	-	32,367
Other specialty chassis and vehicle sales	-	-	2,388	-	2,388
Aftermarket parts and accessories sales	1,637	8,711	3,913	-	14,261
Total sales	\$ 43,667	\$54,237	\$38,668	\$-	\$ 136,572
Depreciation and amortization expense	\$ 263	\$928	\$ 105	\$576	\$ 1,872
Operating income (loss)	(5,627 )	4,064	2,412	(1,307)	(458 )
Capital expenditures	119	200	260	549	1,128

**SPARTAN MOTORS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Amounts in thousands, except per share data)****Nine Months Ended September 30, 2016**

	Emergency Response Vehicles	Fleet Vehicles & Services	Specialty Chassis & Vehicles	Other	Consolidated
Emergency response vehicle sales	\$ 130,080	\$-	\$-	\$-	\$ 130,080
Fleet vehicle sales	-	154,774	-	-	154,774
Motor home chassis sales	-	-	73,254	-	73,254
Other specialty chassis and vehicle sales	-	-	16,722	-	16,722
Aftermarket parts and accessories sales	5,555	56,292	8,250	-	70,097
<b>Total sales</b>	<b>\$ 135,635</b>	<b>\$ 211,066</b>	<b>\$ 98,226</b>	<b>\$-</b>	<b>\$ 444,927</b>
Depreciation and amortization expense	\$ 636	\$ 2,586	\$ 363	\$ 2,157	\$ 5,742
Operating income (loss)	(9,911 )	21,647	5,405	(9,481 )	7,660
Segment assets	75,086	76,818	32,391	76,953	261,248
Capital expenditures	1,070	1,760	4,690	1,779	9,299

**Nine Months Ended September 30, 2015**

	Emergency Response Vehicles	Fleet Vehicles & Services	Specialty Chassis & Vehicles	Other	Consolidated
Emergency response vehicle sales	\$ 146,485	\$-	\$-	\$-	\$ 146,485
Fleet vehicle sales	-	138,596	-	-	138,596
Motor home chassis sales	-	-	75,430	-	75,430
Other specialty chassis and vehicle sales	-	-	10,829	-	10,829
Aftermarket parts and accessories sales	4,737	23,371	10,319	-	38,427
<b>Total sales</b>	<b>\$ 151,222</b>	<b>\$ 161,967</b>	<b>\$ 96,578</b>	<b>\$-</b>	<b>\$ 409,767</b>

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Depreciation and amortization expense	\$ 707	\$2,732	\$ 299	\$ 1,709	\$ 5,447
Operating income (loss)	(11,671 )	10,006	4,806	(5,612 )	(2,471 )
Segment assets	84,758	83,945	34,129	45,653	248,485
Capital expenditures	885	706	577	1,435	3,603

**SPARTAN MOTORS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in thousands, except per share data)**

**NOTE 9 – SUBSEQUENT EVENTS**

On October 31, 2016, we repaid the \$5,000 principal outstanding on our Series B Senior Notes due December 1, 2016, with cash on hand.

On October 31, 2016, we entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") by and among us, certain of our subsidiaries, Wells Fargo Bank, National Association, as administrative agent ("Wells Fargo"), and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A. and PNC Bank (the "Lenders"). Under the Credit Agreement, we may borrow up to \$100,000 from the Lenders under a three-year unsecured revolving credit facility. We may also request an increase in the facility of up to \$35,000 in the aggregate, subject to customary conditions. The credit facility is also available for the issuance of letters of credit of up to \$20,000 and swing line loans of up to \$15,000, subject to certain limitations and restrictions. Interest rates on borrowings under the credit facility are based on either (i) the highest of the prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted London interbank market rate ("LIBOR") plus 1.0%; or (ii) adjusted LIBOR plus a margin based upon our ratio of debt to earnings from time to time. The Credit Agreement contains certain customary representations and covenants, including performance-based financial covenants on our part, which may limit our available borrowings under our line of credit. The Credit Agreement also prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales. The credit facility matures October 31, 2019, following which we have the option to renew the credit facility, subject to lender approval, for two successive one-year periods with an ultimate maturity date of December 31, 2021. We had no drawings against this credit line as of September 30, 2016 or December 31, 2015.



**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. Spartan Motors began development of its first product that same year and shipped its first fire truck chassis in October 1975.

We are known as a leading, niche market engineer and manufacturer in the heavy-duty, custom vehicles marketplace. Our operating activities are conducted through our wholly-owned operating subsidiary, Spartan Motors USA, Inc. (“Spartan USA”), with locations in Charlotte, Michigan; Brandon, South Dakota; Ephrata, Pennsylvania; and Bristol, Indiana; along with contract manufacturing in Kansas City, Missouri; and Saltillo, Mexico.

We recently completed a corporate reorganization in order to consolidate our U.S. operations into a single subsidiary and to simplify our corporate structure. On July 1, 2015, our former Spartan Motors Chassis, Inc. subsidiary (which operated our Charlotte, Michigan location) and our former Crimson Fire Aerials, Inc. subsidiary (which operated our Ephrata, Pennsylvania location) were merged into Spartan USA. On January 1, 2016, our former Utilimaster Corporation subsidiary (which operated our Bristol, Indiana location) was also merged into Spartan USA.

Our Charlotte, Michigan location manufactures heavy duty chassis and vehicles and supplies aftermarket parts and assemblies under the Spartan Chassis and Spartan ERV brand names. Our Brandon, South Dakota and Ephrata, Pennsylvania locations manufacture emergency response vehicles under the Spartan ERV brand name. Our Bristol, Indiana location manufactures vehicles used in the parcel delivery, mobile retail and trades and construction industries, and supplies related aftermarket parts and services under the Utilimaster brand name, while our Kansas City, Missouri and Saltillo, Mexico locations sell and install equipment used in fleet vehicles. Spartan USA is also a participant in Spartan-Gimaex Innovations, LLC (“Spartan-Gimaex”), a 50/50 joint venture with Gimaex Holding, Inc that was formed to provide emergency response vehicles for the domestic and international markets. Spartan-Gimaex is reported as a consolidated subsidiary of Spartan Motors, Inc. In February 2015, Spartan USA and Gimaex Holding, Inc. mutually agreed to begin discussions regarding the dissolution of the joint venture. In June 2015, Spartan USA and Gimaex Holding, Inc. entered into court proceedings to determine the terms of the dissolution. The terms of the dissolution have not yet been determined, pending the outcome of the court proceedings.

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 chassis and 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.

Executive Overview

Revenue of \$148.7 million in the third quarter of 2016, an increase of 8.9% compared to \$136.6 million in the third quarter of 2015.

Gross profit of \$18.0 million in the third quarter of 2016, an increase of 40.6% compared to \$12.8 million in the third quarter of 2015.

Gross Margin of 12.1% in the third quarter of 2016, compared to 9.4% in in the third quarter of 2015.

Operating expense of \$15.4 million, or 10.4% of sales in the third quarter of 2016, compared to \$13.3 million or 9.7% of sales in the third quarter of 2015.

Operating income of \$2.6 million in the third quarter of 2016, compared to operating loss of \$0.5 million in the third quarter of 2015.

Income tax benefit of \$0.1 million in the third quarter of 2016, compared to \$5.2 million expense in the third quarter of 2015.

Net income of \$2.7 million in the third quarter of 2016, compared to net loss of \$5.8 million in the third quarter of 2015.

Earnings per share of \$0.08 in the third quarter of 2016, compared to a loss of \$0.17 per share in the third quarter of 2015.

Cash balance of \$40.0 million at September 30, 2016, an increase of \$7.3 million, or 22.3% compared to \$32.7 million at December 31, 2015.

Order backlog of \$272.1 million at September 30, 2016, a decrease of \$3.2 million, or 1.2% from our backlog of \$275.3 million at September 30, 2015.

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:

Our diversified business model. We believe the major strength of our business model is market diversity and customization. Our Fleet Vehicles and Services and Specialty Chassis and Vehicles segments serve mainly business and consumer markets, effectively diversifying our company and complementing our Emergency Response Vehicles segment, which primarily serves governmental entities. Additionally, the fleet vehicles and services market is an early-cycle industry, complementary to the late-cycle emergency response vehicle industry. We intend to continue to pursue additional areas that build on our core competencies in order to further diversify our business.

Our *Spartan Select* and *180 truck* programs, designed to provide the custom apparatus that emergency response professionals need with unprecedented order-to-delivery cycle times as short as 180 days.

Spartan Connected Care, a new mobile application that provides owners of motor homes built on Spartan chassis with instant access to a pre-trip inspection checklist, coach-specific diagnostic codes and an interactive map to locate the closest Spartan authorized service center. Spartan Connected Care also provides notifications of events and rallies where owners can meet with Spartan engineers and service technicians, and participate in training sessions.

The introduction of the Velocity, a new delivery vehicle design that combines the productivity of a walk-in van for multi-stop deliveries with the superior fuel economy of the Ford Transit chassis.

The expansion of our alliance with Isuzu to include the assembly of Isuzu's new F-Series truck. This expanded relationship demonstrates Isuzu's confidence in Spartan's quality, people, flexibility and expertise and provides another positive example of our successful execution of our multi-year plan for improving performance.

The award of a \$3.6 million contract from the United States Postal Service to build fully functional prototypes for the Next Generation Delivery Vehicle Program further validating our focus on and investments in engineering, forward-looking technology and world-class manufacturing.

The strength of our balance sheet, which includes robust working capital, low debt and access to credit through our revolving line of credit and private shelf agreement.

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 9, 2016.

**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 (percentages may not sum due to rounding):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Sales	100.0	100.0	100.0	100.0
Cost of products sold	87.8	90.6	87.7	89.7
Restructuring charge	0.1	0.0	0.0	0.1
Gross profit	12.1	9.4	12.3	10.2
Operating expenses:				
Research and development	0.9	0.3	1.0	0.8
Selling, general and administrative	9.3	9.0	9.4	9.5
Restructuring charge	0.1	0.3	0.2	0.5
Operating income (loss)	1.7	(0.3 )	1.7	(0.6 )
Other income (expense), net	0.0	(0.1 )	0.0	0.0
Income (loss) before taxes	1.8	(0.4 )	1.7	(0.6 )
Taxes	(0.1 )	3.8	0.0	1.2
Net earnings (loss)	1.8	(4.3 )	1.7	(1.8 )

***Quarter Ended September 30, 2016 Compared to the Quarter Ended September 30, 2015****Sales*

For the quarter ended September 30, 2016, we reported consolidated sales of \$148.7 million, compared to \$136.6 million for the third quarter of 2015, an increase of \$12.1 million or 8.9%. These results reflect increases in sales in our Fleet Vehicles and Services segment, which was partially offset by a decrease in sales in our Specialty Chassis and Vehicles and Emergency Response Vehicles segments. Please refer to our segment discussion below for more information about sales within our segments.

*Cost of Products Sold*

Cost of products sold was \$130.7 million in the third quarter of 2016, compared to \$123.8 million in the third quarter of 2015, an increase of \$6.9 million or 5.6%. This increase was mainly due to the higher sales volume in the third quarter of 2016 compared to the third quarter of 2015. As a percentage of sales, cost of products sold decreased to

87.9% in the third quarter of 2016, compared to 90.6% in the third quarter of 2015, driven by a more favorable product mix in 2016, which included a higher proportion of higher margin aftermarket parts and accessories revenue than the third quarter of 2015.

*Gross Profit*

Gross profit was \$18.0 million for the third quarter of 2016, compared to \$12.8 million for the third quarter of 2015, an increase of \$5.2 million, or 40.6%. Gross margin increased to 12.1% from 9.4% over the same time period, mainly due to the favorable product mix experienced in the third quarter of 2016 compared to 2015.

### *Operating Expenses*

Operating expense was \$15.4 million for the third quarter of 2016, compared to \$13.3 million for the third quarter of 2015, an increase of \$2.1 million or 15.8%. Research and development expense in the third quarter of 2016 was \$1.4 million, compared to \$0.5 million in the third quarter of 2015, an increase of \$0.9 million, or 180.0%, driven by headcount increases undertaken in order to improve our ability to enact product enhancements and develop new products across business units. Selling, general and administrative expense was \$13.8 million in the third quarter of 2016, compared to \$12.4 million in the third quarter of 2015, an increase of \$1.4 million, or 11.3%. \$1.6 million of this increase was due to higher incentive compensation expense recorded in 2016 based on financial results, while \$0.6 million was due to higher legal and consulting spending in 2016 and \$0.4 million was due to an increase in market development spending in 2016. These spending increases were partially offset by \$1.2 million of the asset impairment charge recorded in 2015 that was charged to Selling, general and administrative. Restructuring charges were \$0.2 million in the third quarter of 2016, compared to \$0.5 million in the third quarter of 2015, a decrease of \$0.3 million, or 60.0%, as a result of decreased spending on re-engineering in our Emergency Response Vehicles segment as projects are completed.

### *Taxes*

Our effective tax rate was -4.3% for the three month period ended September 30, 2016. Our effective tax rate in the third quarter was impacted by a valuation allowance recorded in 2015 against substantially all of our deferred tax assets. We continue to anticipate the need for this valuation allowance in 2016. We expect that any tax provision or benefit that we record in 2016 based upon taxable income or loss will be offset by an equal adjustment to our valuation allowance. As a result, our tax provision for the three months ended September 30, 2016 does not include a current year federal tax expense, but consists of state income taxes, adjustments to reserves for uncertain tax positions and a true-up of certain prior year tax provisions to the amount of tax anticipated to be paid based on the actual filing. Our effective rate for the three months ended September 30, 2015 was -894.5% and differed from the statutory rates due to the valuation allowance recorded during the quarter ended September 30, 2015.

### *Net Income*

We recorded net income of \$2.7 million, or \$0.08 per share, for the third quarter of 2016, compared to a net loss of \$5.8 million, or \$0.17 per share for the same period in 2015. Driving the increase in net income for the quarter ended September 30, 2016 compared with the prior year were the factors discussed above.

### *Order Backlog*

At September 30, 2016, we had \$272.1 million in backlog compared to \$275.3 million at September 30, 2015, a decrease of \$3.2 million or 1.2%. This decrease is mainly attributable to a \$5.4 million decrease in our Fleet Vehicles and Services backlog and a \$2.4 million decrease in our Specialty Chassis and Vehicles. These decreases were partially offset by a \$4.6 million increase in our Emergency Response Vehicles backlog. We anticipate filling our current backlog orders for our Emergency Response Vehicles segment over the next 12 months, for our Fleet Vehicles and Services segment over the next 5 months and our Specialty Chassis and Vehicles segment over the next 3 months.

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.

***Nine months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015***

For the nine months ended September 30, 2016, we reported consolidated sales of \$444.9 million, compared to \$409.8 million for the same period in 2015, an increase of \$35.1 million or 8.6%. These results reflect increases in sales in our Fleet Vehicles and Services and Specialty Chassis and Vehicles segments, which were partially offset by a decrease in sales in our Emergency Response Vehicles segment. Please refer to our segment discussion below for more information about sales within our segments.

***Cost of Products Sold***

Cost of products sold was \$390.3 million in the nine months ended September 30, 2016, compared to \$368.0 million in the same period of 2015, an increase of \$22.3 million or 6.1%. This increase was mainly due to the higher sales volume in 2016 compared to 2015. As a percentage of sales, cost of products sold decreased to 87.7% in 2016, compared to 89.8% in 2015, primarily driven by a more favorable product mix in 2016, which included a higher proportion of higher margin aftermarket parts and accessories revenue than in 2015.

### *Gross Profit*

Gross profit was \$54.6 million for the nine months ended September 30, 2016, compared to \$41.8 million for the same period of 2015, an increase of \$12.8 million, or 30.6%. Gross margin increased to 12.3% from 10.2% over the same time period, mainly due to the higher proportion of higher margin aftermarket parts and accessories revenue experienced in 2016 compared to 2015.

### *Operating Expenses*

Operating expense was \$47.0 million for the nine months ended September 30, 2016, compared to \$44.3 million for the same period of 2015, an increase of \$2.7 million or 6.1%. Research and development expense in the nine months ended September 30, 2016 was \$4.4 million, compared to \$3.1 million in the same period of 2015, an increase of \$1.3 million, or 41.9%, driven by headcount increases undertaken in order to improve our ability to enact product enhancements and improve product quality across business units. Selling, general and administrative expense was \$41.8 million in the nine months ended September 30, 2016, compared to \$39.2 million in the same period of 2015, an increase of \$2.6 million, or 6.6%. Items contributing to the increase include \$2.7 million for higher incentive compensation accruals in 2016 based on financial results, \$1.2 million for increased marketing and trade show spending in 2016 and \$0.9 million for increased legal, bad debt and other miscellaneous administrative expenses. These increases were partially offset by the \$1.2 million recorded for asset impairments in 2015 and a \$1.0 million NHTSA penalty recorded in 2015. Restructuring charges were \$0.8 million in the nine months ended September 30, 2016, compared to \$2.0 million in the same period of 2015, a decrease of \$1.2 million, or 60.0%, as a result of decreased spending on re-engineering in our Emergency Response Vehicles segment as projects are completed.

### *Taxes*

Our effective tax rate was -0.1% for the nine month period ended September 30, 2016. Our effective tax rate in 2016 was impacted by a valuation allowance recorded in 2015 against substantially all of our deferred tax assets. We continue to anticipate the need for this valuation allowance in 2016. We expect that any tax provision or benefit that we record in 2016 based upon taxable income or loss will be offset by an equal adjustment to our valuation allowance. As a result, our tax provision for the nine months ended September 30, 2016 does not include a current year federal tax expense, but consists of state income taxes, adjustments to reserves for uncertain tax positions and a true-up of certain prior year tax provisions to the amount of tax anticipated to be paid based on the actual filing. Our effective rate for the nine months ended September 30, 2015 was -185.2%, and differed from the statutory rates due to the valuation allowance recorded during the quarter ended September 30, 2015.

### *Net Income*

We recorded net income of \$7.7 million, or \$0.22 per share, for the nine months ended September 30, 2016, compared to a net loss of \$7.5 million, or \$0.22 per share for the same period in 2015. Driving the increase in net income for the nine months ended September 30, 2016 compared with the prior year were the factors discussed above.



## Our Segments

We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision makers to assess segment performance and allocate resources among our operating units. We have three reportable segments: Emergency Response Vehicles, Fleet Vehicles and Services, and Specialty Chassis and Vehicles. Previously, we reported sales of aftermarket parts and accessories related to our emergency response vehicles, motor home chassis and defense vehicles as part of our Specialty Chassis and Vehicles segment. As a result of a realignment of our operating segments completed during the second quarter of 2016, aftermarket parts and accessories related to emergency response vehicles are now included in the Emergency Response Vehicles segment. Segment results from prior periods are shown reflecting the change.

Our Emergency Response Vehicles segment consists of the emergency response chassis operations at our Charlotte, Michigan location and our operations at our Brandon, South Dakota and Ephrata, Pennsylvania locations, along with our Spartan-Gimaex joint venture. This segment engineers and manufactures emergency response chassis and vehicles and distributes related aftermarket parts and accessories.

Our Fleet Vehicles and Services segment consists of our operations at our Bristol, Indiana location, along with our operations at our up-fit centers in Kansas City, Missouri and Saltillo, Mexico. This segment designs and manufactures walk-in vans and commercial truck bodies for the delivery and service market and distributes related aftermarket parts and accessories. This segment was formerly referred to as Delivery and Service Vehicles. There has been no change in the operations contained within this segment.

Our Specialty Chassis and Vehicles segment consists of our Charlotte, Michigan operations that engineer and manufacture motor home chassis, defense vehicles and other specialty chassis and distribute related aftermarket parts and accessories.

For certain financial information related to each segment, see Note 8 - *Business Segments*, of the Notes to Condensed Consolidated Financial Statements appearing in Item 1 of this Form 10-Q.

### **Emergency Response Vehicles**

#### **Financial**

#### **Data**

(Dollars in  
Thousands)

	Three Months Ended September 30,			
	2016		2015	
	Amount	%	Amount	%
Sales	\$42,119	100.0%	\$43,667	100.0%
Operating loss	(3,837)	(9.1)%	(5,627)	(12.9)%

	Nine Months Ended September 30,			
	2016		2015	
	Amount	%	Amount	%
Sales	\$135,635	100.0%	\$151,222	100.0%
Operating loss	(9,911)	(7.3)%	(11,671)	(7.7)%
Segment assets	75,086		84,758	

#### *Comparison of the Three Month Periods Ended September 30, 2016 and 2015*

Sales in our Emergency Response Vehicles segment were \$42.1 million in the third quarter of 2016, compared to \$43.7 million in 2015, a decrease of \$1.6 million, or 3.7%, driven by lower unit sales volume in 2016. There were no changes in pricing of products sold by our Emergency Response Vehicles segment that had a significant impact on our

financial statements when comparing these periods.

Operating loss for our Emergency Response Vehicles segment was \$3.8 million in the third quarter of 2016, compared to \$5.6 million in 2015, a decrease of \$1.8 million, or 32.1%. \$2.2 million of this decrease was due to the asset impairment that was recorded in the third quarter of 2015, while \$0.2 million of the decrease was due to improved manufacturing performance resulting from the production outsourcing of certain products and an additional \$0.2 million decrease was due to the reduction in restructuring charges incurred in 2016. These decreases were partially offset by an increase of \$0.8 million due to higher warranty related charges recorded in the third quarter of 2016.

*Comparison of the Nine Month Periods Ended September 30, 2016 and 2015*

Sales in our Emergency Response Vehicles segment were \$135.6 million for the nine months ended September 30, 2016, compared to \$151.2 million for the same period of 2015, a decrease of \$15.6 million, or 10.3%, driven by lower unit volume in 2016. There were no changes in pricing of products sold by our Emergency Response Vehicles segment that had a significant impact on our financial statements when comparing these periods.

Operating loss for our Emergency Response Vehicles segment was \$9.9 million for the nine months ended September 30, 2016, compared to \$11.7 million for the same period of 2015, a decrease of \$1.8 million, or 15.4%. \$2.2 million of this decrease was due to the asset impairment recorded in 2015, \$1.6 million of the decrease was due to a reduction in restructuring charges recorded in 2016, \$0.7 million was due to the NHTSA fine recorded in 2015 and \$0.4 million was due to savings from a sales department reorganization enacted in 2016. These savings were partially offset by a \$3.1 million increase in warranty related charges recorded in 2016.

**Fleet Vehicles and Services****Financial****Data**(Dollars in  
Thousands)

	Three Months Ended September 30,			
	2016		2015	
	Amount	%	Amount	%
Sales	\$77,959	100.0%	\$54,237	100.0%
Operating income	9,598	12.3 %	4,064	7.5 %

	Nine Months Ended September 30,			
	2016		2015	
	Amount	%	Amount	%
Sales	\$211,066	100.0%	\$161,967	100.0%
Operating income	21,647	10.3 %	10,006	6.2 %
Segment assets	76,818		83,945	

*Comparison of the Three Month Periods Ended September 30, 2016 and 2015*

Sales in our Fleet Vehicles and Services segment were \$78.0 million in the third quarter of 2016, compared to \$54.2 million in the third quarter of 2015, an increase of \$23.8 million or 43.9% due to a \$12.0 million increase in aftermarket parts and accessories revenue and \$11.8 million due to a change in mix of vehicle sales. There were no changes in pricing of products sold by our Fleet Vehicles and Services segment that had a significant impact on our financial statements when comparing the third quarter of 2016 to the third quarter of 2015.

Operating income in our Fleet Vehicles and Services segment for the third quarter of 2016 was \$9.6 million compared to \$4.1 million in the third quarter of 2015, an increase of \$5.5 million or 134.1%, driven by an increase in aftermarket parts and accessories sales in 2016.

*Comparison of the Nine Month Periods Ended September 30, 2016 and 2015*

Sales in our Fleet Vehicles and Services segment were \$211.1 million for the nine months ended September 30, 2016, compared to \$162.0 million for the same period of 2015, an increase of \$49.1 million, or 30.3%, due to increases of \$32.0 million in aftermarket parts and accessories revenue and \$17.1 million in vehicle sales driven by higher unit volume in 2016. There were no changes in pricing of products sold by our Fleet Vehicles and Services segment that had a significant impact on our financial statements when comparing these periods.

Operating income for our Fleet Vehicles and Services segment was \$21.6 million for the nine months ended September 30, 2016, compared to \$10.0 million for the same period of 2015, an increase of \$11.6 million, or 116.0%, driven by the increase in higher margin aftermarket parts and accessories revenue in 2016.

**Specialty Chassis and Vehicles****Financial****Data**(Dollars in  
Thousands)

	Three Months Ended September 30,			
	2016		2015	
	Amount	%	Amount	%
Sales	\$28,586	100.0%	\$38,668	100.0%
Operating income	852	3.0 %	2,412	6.2 %

	Nine Months Ended September 30,			
	2016		2015	
	Amount	%	Amount	%
Sales	\$98,226	100.0%	\$96,578	100.0%
Operating income	5,405	5.5 %	4,806	5.0 %
Segment assets	32,391		34,129	

*Comparison of the Three Month Periods Ended September 30, 2016 and 2015*

Sales in our Specialty Chassis and Vehicles segment were \$28.6 million in the third quarter of 2016, compared to \$38.7 million in the third quarter of 2015, a decrease of \$10.1 million or 26.1%. Sales of motor home chassis decreased by \$10.0 million in 2016, with the majority of the decrease due to lower unit volume in 2016 and \$0.3 million of the decrease due to pricing changes enacted in the third quarter of 2016. Sales of aftermarket parts and accessories decreased by \$1.8 million in 2016. These decreases were partially offset by a \$1.7 million increase in sales of other specialty chassis in 2016 due to higher unit volumes. Other than the motor home pricing, there were no changes in pricing of products sold by our Specialty Chassis and Vehicles segment that had a significant impact on our financial statements when comparing the third quarter of 2016 to the third quarter of 2015.

Operating income for our Specialty Chassis and Vehicles segment for the third quarter of 2016 was \$0.9 million, compared to \$2.4 million in the third quarter of 2015, a decrease of \$1.5 million, or 62.5%. \$0.3 million of this decrease was due to the motor home pricing changes enacted in the third quarter of 2016, while the remainder was

driven by the lower sales volumes in the third quarter of 2016 as discussed above.

*Comparison of the Nine Month Periods Ended September 30, 2016 and 2015*

Sales in our Special Chassis and Vehicles segment were \$98.2 million for the nine months ended September 30, 2016, compared to \$96.6 million for the same period of 2015, an increase of \$1.6 million, or 1.7%. \$5.9 million of the increase was due to higher unit volume in other specialty chassis and vehicles in 2016, while motor home pricing changes enacted during 2016 accounted for \$0.3 million of the increase (pricing change includes increases totaling \$0.6 million during the first and second quarters and decreases totaling \$0.3 million during the third quarter). These increases were partially offset by a \$2.5 million decrease in sales of motor home chassis in 2016 attributable to lower unit volumes and a decrease of \$2.1 million in sales of aftermarket parts and assemblies. Other than the motor home pricing discussed above, there were no changes in pricing of products sold by our Specialty Chassis and Vehicles segment that had a significant impact on our financial statements when comparing these periods.

Operating income for our Specialty Chassis and Vehicles segment was \$5.4 million for the nine months ended September 30, 2016, compared to \$4.8 million for the same period of 2015, an increase of \$0.6 million, or 12.5%. \$1.4 million of the increase was due to the NHTSA penalty that was recorded in 2015 and did not recur in 2016, while \$0.3 million of the increase was due to the motor home pricing discussed above. These increases were partially offset by a \$0.2 million increase in research and development expenses related to new product development in 2016, and a \$0.9 million increase in sales and marketing costs in 2016.

## Financial Condition

### *Balance Sheet at September 30, 2016 compared to December 31, 2015*

Cash increased by \$7.3 million, or 22.3%, to \$40.0 million at September 30, 2016 from \$32.7 million at December 31, 2015. Please see the discussion of cash flow activity below for more information on our sources and uses of cash in the first nine months of 2016.

Accounts receivable increased by \$13.9 million, or 24.6%, to \$70.5 million at September 30, 2016, compared to \$56.6 million at December 31, 2015, due to higher sales volume in the latter half of the third quarter of 2016 compared to sales in the latter half of the fourth quarter of 2015.

Inventory increased by \$7.4 million or 12.2% to \$68.0 million at September 30, 2016 compared to \$60.6 million at December 31, 2015, as a result of an increase in work in process inventory driven by inspection delays in our Emergency Response Vehicles segment and increased sales volume in our Fleet Vehicles and Services segment. Days inventory outstanding decreased to 47 days in the third quarter of 2016, compared to 50 days in the fourth quarter of 2015, mainly due to the impact of the higher sales, along with higher cost of goods sold, during the third quarter of 2016 compared to the fourth quarter of 2015.

Income taxes receivable decreased by \$1.1 million or 61.1% to \$0.7 million at September 30, 2016 from \$1.8 million at December 31, 2015 primarily due to recorded current year federal and state income tax liabilities.

Net deferred income tax assets increased by \$2.7 million, or 450.0%, to \$3.3 million at September 30, 2016 from \$0.6 million at December 31, 2015 due to the reduction in the valuation allowance enabled by the current year tax expense.

Accounts payable increased by \$16.8 million, or 61.5%, to \$44.1 million at September 30, 2016 compared to \$27.3 million at December 31, 2015 due to the timing of payments and the ramp up in production following our traditional year-end shut down in December.

Accrued warranty increased by \$2.1 million, or 12.7%, to \$18.7 million at September 30, 2016 from \$16.6 million at December 31, 2015 due to additional accruals for various repair campaigns in 2016.



Accrued compensation and related taxes increased by \$3.5 million, or 40.2%, to \$12.2 million at September 30, 2016 from \$8.7 million at December 31, 2015, mainly due to an increase in incentive compensation accruals as a result of our financial performance during the year.

Deposits from customers increased by \$4.4 million, or 33.6%, to \$17.5 million at September 30, 2016 compared to \$13.1 million at December 31, 2015 due to more prepayments received than applied to invoices at our Emergency Response Vehicles segment. Deposits are made at the option of our customers and vary randomly from order to order.

Other current liabilities increased by \$1.8 million, or 46.2%, to \$5.7 million at September 30, 2016 compared to \$3.9 million at December 31, 2015 mainly due to the timing of accruals for various expenses incurred but not yet invoiced.

## **LIQUIDITY AND CAPITAL RESOURCES**

### Cash Flows

Cash and cash equivalents increased by \$7.3 million to \$40.0 million at September 30, 2016, compared to \$32.7 million at December 31, 2015. 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.

*Cash Flow from Operating Activities*

For the nine months ended September 30, 2016, we generated \$20.5 million of cash from operating activities, which represents a \$22.4 million increase from the \$1.9 million of cash that was used by operations for the nine months ended September 30, 2015. The increase in cash generated in 2016 results from our improved financial performance compared to the prior year along with changes in working capital, particularly increases in accounts payable and customer deposits, and accrued compensation.

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 nine month period ended September 30, 2016. 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 Flow from Investing Activities*

We utilized \$9.3 million in investing activities in the first nine months of 2016, a \$5.9 million increase compared to the \$3.4 million utilized in the first nine months of 2015. This increase is mainly the result of expenditures of \$4.6 million for the construction of our new assembly plant in Charlotte, Michigan as well as \$1.2 million invested in our Bristol, Indiana facility as part of our relocation of truck body production for the Fleet Vehicles and Services segment to this location from our former Wakarusa, Indiana location.

During the remainder of 2016, we expect to make additional cash capital investments of \$4.0 million to \$5.0 million, including capital spending for the replacement and upgrades of machinery and equipment used in operations and approximately \$2.0 million to \$2.5 million for the new assembly plant in Charlotte, Michigan to be used for the manufacture of Isuzu F-Series trucks.

*Cash Flow from Financing Activities*

We utilized \$3.9 million of cash in financing activities during the first nine months of 2016, compared to \$2.4 million in the first nine months of 2015. This increase is primarily due to the repurchase of 421,692 shares of common stock at a total cost of \$2.0 million in the second quarter of 2016.

Working Capital

Our working capital was as follows (in thousands):

	September 30, 2016	December 31, 2015	Change
Current assets	\$ 182,168	\$ 155,137	\$27,031
Current liabilities	105,055	72,373	32,682
Working capital	\$ 77,113	\$ 82,764	\$(5,651 )

The change in our working capital at September 30, 2016 from December 31, 2015, results from changes in cash, accounts receivable and inventory, which were partially offset by increases in accounts payable, accrued compensation, and deposits from customers. Refer to the balance sheet discussion appearing above in Management's Discussion and Analysis of Financial Condition and Results of Operations for an explanation of the causes of the material changes in working capital line items.

### Contingent Obligations

In February 2015, Spartan USA and Gimaex Holding, Inc. mutually agreed to begin discussions regarding the dissolution of the Spartan-Gimaex joint venture. In June 2015, Spartan USA and Gimaex Holding, Inc. entered into court proceedings to determine the terms of the dissolution. Through December 31, 2015, we recorded charges totaling \$1.2 million to write down certain inventory items associated with this joint venture to their estimated fair values. There were no further charges recorded during the nine months ended September 30, 2016. Costs associated with the wind-down will be impacted by the final dissolution agreement. In accordance with accounting guidance, the costs we have accrued so far represent the low end of the range of the estimated total charges that we believe we may incur related to the wind-down. While we are unable to determine the final cost of the wind-down with certainty at this time, we may incur additional charges, depending on the final terms of the dissolution, and such charges could be material to our future operating results.

### Debt

On October 31, 2016, we entered into a second Amended and Restated Credit Agreement (the "Credit Agreement") by and among us, certain of our subsidiaries, Wells Fargo Bank, National Association, as administrative agent ("Wells Fargo"), and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A. and PNC Bank (the "Lenders"). Under the Credit Agreement, we may borrow up to \$100 million from the Lenders under a three-year unsecured revolving credit facility. We may also request an increase in the facility of up to \$35 million in the aggregate, subject to customary conditions. The credit facility is available for the issuance of letters of credit of up to \$20 million, swing line loans of up to \$15 million and revolving loans, subject to certain limitations and restrictions. Interest rates on borrowings under the credit facility are based on either (i) the highest of the prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted London interbank market rate ("LIBOR") plus 1.0%; or (ii) adjusted LIBOR plus a margin based upon our ratio of debt to earnings from time to time. The Credit Agreement contains certain customary representations and covenants, including performance-based financial covenants on our part. The credit facility matures October 31, 2019, following which we have the option to renew the credit facility, subject to lender approval, for two successive one-year periods with an ultimate maturity date of October 31, 2021. Commitment fees range from 17.5 to 32.5 basis points on the unused portion of the line. We had no drawings against this credit line as of September 30, 2016 or December 31, 2015. During the quarter ended September 30, 2016, our revolving credit facility was utilized, and will continue to be utilized in future quarters, to finance commercial chassis received under chassis bailment inventory agreements with General Motors Company ("GM") and Chrysler Group, LLC ("Chrysler"). This funding is reflected as a reduction of the revolving credit facility available to us equal to the amount drawn by GM and Chrysler. See Note 4, *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 these chassis bailment inventory agreements.

At September 30, 2016 we had \$5.0 million of 5.46% Series B Senior Notes outstanding with Prudential Investment Management, Inc., with principal due December 1, 2016. We repaid the \$5.0 million outstanding balance on the Series B Senior Notes on October 31, 2016 utilizing cash on hand.

Under the terms of our credit agreement with our banks, we have the ability to issue letters of credit totaling \$20.0 million. At September 30, 2016 and December 31, 2015, we had outstanding letters of credit totaling \$1.1 million related to certain emergency response vehicle contracts and our workers compensation insurance.

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, which limited our available borrowings under our line of credit to a total of approximately \$50.9 million at September 30, 2016 and \$36.5 million at December 31, 2015. The agreements prohibit us from incurring additional indebtedness; limit certain acquisitions, investments, advances or loans; limit our ability to pay dividends in certain circumstances; and restrict substantial asset sales. At September 30, 2016, we were in compliance with all debt covenants, and, based on our current outlook for 2016, we expect to be able to meet these financial covenants over the next twelve months.

We had capital lease obligations outstanding of \$0.2 million as of September 30, 2016 due and payable over the next five years.

### Equity Securities

In October 2011, our Board of Directors authorized the re-purchase of up to 1.0 million shares of our common stock. In April 2016, our Board of Directors authorized the re-purchase of up to 1.0 million additional shares of our common stock, and terminated the October 2011 authorization effective June 30, 2016. During the quarter ended June 30, 2016, we repurchased 421,692 shares at a total cost of \$2.0 million under the October 2011 authorization. At September 30, 2016 there remains 1.0 million shares available for repurchase under the 2016 authorization.

### Dividends

The amounts or timing of any dividend distribution are subject to earnings, financial condition, liquidity, capital requirements and such other factors as our Board of Directors deems relevant.

On November 2, 2016 our Board of Directors declared a cash dividend of \$0.05 per share of common stock, payable on December 15, 2016 to shareholders of record on November 15, 2016.

On April 28, 2016 our Board of Directors declared a cash dividend of \$0.05 per share of common stock, which was paid on June 23, 2016 to shareholders of record on May 19, 2016.

On October 26, 2015, our Board of Directors declared a cash dividend of \$0.05 per share of common stock, which was paid on December 17, 2015 to shareholders of record on November 12, 2015.

On May 8, 2015, our Board of Directors declared a cash dividend of \$0.05 per share of common stock, which was paid on June 25, 2015 to shareholders of record on May 21, 2015.

The aggregate amount of dividends paid in 2015 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 9, 2016. 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. 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 90 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, 2015 for further details.

**Goodwill and Other Indefinite-Lived Intangible Assets** – We perform our annual impairment testing for goodwill and indefinite-lived intangible assets as of 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. At September 30, 2016 and December 31, 2015, all of our goodwill relates to our Fleet Vehicles and Services reportable segment, which was also determined to be a reporting unit for goodwill impairment testing.

The date of our most recently completed annual impairment testing was October 1, 2015. 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. Based on the results of the first step of our two-step impairment test we determined that the fair value of our Fleet Vehicles and Services reporting unit exceeded its carrying costs, and accordingly, there was no impairment of goodwill at the annual testing date.

We completed our most recent annual impairment testing for our indefinite-lived intangible asset, which consists of our Utilimaster trade name, as of October 1, 2015 by comparing the estimated fair value of the trade name with its carrying value. We estimate the fair value of our trade name based on estimates of future royalty payments that are avoided through our ownership of the trade name, discounted to their present value. Based on the results of our impairment testing, we determined that the fair value of our indefinite-lived intangible asset exceeded its carrying cost at October 1, 2015, and accordingly, there was no impairment at the annual testing date.

Since October 1, 2015, there have been no events or changes in circumstances that would more likely than not reduce the fair value of our Fleet Vehicles and Services reporting unit or our indefinite-lived intangible asset 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; 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, 2015.

See Note 1, *General and Summary of Accounting Policies* and Note 4, *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, 2015 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 4 – *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.

### **Provision for Income Taxes**

We account for income taxes under a method that requires deferred income tax assets and liabilities to be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Authoritative guidance also requires deferred income tax assets, which include state tax credit carryforwards, operating loss carryforwards and deductible temporary differences, be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

We evaluate the likelihood of realizing our deferred income tax assets by assessing our valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include our forecast of future taxable income, the projected reversal of temporary differences and available tax planning strategies that could be implemented to realize the net deferred income tax assets.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. Although management believes the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals.

Interest and penalties attributable to income taxes are recorded as a component of income taxes.

### **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 more than twelve 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 September 30, 2016, 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 September 30, 2016. 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 September 30, 2016 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, 2015, 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, 2015 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 through June 30, 2016, contingent upon market conditions. During the quarter ended June 30, 2016, 421,692 shares were repurchased under this authorization.

On April 28, 2016, our Board of Directors authorized the repurchase of up to 1.0 million additional shares of our common stock in open market transactions. At September 30, 2016 there were 1.0 million shares remaining under this repurchase authorization.

During the quarter ended September 30, 2016 there were 1,666 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
July 1 to July 31	1,666	\$ 8.09	-	1,000,000

August 1 to August 31	-	-	-	1,000,000
September 1 to September 30	-	-	-	1,000,000
Total	1,666	\$ 8.09	-	1,000,000

## Item 5. Other Information

On October 31, 2016, we entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") by and among us, certain of our subsidiaries, Wells Fargo Bank, National Association, as administrative agent ("Wells Fargo"), and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A. and PNC Bank (the "Lenders"). Under the Credit Agreement, we may borrow up to \$100 million from the Lenders under a three-year unsecured revolving credit facility. We may also request an increase in the facility of up to \$35 million in the aggregate, subject to customary conditions. The credit facility is also available for the issuance of letters of credit of up to \$20 million and swing line loans of up to \$15 million, subject to certain limitations and restrictions. Interest rates on borrowings under the credit facility are based on either (i) the highest of the prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted London interbank market rate ("LIBOR") plus 1.0%; or (ii) adjusted LIBOR plus a margin based upon our ratio of debt to earnings from time to time. The Credit Agreement contains certain customary representations and covenants, including performance-based financial covenants on our part, which may limit our available borrowings under our line of credit. The Credit Agreement also prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales. The credit facility matures October 31, 2019, following which we have the option to renew the credit facility, subject to lender approval, for two successive one-year periods with an ultimate maturity date of December 31, 2021. The Credit Agreement is filed as Exhibit 10.1 to this 10-Q.

**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	Second Amended and Restated Credit Agreement, dated October 31, 2016, by and among the Company, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto.
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: November 3, 2016

SPARTAN MOTORS, INC.

By

/s/ Frederick J. Sohm  
Frederick J. Sohm  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

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