

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2005-11-09** | Period of Report: **2005-09-30**
SEC Accession No. **0000905729-05-000375**

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SPARTAN MOTORS INC

CIK: **743238** | IRS No.: **382078923** | State of Incorpor.: **MI** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-13611** | Film No.: **051189635**
SIC: **3711** Motor vehicles & passenger car bodies

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarter Ended
September 30, 2005

Commission File Number
0-13611

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.)

1165 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 X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No

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

Yes No X

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

Class

Outstanding at
October 31, 2005

Common stock, \$.01 par value

12,633,308 shares

SPARTAN MOTORS, INC.

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FORWARD-LOOKING STATEMENTS

This Form 10-Q contains statements 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," "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 existing products liability, tort or warranty laws or the introduction of new laws, regulations or policies that could affect our business practices: these laws, regulations or policies could impact our industry as a whole, or could impact only those portions in which we are currently active, for example, laws regulating the design or manufacture of emergency vehicles or regulations issued by the National Fire Protection Association; in either case, our profitability could be injured due to an industry-wide market decline or due to our inability to compete with other companies that are unaffected by these laws, regulations or policies.

Changes in environmental regulations: these regulations could have a negative impact on our earnings; for example, laws mandating greater fuel efficiency could increase our research and development costs, increase the cost of components and lead to the temporary unavailability of engines.

Rapidly rising material and component costs and the Company's ability to mitigate such cost increases based upon its supply contracts or to recover such cost increases with increases in selling prices of its products: such increases in costs could have a negative impact on our earnings.

Changes in economic conditions, including changes in interest rates, financial market performance and our industry: these types of changes can impact the economy in general, resulting in a downward trend that impacts not only our business, but all companies with which we compete; or, the changes can impact only those parts of the economy upon which we rely in a unique fashion, including, by way of example:

Factors that impact our attempts to expand internationally, such as the introduction of trade barriers in the United States or abroad.

Changes in relationships with major customers: an adverse change in our relationship with major customers would have a negative impact on our earnings and financial position.

Armed conflicts and other military actions: the considerable political and economic uncertainties resulting from these events could adversely affect our order intake and sales, particularly in the motorhome market.

Factors that we have discussed in previous public reports and other documents filed with the Securities and Exchange Commission.

This list provides examples of factors that could affect the results described by forward-looking statements contained in this Form 10-Q. However, this list is not intended to be exhaustive; many other factors could impact our business and it is impossible to predict with any accuracy which factors could result in which negative impacts. Although we believe that the forward-looking statements contained in this Form 10-Q are reasonable, we cannot provide you with any guarantee that the anticipated results will be achieved. All forward-looking statements in this Form 10-Q 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 Form 10-Q. In addition to the risks listed above, other risks may arise in the future, and we disclaim any obligation to update information contained in any forward-looking statement.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SPARTAN MOTORS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2005	December 31, 2004
ASSETS	(Unaudited)	(Audited)
Current assets:		
Cash and cash equivalents	\$ 15,403,211	\$ 10,463,454
Marketable securities	2,000,000	1,506,570
Accounts receivable, less allowance for doubtful accounts of \$221,000 in 2005 and \$400,000 in 2004	41,097,542	32,358,950
Inventories	39,710,769	32,441,712
Deferred income taxes	2,557,456	2,939,456
Taxes receivable	1,657,757	1,956,535
Other current assets	779,004	1,548,806

Total current assets	103,205,739	83,215,483
Property, plant, and equipment, net	18,354,125	18,238,884
Goodwill	4,543,422	4,543,422
Deferred income taxes	870,000	870,000
Other assets	449,593	44,921
Total assets	<u>\$ 127,422,879</u>	<u>\$ 106,912,710</u>

SPARTAN MOTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

	September 30, 2005	December 31, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY	(Unaudited)	(Audited)
Current liabilities:		
Accounts payable	\$ 25,399,280	\$ 19,247,899
Accrued warranty	4,394,509	3,670,761
Accrued compensation and related taxes	4,040,410	3,264,737
Accrued vacation	1,114,376	1,087,414
Deposits from customers	13,089,608	8,588,134
Other current liabilities and accrued expenses	4,611,469	3,397,389
Current portion of long-term debt	52,438	5,713
Total current liabilities	52,702,090	39,262,047
Long-term debt, less current portion	1,330,384	139,545

Shareholders' equity:

Preferred stock, no par value: 2,000,000

shares authorized (none issued)

--

--

Common stock, \$.01 par value: 23,900,000

shares authorized, issued 12,629,808 and

12,532,909 shares in 2005 and 2004, respectively

126,298

125,329

Additional paid in capital

37,834,634

36,210,602

Retained earnings

36,357,163

31,182,253

Unearned compensation

(927,690)

Accumulated other comprehensive loss

(7,066)

Total shareholders' equity

73,390,405

67,511,118

Total liabilities and shareholders' equity

\$ 127,422,879

\$ 106,912,710

See Accompanying Notes to Condensed Consolidated Financial Statements.

SPARTAN MOTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,	
	2005	2004
	<hr/>	<hr/>
Sales	\$ 89,314,540	\$ 91,667,562
Cost of products sold	75,795,083	80,507,149
	<hr/>	<hr/>
Gross profit	13,519,457	11,160,413
Operating expenses:		
Research and development	2,386,320	2,126,486
Selling, general and administrative	6,809,626	6,232,354
	<hr/>	<hr/>
Operating income	4,323,511	2,801,573
Other income (expense):		
Interest expense	(29,513)	(100,206)
Interest and other income	242,876	159,159
	<hr/>	<hr/>

Earnings before taxes on income	4,536,874	2,860,526
Taxes on income	1,833,905	966,386
Net earnings	<u>2,702,969</u>	<u>1,894,140</u>
Basic net earnings per share	<u>\$ 0.22</u>	<u>\$ 0.15</u>
Diluted net earnings per share	<u>\$ 0.21</u>	<u>\$ 0.15</u>
Basic weighted average common shares outstanding	<u>12,533,000</u>	<u>12,384,000</u>
Diluted weighted average common shares outstanding	<u>12,814,000</u>	<u>12,859,000</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

SPARTAN MOTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Nine Months Ended September 30,	
	2005	2004
	<hr/>	<hr/>
Sales	\$ 267,556,925	\$ 231,978,585
Cost of products sold	229,931,111	200,146,770
	<hr/>	<hr/>
Gross profit	37,625,814	31,831,815
Operating expenses:		
Research and development	6,852,649	5,755,176
Selling, general and administrative	19,528,048	17,935,977
	<hr/>	<hr/>
Operating income	11,245,117	8,140,662
Other income (expense):		
Interest expense	(106,432)	(306,453)
Interest and other income	582,785	423,261
	<hr/>	<hr/>

Earnings before taxes on income	11,721,470	8,257,470
Taxes on income	4,415,503	2,770,446
Net earnings	<u>7,305,967</u>	<u>5,487,024</u>
Basic net earnings per share	<u>\$ 0.58</u>	<u>\$ 0.45</u>
Diluted net earnings per share	<u>\$ 0.57</u>	<u>\$ 0.43</u>
Basic weighted average common shares outstanding	<u>12,515,000</u>	<u>12,306,000</u>
Diluted weighted average common shares outstanding	<u>12,778,000</u>	<u>12,696,000</u>
Cash dividends per common share	<u>\$ 0.11</u>	<u>\$ 0.08</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

SPARTAN MOTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

	Number of Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Gain (Loss)	Total
Balance at January 1, 2005	12,532,909	\$125,329	\$36,210,602	\$31,182,253	--	\$(7,066)	\$67,511,118
Net proceeds from exercise							
of stock options, including related							
income tax benefit	110,199	1,102	987,209	--	--	--	988,311
Restricted stock grant	86,700	867	926,823		\$(927,690)	--	--
Purchase and constructive retirement of stock	(100,000)	(1,000)	(290,000)	(759,235)		--	(1,050,235)
Dividends paid (\$0.11 per share)				(1,371,822)			(1,371,822)
Comprehensive income:							
Net earnings	--	--	--	7,305,967		--	7,305,967
Other comprehensive items:							

Unrealized gain on								
marketable securities	--	--	--	--	--		7,066	7,066
Total comprehensive Income								7,313,033
Balance at September 30, 2005	12,629,808	\$126,298	\$37,834,634	\$36,357,163	\$(927,690)	--		\$73,390,405

See Accompanying Notes to Condensed Consolidated Financial Statements.

SPARTAN MOTORS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net earnings	\$ 7,305,967	\$ 5,487,024
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,916,600	1,685,740
Loss on sales of property, plant and equipment	16,612	1,871
Realized and unrealized losses on marketable securities	20,836	--
Tax benefit from stock options exercised	108,000	521,000
Deferred income taxes	382,000	500,500
Decrease (increase) in operating assets:		
Accounts receivable	(8,738,592)	(17,741,190)
Inventories	(7,269,057)	(8,275,072)
Taxes receivable	298,778	(269,011)

Other assets	365,130	740,763
Increase (decrease) in operating liabilities:		
Accounts payable	6,151,381	12,215,850
Accrued warranty	723,748	915,267
Accrued compensation and related taxes	775,673	812,605
Accrued vacation	26,962	38,015
Deposits from customers	4,501,474	393,849
Other current liabilities and accrued expenses	1,214,080	1,455,769
	<hr/>	<hr/>
Total adjustments	493,625	(7,004,044)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	7,799,592	(1,517,020)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,048,453)	(4,899,360)
Proceeds from sales of property, plant and equipment	--	19,984
Purchases of marketable securities	(2,000,000)	(2,800,000)
Proceeds from sales of marketable securities	1,492,800	2,800,000
	<hr/>	<hr/>
Net cash used in investing activities	(2,555,653)	(4,879,376)

Cash flows from financing activities:

Proceeds from long-term debt	1,250,000	146,660
Payments on long-term debt	(12,436)	--
Purchase and retirement of stock	(1,050,235)	(947,852)
Proceeds from the exercise of stock options	880,311	3,206,784
Payment of dividends	(1,371,822)	(966,059)
Net cash (used in) provided by financing activities	(304,182)	1,439,533
Net increase (decrease) in cash and cash equivalents	4,939,757	(4,956,863)
Cash and cash equivalents at beginning of period	10,463,454	18,480,770
Cash and cash equivalents at end of period	\$ 15,403,211	\$ 13,523,907

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

Note 1

For a description of the accounting policies followed refer to the notes to the Spartan Motors, Inc. (the "Company") consolidated financial statements for the year ended December 31, 2004, included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2005.

Note 2

The accompanying unaudited interim condensed consolidated financial statements reflect all normal and recurring adjustments that are necessary for the fair presentation of the Company's financial position as of September 30, 2005 and the results of operations and cash flows for the three- and nine- month periods ended September 30, 2005 and 2004.

Note 3

The results of operations for the nine-month period ended September 30, 2005 are not necessarily indicative of the results to be expected for the full year.

Note 4

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

	September 30, 2005	December 31, 2004
Finished goods	\$ 5,838,748	\$ 6,079,748
Work in process	10,013,824	6,494,250
Raw materials and purchased components	26,356,993	22,107,721
Obsolescence reserve	(2,498,796)	(2,240,007)
	\$ 39,710,769	\$ 32,441,712

Note 5

The Company's products generally carry limited warranties, based on terms that are generally accepted in the marketplace. Some components included in the Company's end products (such as engines, transmissions, tires, etc.) may include manufacturers' warranties. These manufacturers' warranties are generally passed on to the end customer of the Company's products.

Note 5 (continued)

The Company's policy is to record a provision for the estimated cost of warranty-related claims at the time of the sale and periodically adjust the provision to reflect actual experience. The amount of warranty liability accrued reflects management's best estimate of the expected future cost of honoring the Company's obligations under the warranty agreements. Historically, the cost of fulfilling the Company's warranty obligations has principally involved replacement parts, labor and sometimes travel for field retrofit campaigns. The Company's estimates are based on historical experience, the number of units involved and the extent of features and components included in product models.

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

Changes in the Company's warranty liability were as follows:

For the three months ended September 30:

	2005	2004
	_____	_____
Balance of accrued warranty at June 30	\$ 4,235,334	\$ 2,490,496
Warranties issued during the period	821,253	917,899
Cash settlements made during the period	(1,036,287)	(1,172,133)
Changes in liability for pre-existing warranties		
during the period, including expirations	374,209	1,217,209

Balance of accrued warranty at September 30	\$ 4,394,509	\$ 3,453,471
For the nine months ended September 30:		
	2005	2004
Balance of accrued warranty at January 1	\$ 3,670,761	\$ 2,538,204
Warranties issued during the period	2,118,778	1,957,996
Cash settlements made during the period	(2,578,008)	(2,675,089)
Changes in liability for pre-existing warranties		
during the period, including expirations	1,182,978	1,632,360
Balance of accrued warranty at September 30	\$ 4,394,509	\$ 3,453,471

Note 6

The Company has repurchase agreements with certain third-party lending institutions that have provided floor plan financing to customers. These agreements provide for the repurchase of products from the lending institution in the event of the customer's default. The total contingent liability on September 30, 2005 was \$0.2 million. Historically, losses under these agreements have not been significant and it is management's opinion that any future losses will not have a material effect on the Company's financial position or future operating results.

Note 7

The effective income tax rate was 40.4% in the third quarter of 2005 and 33.8% in the third quarter of 2004. The effective tax rate for the third quarter of 2005 was impacted by a deferred tax asset valuation adjustment of \$0.2 million. This adjustment was due to a change in estimate impacting the expected allowable contribution carryovers to be utilized in 2005. The effective tax rate for 2004 is consistent with the applicable federal and state statutory tax rates.

The effective income tax rate was 37.7% for the first nine months of 2005 and 33.6% for the first nine months of 2004. The effective tax rate for 2005 was impacted by a deferred tax asset valuation adjustment of \$0.2 million. This adjustment was due to a change in estimate impacting the expected allowable contribution carryovers to be utilized in 2005. The effective tax rate for 2004 is consistent with the applicable federal and state statutory tax rates.

Note 8

The Company follows Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for its stock option plans. Under APB Opinion No. 25, no compensation expense is recognized because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, the Company's net earnings and net earnings per share for the three and nine months ended September 30, 2005 and 2004 would have been the pro forma amounts indicated below.

Note 8 (continued)

	Three Months Ended September 30,	
	2005	2004
Net earnings		
As reported	\$ 2,702,969	\$ 1,894,140
Deduct: Compensation expense - fair value method		(5,753)
Add: Income tax benefit for disqualifying dispositions associated with incentive stock options previously expensed.	26,176	416,168
<i>Pro forma</i>	\$ 2,729,145	\$ 2,304,555
Basic net earnings per share		
As reported	\$ 0.22	\$ 0.15
<i>Pro forma</i>	0.22	0.19
Diluted net earnings per share		
As reported	\$ 0.21	\$ 0.15
<i>Pro forma</i>	0.21	0.18

Nine Months Ended September 30,

	2005	2004
Net earnings		
As reported	\$ 7,305,967	\$ 5,487,024
Deduct: Compensation expense - fair value method	(37,192)	(117,025)
Add: Income tax benefit for disqualifying dispositions associated with incentive stock options previously expensed.	158,456	577,221
<i>Pro forma</i>	\$ 7,427,231	\$ 5,947,220
Basic net earnings per share		
As reported	\$ 0.58	\$ 0.45
<i>Pro forma</i>	0.59	0.48
Diluted net earnings per share		
As reported	\$ 0.57	\$ 0.43
<i>Pro forma</i>	0.58	0.47

On September 30, 2005 the Company granted 86,700 shares of restricted stock which will vest over a three-year period.

Note 9

Sales and other financial information by business segment are as follows:

Three Months Ended September 30, 2005

(amounts in thousands)

	Business Segments			Consolidated
	Chassis	EVTeam	Other	
Motorhome chassis sales	\$ 46,553			\$ 46,553
Fire truck chassis sales	24,438		\$ (4,377)	20,061
EVTeam product sales	--	\$ 15,474	--	15,474
Other sales	7,227	--	--	7,227
Total Net Sales	\$ 78,218	\$ 15,474	\$ (4,377)	\$ 89,315
Interest expense	--	223	(193)	30
Depreciation expense	291	292	100	683
Income tax expense (credit)	2,510	(721)	45	1,834
Segment earnings (loss)	4,670	(1,401)	(566)	2,703
Segment assets	48,685	49,507	29,231	127,423

Three Months Ended September 30, 2004

(amounts in thousands)

Business Segments

	Chassis	EVTeam	Other	Consolidated
Motorhome chassis sales	\$ 59,650			\$ 59,650
Fire truck chassis sales	20,359		\$ (2,661)	17,698
EVTeam product sales	--	\$ 12,410		12,410
Other sales	1,910	--	--	1,910
Total Net Sales	\$ 81,919	\$ 12,410	\$ (2,661)	\$ 91,668
Interest expense	(1)	(225)	126	(100)
Depreciation expense	224	236	108	568
Income tax expense (credit)	1,896	(759)	(170)	967
Segment earnings (loss)	3,355	(1,266)	(195)	1,894
Segment assets	49,213	42,135	23,313	114,661

Note 9 (continued)Nine Months Ended September 30, 2005
(amounts in thousands)

	Business Segments			Consolidated
	Chassis	EVTeam	Other	
Motorhome chassis sales	\$ 153,246			\$ 153,246
Fire truck chassis sales	63,279		\$ (10,941)	52,338
EVTeam product sales	--	\$ 49,051	--	49,051
Other sales	12,922	--	--	12,922
Total Net Sales	\$ 229,447	\$ 49,051	\$ (10,941)	\$ 267,557
Interest expense	--	672	(566)	106
Depreciation expense	741	863	313	1,917
Income tax expense (credit)	6,206	(1,683)	(108)	4,415
Segment earnings (loss)	11,437	(3,284)	(847)	7,306
Segment assets	48,685	49,507	29,231	127,423

Nine Months Ended September 30, 2004
(amounts in thousands)

Business Segments

	Chassis	EVTeam	Other	Consolidated
	_____	_____	_____	_____
Motorhome chassis sales	\$ 137,656			\$ 137,656
Fire truck chassis sales	59,754		\$ (10,188)	49,566
EVTeam product sales	--	\$ 39,472		39,472
Other sales	5,285	--	--	5,285
	_____	_____	_____	_____
Total Net Sales	\$ 202,695	\$ 39,472	\$ (10,188)	\$ 231,979
	_____	_____	_____	_____
Interest expense	(9)	(637)	340	(306)
Depreciation expense	666	703	317	1,686
Income tax expense (credit)	5,001	(1,802)	(428)	2,771
Segment earnings (loss)	8,875	(2,961)	(427)	5,487
Segment assets	49,213	42,135	23,313	114,661

Note 10

New and Pending Accounting Pronouncements. In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), which replaces SFAS No. 123 and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative. The Company is required to adopt SFAS No. 123R no later than January 1, 2006. Under SFAS No. 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The permitted transition methods include either retrospective or prospective adoption. Under the retrospective option, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options at the beginning of the first quarter of adoption of SFAS No. 123R, while the retrospective methods would record compensation expense for all unvested stock options beginning with the first period presented. The Company believes the adoption of SFAS No. 123(R) will have an impact on the Company's consolidated results of operations and financial position but has not yet determined whether adoption will result in compensation expense materially different than the amounts disclosed in Note 8 above to the condensed consolidated financial statements included in Item 1 of this Form 10-Q.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs an amendment of ARB No. 43, Chapter 4*. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, handling costs and wasted material (spoilage). Among other provisions, the new rule requires that such items be recognized as current-period charges, regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The Company does not expect that adoption of SFAS No. 151 will have a material effect on its consolidated financial position, consolidated results of operations, or liquidity.

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

The following is a discussion of the major elements impacting the Company's financial and operating results for the three- and nine-month periods ended September 30, 2005 compared to the three- and nine-month periods ended September 30, 2004. The comments that follow should be read in conjunction with the Company's condensed consolidated financial statements and related notes contained in this Form 10-Q.

RESULTS OF OPERATIONS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Sales	100.0%	100.0%	100.0%	100.0%
Cost of product sold	84.9%	87.8%	85.9%	86.3%
Gross profit	15.1%	12.2%	14.1%	13.7%
Operating expenses:				
Research and development	2.7%	2.3%	2.6%	2.5%
Selling, general, and administrative	7.6%	6.8%	7.3%	7.7%
Operating income	4.8%	3.1%	4.2%	3.5%
Other income (expense)	0.3%	0.0%	0.2%	0.1%
Earnings before taxes on income	5.1%	3.1%	4.4%	3.6%

Taxes on income	2.1%	1.0%	1.7%	1.2%
	_____	_____	_____	_____
Net earnings	3.0%	2.1%	2.7%	2.4%
	_____	_____	_____	_____

Quarter Ended September 30, 2005, Compared to the Quarter Ended September 30, 2004

For the three months ended September 30, 2005, consolidated sales decreased \$2.4 million (2.6%) to \$89.3 million, from \$91.7 million in the third quarter of 2004. Chassis Group sales for this period decreased by \$3.7 million (4.5%) to \$78.2 million, from \$81.9 million in the third quarter of 2004. This decrease was due to lower sales of motorhome chassis. During the third quarter of 2005, motorhome chassis sales were \$13.1 million (22.0%) lower than in the third quarter of 2004. This decrease was due primarily to the Chassis Group having lost certain business from one of its top customers and an overall softening in the motorhome market.

Fire truck chassis sales in the third quarter of 2005 increased \$4.0 million (19.6%) to \$24.4 million, from \$20.4 million in the same period of 2004. The fire truck market remains strong in 2005, with a continuing focus by fire departments on making sure their equipment is sufficient to respond to the variety of emergencies that are on their growing list of responsibilities.

EVTeam sales increased by \$3.1 million (24.7%) during the third quarter of 2005 compared with the prior year's third quarter. Road Rescue sales were up by \$1.0 million (18.9%), Crimson Fire's sales were up by \$2.1 million (30.1%) and Crimson Fire Aerials sales were down by \$.01 million (5.7%). The increase at Road Rescue was due primarily to a higher production run rate. Crimson Fire's sales were higher due primarily to improved production throughput.

Gross margin increased from 12.2% for the quarter ended September 30, 2004 to 15.1% for the same period of 2005. This increase is due primarily to an improved product sales mix due to the increased sales of fire truck chassis and the new sales of military vehicles chassis. Also contributing to the improved gross margin is a decrease in steel surcharges quarter to quarter.

Operating expenses as a percentage of sales increased from 9.1% for the third quarter of 2004 to 10.3% for the third quarter of 2005. This increase is due primarily to a lower sales level and increased incentive bonuses based on the improved results when comparing the third quarter of 2005 to the third quarter of 2004.

The effective income tax rate was 42.4% in the third quarter of 2005 and 33.8% in the third quarter of 2004. The effective tax rate for the third quarter of 2005 was impacted by a deferred tax asset valuation adjustment of \$0.2 million. This adjustment was due to a reduction in the expected allowable contribution carryovers that are to be utilized in 2005. The effective tax rate for 2004 is consistent with the applicable federal and state statutory tax rates.

Net earnings increased to \$2.7 million (\$0.21 per diluted share) in the third quarter of 2005 from \$1.9 million (\$0.15 per diluted share) in the third quarter of 2004 as a result of the factors discussed above.

Total chassis orders received during the third quarter of 2005 decreased 37.1% compared to the same period in 2004. This reflects a 46.6% decrease in motorhome chassis orders combined with a 60.4% increase in fire truck chassis orders. Based on average order lead-time, the Company estimates that approximately one-third of the motorhome and none of the fire truck chassis orders received during the three-month period ended September 30, 2005 were produced and delivered by September 30, 2005.

At September 30, 2005, the Company had \$146.7 million in backlog, compared with a backlog of \$106.5 million at September 30, 2004. This reflects an increase in Chassis Group backlog of \$26.6 million, or 44.9%, combined with an increase in EVTeam backlog of \$13.6 million, or 28.8%.

While orders in the backlog are subject to modification, cancellation or rescheduling by customers, the Company has not experienced significant modification, cancellation or rescheduling of orders in the past. Although the backlog of unfilled orders is one of many indicators of market demand, several factors, such as changes in production rates, available capacity, new product introductions and competitive pricing actions, may affect actual sales. Accordingly, a comparison of backlog from period to period is not necessarily indicative of eventual actual shipments.

Nine-Month Period Ended September 30, 2005, Compared to the Nine-Month Period Ended September 30, 2004

For the nine months ended September 30, 2005, consolidated sales increased \$35.6 million (15.3%) to \$267.6 million, from \$232.0 million in the first nine months of 2004. Chassis Group sales for this period increased by \$26.8 million (13.2%). The majority of this increase was due to higher sales of motorhome chassis. During the first nine months of 2005, motorhome chassis sales were \$15.6 million (11.3%) higher than during the same period of 2004. This increase was due primarily to the fact that the Chassis Group had secured additional business from its two largest customers and production related to this additional business began late in the second quarter of 2004.

Coupled with the increase in motorhome chassis sales was an increase in fire truck chassis sales. Fire truck chassis sales in the first nine months of 2005 were up \$3.5 million (5.9%) over the same period of 2004, which was a record period for the Company's fire truck sales. The fire truck market remains strong in 2005, with a continuing focus by fire departments on making sure their equipment is sufficient to respond to the variety of emergencies that are on their growing list of responsibilities.

EVTeam sales in the first nine months of 2005 increased by \$9.6 million, or 24.3%, from the first nine months of 2004. Road Rescue sales were up by \$5.4 million (40.6%), Crimson Fire Aerials sales were up by \$1.0 million (284.5%) and Crimson Fire's sales were up by \$3.2 million (12.3%). The increase at Road Rescue was due to the production ramp up to a higher run rate. Crimson Fire Aerials, a newly formed corporation in 2003, had minimal sales in the first nine months of 2004. Crimson Fire's sales were higher due to improved production throughput.

Gross margin increased from 13.7% for the nine months ended September 30, 2004 to 14.1% for the same period of 2005. This increase is due to higher gross margins at the Chassis Group. The Chassis Group increase is due primarily to an improved product sales mix due to the increased sales of fire truck chassis and new sales of military vehicles chassis offset by an increase in steel surcharges. The EVTeam experienced a decrease in margins, due in part to the negative impact of physical inventory and other costing adjustments.

Operating expenses as a percentage of sales decreased from 10.2% for the nine months ended September 30, 2004 to 9.9% for same period in 2005. This decrease is primarily due to higher sales levels coupled with a Company focus on keeping the base operating expense level low.

The effective income tax rate was 37.7% for the first nine months of 2005 and 33.6% for the same period in 2004. The effective tax rate for the third quarter of 2005 was impacted by a deferred tax asset valuation adjustment of \$0.2 million. This adjustment was due to a reduction in the expected allowable contribution carryovers that are to be utilized in 2005. The 2004 rate differs from federal and state statutory tax rates primarily as a result of a reduction in the capital loss valuation allowance for the amount that was realized on the gain on disposal of the Company's building in Mexico.

Total chassis orders received during the first nine months of 2005 increased 7.1% compared to the same period in 2004. This is due to a 4.8% decrease in motorhome chassis orders combined with a 45.4% increase in fire truck chassis orders. Based on average order lead-time, the Company estimates that approximately eighty percent of the motorhome and thirty percent of the fire truck chassis orders received during the nine month period ended September 30, 2005 were produced and delivered by September 30, 2005.

At September 30, 2005, the Company had \$146.7 million in backlog, compared with a backlog of \$106.5 million at September 30, 2004. This was due to an increase in Chassis Group backlog of \$26.6 million, or 44.9%, combined with an increase in EVTeam backlog of \$13.6 million, or 28.8%.

While orders in the backlog are subject to modification, cancellation or rescheduling by customers, the Company has not experienced significant modification, cancellation or rescheduling of orders in the past. Although the backlog of unfilled orders is one of many indicators of market demand, several factors, such as changes in production rates, available capacity, new product introductions and competitive pricing actions, may affect actual sales. Accordingly, a comparison of backlog from period to period is not necessarily indicative of eventual actual shipments.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended September 30, 2005, cash provided by operating activities was \$7.8 million, which was a \$9.3 million change from the \$1.5 million of cash used by operating activities for the nine months ended September 30, 2004. See the Condensed Consolidated Statements of Cash Flows contained in Item 1 of this Form 10-Q for further details. The cash on hand at December 31, 2004, cash provided by operations of \$7.8 million, cash proceeds from sales of marketable securities of \$1.5 million, cash proceeds from long-term debt \$1.2 million and cash provided from the exercise of stock options of \$0.8 million allowed the Company to fund \$2.0 million in property, plant and equipment purchases, to purchase \$2.0 million of short-term investments, to repurchase \$1.0 million of the Company's stock and to pay a dividend of \$1.4 million. The Company's working capital increased \$6.5 million from \$44.0 million at December 31, 2004 to \$50.5 million at September 30, 2005. Cash and cash equivalents increased \$4.9 million, from \$10.5 million at December 31, 2004 to \$15.4 million at September 30, 2005.

Shareholders' equity increased \$5.9 million in the nine months ended September 30, 2005 to \$73.4 million from \$67.5 million at December 31, 2004. This change resulted from the \$7.3 million in net comprehensive income of the Company and the receipt of \$1.0 million from the exercise of stock options including the corresponding tax benefit net with \$1.0 million for the repurchase of Company stock and \$1.4 million for the payment of a dividend.

On April 26, 2005, the Board of Directors authorized management to repurchase up to a total of 500,000 shares of its common stock in open market transactions. Repurchase of common stock is contingent upon market conditions. The authorization for this repurchase program expires on April 26, 2006. If the Company were to repurchase the 500,000 shares of stock at current prices, this would cost the Company approximately \$5.3 million. The Company believes that it has sufficient cash reserves to fund this stock buyback.

The Company's primary line of credit is a \$15.0 million revolving note payable to a bank that expires on May 31, 2007. The Company expects to extend or refinance this line of credit in 2007. There were no borrowings under this line at September 30, 2005. Under the terms of the line of credit agreement, the Company is required to maintain certain financial ratios and other financial conditions. The agreement also prohibits the Company from incurring additional indebtedness, limits certain acquisitions, investments, advances or loans, and restricts substantial asset sales. At September 30, 2005, the Company was in compliance with all debt covenants.

The Company also has a secured line of credit for \$0.2 million. The \$0.2 million line carries an interest rate of 1% above the bank's prime rate (prime rate at September 30, 2005 was 6.75%) and has an expiration date of May 31, 2007. This line of credit is secured by accounts receivable, inventory and equipment. There were no borrowings under this line at September 30, 2005.

The Company also has a secured mortgage note for \$150,000. The mortgage note carries an interest rate of 3.00% and is payable in monthly installments of \$834 with the balance due March 1, 2009. This mortgage note is secured by land.

The Company also has a secured mortgage note for \$1,250,000. The mortgage note carries an interest rate of 3.00% and is payable in monthly installments of \$6,933 with the balance due July 1, 2010. This mortgage note is secured by a building.

The Company believes it has sufficient resources from cash flows from operating activities and, if necessary, from borrowings under its lines of credit to satisfy ongoing cash requirements for the next 12 months. Proceeds from existing credit facilities and anticipated renewals, along with cash flows from operations, are expected to be sufficient to meet capital needs in the foreseeable future.

CRITICAL ACCOUNTING POLICIES

The following discussion of accounting policies is intended to supplement Note 1, General and Summary of Accounting Policies, of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2005. These policies were selected because they are broadly applicable within the Company's 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 - The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. Accordingly, revenue is recognized when title to the product and risk of ownership passes to the buyer. This occurs when the unit has been completed in accordance with purchase order specifications and has been tendered for delivery to the customer. Sales are shown net of returns, discounts and sales incentives, which historically have not been significant. The collectibility of any related receivable is reasonably assured before revenue is recognized.

Inventory - Estimated inventory allowances for slow-moving and obsolete inventory are based upon current assessments about future demands, market conditions and related management initiatives. If market conditions are less favorable than those projected by management, additional inventory allowances may be required.

Warranties - The Company's policy is to record a provision for the estimated cost of warranty-related claims at the time of the sale, and periodically adjust the provision to reflect actual experience. The amount of warranty liability accrued reflects management's best estimate of the expected future cost of honoring the Company's obligations under the warranty agreements. The Company's estimates are based on historical experience, the number of units involved and the extent of features and components included in product models. See also Note 5 to the condensed consolidated financial statements included in Item 1 of this Form 10-Q.

NEW AND PENDING ACCOUNTING POLICIES

See Note 10 to the condensed consolidated financial statements included in Item 1 of this Form 10-Q.

EFFECT OF INFLATION

Inflation affects the Company in two principal ways. First, the Company's debt, if any, is tied to the prime and LIBOR interest rates so that increases in those interest rates would be translated into additional interest expense. Second, general inflation impacts prices paid for labor, parts and supplies. Whenever possible, the Company attempts to cover increased costs of production and capital by adjusting the prices of its products. However, the Company generally does not attempt to negotiate inflation-based price adjustment provisions into its contracts. Since order lead times can be as much as six months, the Company has limited ability to pass on cost increases to its customers on a short-term basis. In addition, the markets the Company serves are competitive in nature, and competition limits the Company's ability to pass through cost increases in many cases. The Company strives to minimize the effects of inflation through cost reductions and improved productivity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company's primary market risk exposure is a change in interest rates in connection with its outstanding variable rate short-term and long-term debt. However, at September 30, 2005, the Company had no debt outstanding under its variable rate short-term and long-term debt agreements. The Company does not enter into market risk sensitive instruments for trading purposes.

Item 4. Controls and Procedures.

An evaluation was performed under the supervision and with the participation of the Company's Management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of September 30, 2005. Based on the evaluation required by Rule 13a-15(b), the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were adequate and effective as of September 30, 2005. During the Company's third fiscal quarter ended September 30, 2005, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

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>
3.1	Spartan Motors, Inc. Restated Articles of Incorporation, as amended to date. Previously filed as an exhibit to the Company's Form 10-Q Quarterly Report for the period ended March 31, 2005, and incorporated herein by reference.
3.2	Spartan Motors, Inc. Bylaws, as amended to date. Previously filed as an exhibit to the Company's Form 10-Q Quarterly Report for the period ended March 31, 2003, and incorporated herein by reference.
10.1	Form of Restricted Stock Agreement. Previously filed as an exhibit to the Company's Form 10-Q Quarterly Report for the period ended June 30, 2005, and incorporated herein by reference.*
10.2	Form of Stock Appreciation Rights Agreement. Previously filed as an exhibit to the Company's Form 10-Q Quarterly Report for the period ended June 30, 2005, and incorporated herein by reference.*
10.3	Spartan Motors, Inc. Stock Incentive Plan of 2005.*

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.

*Management contract or compensatory plan or arrangement.

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 9, 2005

SPARTAN MOTORS, INC.

By /s/ James W. Knapp

James W. Knapp
Chief Financial Officer, Senior Vice President,
Secretary and Treasurer
(Principal Accounting and Financial Officer and
duly authorized signatory for the registrant)

EXHIBIT INDEX

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SPARTAN MOTORS, INC.
STOCK INCENTIVE PLAN OF 2005

Effective May 24, 2005

As amended July 26, 2005

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SPARTAN MOTORS, INC.
STOCK INCENTIVE PLAN OF 2005

SECTION 1

Establishment of Plan; Purpose of Plan

1.1 Establishment of Plan. The Company hereby establishes the STOCK INCENTIVE PLAN OF 2005 (the "Plan") for its directors, corporate, divisional and Subsidiary officers and other key employees. The Plan permits the grant and award of Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units and Stock Awards.

1.2 Purpose of Plan. The purpose of the Plan is to provide directors, officers and other key employees of the Company, its divisions and its Subsidiaries with an increased incentive to contribute to the long-term performance and growth of the Company and its Subsidiaries, to join the interests of directors, officers and other key employees with the interests of the Company's shareholders through the opportunity for increased stock ownership and to attract and retain directors, officers and other key employees. The Plan is further intended to provide flexibility to the Company in structuring long-term incentive compensation to best promote the foregoing objectives. Within that context, it is intended that most awards of Stock Options under the Plan are to provide performance-based compensation under Section 162(m) of the Code and the Plan shall be interpreted, administered and amended if necessary to achieve that purpose.

SECTION 2

Definitions

The following words have the following meanings unless a different meaning plainly is required by the context:

2.1 "Act" means the Securities Exchange Act of 1934, as amended.

2.2 "Board" means the Board of Directors of the Company.

2.3 "Change in Control," unless otherwise defined in an Incentive Award, means (a) the failure of the Continuing Directors at any time to constitute at least a majority of the members of the Board; (b) the acquisition by any Person other than an Excluded Holder of beneficial ownership (within the meaning of Rule 13d-3 issued under the Act) of 35% or more of the outstanding Common Stock or the combined voting power of the Company's outstanding securities entitled to vote generally in the election of directors; (c) the approval by the shareholders of the Company of a reorganization, merger or consolidation, unless with or into a Permitted Successor; or (d) the approval by the shareholders of the Company of the sale or

disposition of all or substantially all of the assets of the Company other than to a Permitted Successor.

2.4 "Code" means the Internal Revenue Code of 1986, as amended.

2.5 "Committee" means the Compensation Committee of the Board or such other committee as the Board may designate from time to time. The Committee shall consist of at least 2 members of the Board and all of its members shall be Non-Employee Directors and "outside directors" as defined in the regulations issued under Section 162(m) of the Code.

2.6 "Common Stock" means the Common Stock, \$.01 par value, of the Company.

2.7 "Company" means Spartan Motors, Inc., a Michigan corporation, and its successors and assigns.

2.8 "Competition" means participation, directly or indirectly, in the ownership, management, financing or control of any business that is the same as or similar to the present or future businesses of the Company or any Subsidiary. Such participation may be by way of employment, consulting services, directorship or officership. Ownership of less than 3% of the shares of any corporation whose shares are traded publicly on any national or regional stock exchange or over the counter shall not be deemed Competition.

2.9 "Continuing Directors" mean the individuals constituting the Board as of the date this Plan was adopted and any subsequent directors whose election or nomination for election by the Company's shareholders was approved by a vote of three-quarters (3/4) of the individuals who are then Continuing Directors, but specifically excluding any individual whose initial assumption of office occurs as a result of either an actual or threatened solicitation subject to Rule 14a-12(c) of Regulation 14A issued under the Act or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

2.10 "Disability" means: (a) a Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or (b) a Participant is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of Company.

2.11 "Employee Benefit Plan" means any plan or program established by the Company or a Subsidiary for the compensation or benefit of employees of the Company or any of its Subsidiaries.

2.12 "Excluded Holder" means (a) any Person who at the time this Plan was adopted was the beneficial owner of 10% or more of the outstanding Common Stock; or (b) the Company, a Subsidiary or any Employee Benefit Plan of the Company or a Subsidiary or any

trust holding Common Stock or other securities pursuant to the terms of an Employee Benefit Plan.

2.13 "Incentive Award" means the award or grant of a Stock Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit or Stock Award to a Participant pursuant to the Plan.

2.14 "Market Value" shall equal the closing price of Common Stock reported on Nasdaq on the date of grant, exercise or vesting, as applicable, or if Nasdaq is closed on that date, the last preceding date on which Nasdaq was open for trading and on which shares of Common Stock were traded. If the Common Stock is not listed on Nasdaq, the Market Value shall be determined by any means deemed fair and reasonable by the Committee, which determination shall be final and binding on all parties.

2.15 "Mature Shares" means shares of Common Stock that a Participant has owned for at least six months and that meet any other holding requirements established by the Committee for the shares to be used for attestation.

2.16 "Nasdaq" means the NASDAQ National Market, or if the Common Stock is not listed for trading on the on the NASDAQ National Market on the date in question, then such other United States-based quotation system or stock exchange on which the Common Stock may be traded on the date in question.

2.17 "Non-Employee Directors" shall mean individuals who qualify as such within the meaning of Rule 16b-3 under the Exchange Act (or any successor definition thereto).

2.18 "Participant" means a director, corporate officer, divisional officer or any key employee of the Company, its divisions or its Subsidiaries who the Committee determines is eligible to participate in the Plan and who is designated to be granted an Incentive Award under the Plan.

2.19 "Permitted Successor" means a company that, immediately following the consummation of a transaction specified in clauses (c) and (d) of the definition of "Change in Control" above, satisfies each of the following criteria: (a) 50% or more of the outstanding common stock of the company and the combined voting power of the outstanding securities of the company entitled to vote generally in the election of directors (in each case determined immediately following the consummation of the applicable transaction) is beneficially owned, directly or indirectly, by all or substantially all of the Persons who were the beneficial owners of the outstanding Common Stock and outstanding securities entitled to vote generally in the election of directors (respectively) immediately prior to the applicable transaction; (b) no Person other than an Excluded Holder beneficially owns, directly or indirectly, 10% or more of the outstanding common stock of the company or the combined voting power of the outstanding securities of the company entitled to vote generally in the election of directors (for these purposes the term Excluded Holder shall include the company, any subsidiary of the company and any employee benefit plan of the company or any such subsidiary or any trust holding

common stock or other securities of the company pursuant to the terms of any such employee benefit plan); and (c) at least a majority of the board of directors of the company is comprised of Continuing Directors.

2.20 "Person" has the same meaning as set forth in Sections 13(d) and 14(d)(2) of the Act.

2.21 "Restricted Period" means the period of time during which Restricted Stock or Restricted Stock Units awarded under the Plan are subject to the risk of forfeiture, restrictions on transfer and other restrictions and/or conditions pursuant to Section 7. The Restricted Period may differ among Participants and may have different expiration dates with respect to shares of Common Stock covered by the same Incentive Award.

2.22 "Restricted Stock" means Common Stock awarded to a Participant pursuant to Section 7 of the Plan.

2.23 "Restricted Stock Unit" means an award to a Participant pursuant to Section 7 of the Plan as described in Section 7.

2.24 "Retirement" means any of the following: (a) the voluntary termination by a Participant of all employment with the Company, (b) the fulfillment of the term for which a director of the Company was elected followed by that director standing for re-election at a meeting of the Company's shareholders and failing to be re-elected, or (c) the fulfillment of the term for which a director of the Company was elected followed by that director not standing for re-election (as applicable) after the Participant has attained 62 years of age, or such other age as shall be determined by the Committee in its sole discretion or as otherwise may be set forth in the Incentive Award agreement or other grant document with respect to a Participant and a particular Incentive Award.

2.25 "Stock Appreciation Right" or "SAR" means a right awarded to a Participant pursuant to Section 6 of the Plan, which shall entitle the Participant to receive cash, Common Stock, other property or a combination thereof, as determined by the Committee, having a value on the date the SAR is exercised equal to the excess of (a) the Market Value of a share of Common Stock at the time of exercise over (b) the base price of the right, as established by the Committee on the date the award is granted.

2.26 "Stock Award" means an award of Common Stock awarded to a Participant pursuant to Section 8 of the Plan.

2.27 "Stock Option" means the right to purchase Common Stock at a stated price for a specified period of time. For purposes of the Plan, a Stock Option may be either an incentive stock option within the meaning of Section 422(b) of the Code or a nonqualified stock option.

2.28 "Subsidiary" means any corporation or other entity of which 50% or more of the outstanding voting stock or voting ownership interest is directly or indirectly owned or controlled by the Company or by one or more Subsidiaries of the Company.

SECTION 3

Administration

3.1 Power and Authority. The Committee shall administer the Plan. The Committee may delegate record keeping, calculation, payment and other ministerial administrative functions to individuals designated by the Committee, who may be officers or employees of the Company or its Subsidiaries. Except as limited in this Plan or as may be necessary to ensure that this Plan provides performance-based compensation under Section 162(m) of the Code, the Committee shall have all of the express and implied powers and duties set forth in the Bylaws of the Company and this Plan, shall have full power and authority to interpret the provisions of the Plan and Incentive Awards granted under the Plan and shall have full power and authority to supervise the administration of the Plan and Incentive Awards granted under the Plan and to make all other determinations and do all things considered necessary or advisable for the administration of the Plan. All determinations, interpretations and selections made by the Committee regarding the Plan shall be final and conclusive. The Committee shall hold its meetings at such times and places as it considers advisable. Action may be taken by a written instrument signed by all of the members of the Committee and any action so taken shall be fully as effective as if it had been taken at a meeting duly called and held. The Committee shall make such rules and regulations for the conduct of its business as it considers advisable.

3.2 Grants or Awards to Participants. In accordance with and subject to the provisions of the Plan, the Committee shall have the authority to determine all provisions of Incentive Awards as the Committee may consider necessary or desirable and as are consistent with the terms of the Plan, including, without limitation, the following: (a) the persons who shall be selected as Participants; (b) the nature and, subject to the limitations set forth in Sections 4.1 and 4.2 of the Plan, extent of the Incentive Awards to be made to each Participant (including the number of shares of Common Stock to be subject to each Incentive Award, any exercise or purchase price, the manner in which an Incentive Award will vest or become exercisable and the form of payment for the Incentive Award); (c) the time or times when Incentive Awards will be granted; (d) the duration of each Incentive Award; and (e) the restrictions and other conditions to which payment or vesting of Incentive Awards may be subject.

3.3 Amendments or Modifications of Awards. Subject to Section 11, the Committee shall have the authority to amend or modify the terms of any outstanding Incentive Award in any manner, provided that the amended or modified terms are not prohibited by the Plan as then in effect, including, without limitation, the authority to: (a) modify the number of shares or other terms and conditions of an Incentive Award; (b) extend the term of an Incentive Award; (c) accelerate the exercisability or vesting or otherwise terminate, waive or modify any restrictions relating to an Incentive Award; (d) accept the surrender of any outstanding Incentive

Award; and (e) to the extent not previously exercised or vested, authorize the grant of new Incentive Awards in substitution for surrendered Incentive Awards; *provided*, that Incentive Awards issued under the Plan may not be repriced, replaced, regranted through cancellation or modified without shareholder approval if the effect of such repricing, replacement, regrant or modification would be to reduce the exercise price or base price of such Incentive Awards to the same Participants.

3.4 Indemnification of Committee Members. Neither any member or former member of the Committee nor any individual to whom authority is or has been delegated shall be personally responsible or liable for any act or omission in connection with the performance of powers or duties or the exercise of discretion or judgment in the administration and implementation of the Plan. Each person who is or shall have been a member of the Committee shall be indemnified and held harmless by the Company from and against any cost, liability or expense imposed or incurred in connection with such person's or the Committee's taking or failing to take any action under the Plan. Each such person shall be justified in relying on information furnished in connection with the Plan's administration by any appropriate person or persons.

SECTION 4

Shares Subject to the Plan

4.1 Number of Shares. Subject to adjustment as provided in Section 4.3 of the Plan, the total number of shares of Common Stock available for Incentive Awards under the Plan shall be 600,000 shares of Common Stock; plus shares subject to Incentive Awards that are canceled, surrendered, modified, exchanged for substitute Incentive Awards or expire or terminate prior to the exercise or vesting of the Incentive Award in full and shares that are surrendered to the Company in connection with the exercise or vesting of an Incentive Award, whether previously owned or otherwise subject to such Incentive Award; *provided*, that not more than 50% of the shares authorized for issuance under the Plan pursuant to this Section 4.1 may be issued as Stock Awards, Restricted Stock or Restricted Stock Units. Such shares shall be authorized and may be either unissued shares, shares issued and repurchased by the Company (including shares purchased on the open market), shares issued and otherwise reacquired by the Company and shares otherwise held by the Company.

4.2 Limitation Upon Incentive Awards. No Participant shall be granted, during any calendar year, Incentive Awards with respect to more than 125,000 shares of Common Stock, subject to adjustment as provided in Section 4.3 of the Plan, but only to the extent that such adjustment will not affect the status of any Incentive Award theretofore issued or that may thereafter be issued as "performance based compensation" under Section 162(m) of the Code. A purpose of this Section 4.2 is to ensure that the Plan may provide performance-based compensation under Section 162(m) of the Code and this Section 4.2 shall be interpreted, administered and amended if necessary to achieve that purpose.

4.3 Adjustments.

(a) **Stock Dividends and Distributions.** If the number of shares of Common Stock outstanding changes by reason of a stock dividend, stock split, recapitalization or other general distribution of Common Stock or other securities to holders of Common Stock, the Committee shall provide that the number and kind of securities available for Incentive Awards and reserved for issuance under the Plan and the limitation provided in Section 4.2, together with applicable exercise prices and base prices, as well as the number and kind of securities available for issuance under the Plan, shall be adjusted in such manner and at such time as it determines shall be appropriate under the circumstances. No fractional shares shall be issued pursuant to the Plan and any fractional shares resulting from such adjustments shall be eliminated from the respective Incentive Awards.

(b) **Other Actions Affecting Common Stock.** If there occurs, other than as described in the preceding subsection, any merger, business combination, recapitalization, reclassification, subdivision or combination approved by the Board that would result in the Persons who were shareholders of the Company immediately prior to the effective time of any such transaction owning or holding, in lieu of or in addition to shares of Common Stock, other securities, money and/or property (or the right to receive other securities, money and/or property) immediately after the effective time of such transaction, then the Committee shall provide that the outstanding Incentive Awards (including exercise prices and base prices) and reserves for Incentive Awards under this Plan shall be adjusted in such manner and at such time as it determines shall be appropriate under the circumstances. It is intended that in the event of any such transaction, Incentive Awards under this Plan shall entitle the holder of each Incentive Award to receive (upon exercise in the case of Stock Options and SARs), in lieu of or in addition to shares of Common Stock, any other securities, money and/or property receivable upon consummation of any such transaction by holders of Common Stock with respect to each share of Common Stock outstanding immediately prior to the effective time of such transaction; upon any such adjustment, holders of Incentive Awards under this Plan shall have only the right to receive in lieu of or in addition to shares of Common Stock such other securities, money and/or other property as provided by the adjustment. If the agreement, resolution or other document approved by the Board to effect any such transaction provides for the adjustment of Incentive Awards under the Plan in connection with such transaction, then the adjustment provisions contained in such agreement, resolution or other document shall be final and conclusive.

SECTION 5

Stock Options

5.1 **Grant.** A Participant may be granted one or more Stock Options under the Plan. No Participant shall have any rights as a shareholder with respect to any shares of stock subject

to Stock Options granted hereunder until said shares have been issued. Stock Options shall be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. In addition, the Committee may vary, among Participants and among Stock Options granted to the same Participant, any and all of the terms and conditions of the Stock Options granted under the Plan. Subject to the limitation imposed by Section 4.2 of the Plan, the Committee shall have complete discretion in determining the number of Stock Options granted to each Participant. The Committee may designate whether or not a Stock Option is to be considered an incentive stock option as defined in Section 422(b) of the Code; *provided*, that the number of shares of Common Stock that may be designated as subject to incentive stock options for any given Participant shall be limited to that number of shares that become exercisable for the first time by the Participant during any calendar year (under all plans of the Company and its Subsidiaries) and have an aggregate Market Value less than or equal to \$100,000 (or such other amount as may be set forth in the Code) and all shares subject to an Incentive Award that have a Market Value in excess of such aggregate amount shall automatically be subject to Stock Options that are not incentive stock options. Stock Options granted to directors who are not employees of the Company or its Subsidiaries shall not be treated as incentive stock options under Section 422(b) of the Code.

5.2 Stock Option Agreements Stock Options shall be evidenced by stock option agreements and/or certificates of award containing the terms and conditions applicable to such Stock Options. To the extent not covered by the stock option agreement, the terms and conditions of this Section 5 shall govern.

5.3 Stock Option Price. The per share Stock Option exercise price shall be determined by the Committee, but shall be a price that is equal to or greater than 100% of the Market Value on the date of grant. The date of grant of a Stock Option shall be the date the Stock Option is authorized by the Committee or a future date specified by the Committee as the date for issuing the Stock Option.

5.4 Medium and Time of Payment. The exercise price for each share purchased pursuant to a Stock Option granted under the Plan shall be payable in cash or, if the Committee consents or provides in the applicable stock option agreement or grant, in Mature Shares or other consideration substantially equivalent to cash. The time and terms of payment may be amended with the consent of a Participant before or after exercise of a Stock Option. The Committee may implement a program for the broker-assisted cashless exercise of Stock Options.

5.5 Stock Options Granted to 10% Shareholders. No Stock Option granted to any Participant who at the time of such grant owns, together with stock attributed to such Participant under Section 424(d) of the Code, more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries may be designated as an incentive stock option, unless such Stock Option provides an exercise price equal to at least 110% of the Market Value on the date of grant and the exercise of the Stock Option after the expiration of five years from the date of grant of the Stock Option is prohibited by its terms.

5.6 Limits on Exercisability. Except as set forth in Section 5.5, Stock Options shall be exercisable for such periods, not to exceed 10 years from the date of grant, as may be fixed by the Committee. At the time of exercise of a Stock Option, the holder of the Stock Option, if requested by the Committee, must represent to the Company that the shares are being acquired for investment and not with a view to the distribution thereof. The Committee may in its discretion require a Participant to continue the Participant's service with the Company and its Subsidiaries for a certain length of time prior to a Stock Option becoming exercisable and may eliminate such delayed vesting provisions.

5.7 Restrictions on Transferability.

(a) General. Unless the Committee otherwise consents or permits (before or after the option grant) or unless the stock option agreement or grant provides otherwise, Stock Options granted under the Plan may not be sold, exchanged, transferred, pledged, assigned or otherwise alienated or hypothecated except by will or the laws of descent and distribution, and, as a condition to any transfer permitted by the Committee or the terms of the stock option agreement or grant, the transferee must execute a written agreement permitting the Company to withhold from the shares subject to the Stock Option a number of shares having a Market Value at least equal to the amount of any federal, state or local withholding or other taxes associated with or resulting from the exercise of a Stock Option. All provisions of a Stock Option that are determined with reference to the Participant, including without limitation those that refer to the Participant's employment with the Company or its Subsidiaries, shall continue to be determined with reference to the Participant after any transfer of a Stock Option.

(b) Other Restrictions. The Committee may impose other restrictions on any shares of Common Stock acquired pursuant to the exercise of a Stock Option under the Plan as the Committee deems advisable, including, without limitation, holding periods or further transfer restrictions, forfeiture or "claw-back" provisions, and restrictions under applicable federal or state securities laws.

5.8 Termination of Employment, Directorship or Officer Status. Unless the Committee otherwise consents or permits (before or after the option grant) or unless the stock option agreement or grant provides otherwise:

(a) General. If a Participant ceases to be a director of the Company or ceases to be employed by or an officer of the Company or one of its Subsidiaries for any reason other than the Participant's death, Disability, Retirement or termination for cause (which are addressed below in Subsections 5.8(b), (c), (d) and (e), respectively), the Participant may exercise his or her Stock Options in accordance with their terms for a period of three months after such termination of employment, directorship or officer status, but only to the extent the Participant was entitled to exercise the Stock Options on the date of termination unless the Committee otherwise consents or the terms of the stock option agreement provide otherwise, and not beyond the original terms of the Stock Options. For purposes of the Plan, the following shall not be considered a termination of

employment, or, where applicable, directorship or officer status: (i) a transfer of an employee from the Company to any Subsidiary; (ii) a leave of absence, duly authorized in writing by the Company, for military service or for any other purpose approved by the Company if the period of such leave does not exceed 90 days; (iii) a leave of absence in excess of 90 days, duly authorized in writing by the Company, provided that the employee's right to re-employment is guaranteed by statute, contract or written policy of the Company; (iv) a termination of employment with continued service as an officer or director; or (v) a termination of a directorship with continued service as an employee or officer. For purposes of the Plan, termination of employment shall be considered to occur on the date on which the employee is no longer obligated to perform services for the Company or any of its Subsidiaries and the employee's right to re-employment is not guaranteed by statute, contract or written policy of the Company, regardless of whether the employee continues to receive compensation from the Company or any of its Subsidiaries after such date.

(b) Death. If a Participant dies either while a director of the Company or an employee or officer of the Company or one of its Subsidiaries or after the termination of employment or directorship other than for cause (termination for cause is addressed below in Subsection 5.8(e)) but during the time when the Participant could have exercised a Stock Option, the Stock Options issued to such Participant shall be exercisable in accordance with their terms by the personal representative of such Participant or other successor to the interest of the Participant for one year after the Participant's death, but only to the extent that the Participant was entitled to exercise the Stock Options on the date of death or termination of employment or directorship, whichever first occurred, and not beyond the original terms of the Stock Options.

(c) Disability. If a Participant ceases to be a director of the Company or ceases to be an employee or officer of the Company or one of its Subsidiaries due to the Participant's Disability, the Participant may exercise his or her Stock Options in accordance with their terms for one year following such termination of employment or directorship, but only to the extent that the Participant was entitled to exercise the Stock Options on the date of such event and not beyond the original terms of the Stock Options.

(d) Participant Retirement. If a Participant Retires as a director of the Company or an employee or officer of the Company or one of its Subsidiaries, Stock Options granted under the Plan may be exercised in accordance with their terms during the remaining terms of the Stock Options.

(e) Termination for Cause. Notwithstanding anything to the contrary in this Section 5.8, if a Participant is terminated for cause, the Participant shall have no further right to exercise any Stock Options previously granted. For purposes of the Plan, the Committee or officers designated by the Committee shall have absolute discretion to determine whether a termination is for cause.

(f) **Additional Provisions in Stock Option Agreements.** The Committee may, in its sole discretion, provide by resolution or by including provisions in any stock option agreement entered into with a Participant that the Participant shall have no further right to exercise any Stock Options after termination of employment or directorship if the Committee determines the Participant has entered into Competition with the Company.

SECTION 6

Stock Appreciation Rights

6.1 Grant. A Participant may be granted one or more Stock Appreciation Rights under the Plan and such SARs will be subject to such terms and conditions, consistent with the other provisions of the Plan, as will be determined by the Committee in its sole discretion. A SAR may relate to a particular Stock Option and may be granted simultaneously with or subsequent to the Stock Option to which it relates. Except to the extent otherwise modified in the grant, (i) SARs not related to a Stock Option shall be granted subject to the same terms and conditions applicable to Stock Options as set forth in Section 5, and (ii) all SARs related to Stock Options granted under the Plan shall be granted subject to the same restrictions and conditions and shall have the same vesting, exercisability, forfeiture and termination provisions as the Stock Options to which they relate. SARs may be subject to additional restrictions and conditions. The per-share base price for exercise or settlement of SARs shall be determined by the Committee, but shall be a price that is equal to or greater than the Market Value of such shares on the date of the grant.

6.2 Exercise; Payment. To the extent granted in tandem with a Stock Option, SARs may be exercised only when a related Stock Option could be exercised and only when the Market Value of the stock subject to the Stock Option exceeds the exercise price of the Stock Option. Unless the Committee decides otherwise (in its sole discretion), SARs will only be paid in cash or in shares of Common Stock. Other than as adjusted pursuant to Section 4.3, the base price of SARs may not be reduced without shareholder approval (including canceling previously awarded SARs and regranting them with a lower base price).

6.3 Annual Grant to Non-Employee Directors. Subject to the limitation imposed by Section 4.2 and the adjustments provided for by Section 4.3, and in lieu of all Stock Options to be granted to non-employee directors on December 31 of each year under the Spartan Motors, Inc. Stock Option and Restricted Stock Plan of 1998 and/or the Spartan Motors, Inc. Stock Option and Restricted Stock Plan of 2003, Stock Appreciation Rights with respect to 1,750 shares of Common Stock shall be granted automatically on December 31 of each year (beginning on December 31, 2005), to each director of the Company who is, at the time of such grant, a Non-Employee Director; *provided, however,* that if any Non-Employee Director is at the time of grant the Chairman of the Board, the number of shares subject to the SARs granted to that Non-Employee Director on such date shall be 3,750. The automatic grants provided for by this Section 6.3 may be suspended, modified or terminated by the Board, in its sole discretion.

SECTION 7

Restricted Stock and Restricted Stock Units

7.1 Grant. Subject to the limitations set forth in Sections 4.1 and 4.2 of the Plan, Restricted Stock and Restricted Stock Units may be granted to Participants under the Plan. Shares of Restricted Stock are shares of Common Stock the retention, vesting and/or transferability of which is subject, during specified periods of time, to such conditions (including continued employment or performance conditions) and terms as the Committee deems appropriate. Restricted Stock Units are Incentive Awards denominated in units of Common Stock under which the issuance of shares of Common Stock is subject to such conditions (including continued employment or performance conditions) and terms as the Committee deems appropriate. For purposes of determining the number of shares available under the Plan, each Restricted Stock Unit shall count as the number of shares of Common Stock subject to the Restricted Stock Unit. Unless determined otherwise by the Committee, each Restricted Stock Unit will be equal to one share of Common Stock and will entitle a Participant to either shares of Common Stock or an amount of cash determined with reference to the value of shares of Common Stock. To the extent determined by the Committee, Restricted Stock and Restricted Stock Units may be satisfied or settled in Common Stock, cash or a combination thereof. Restricted Stock and Restricted Stock Units granted pursuant to the Plan need not be identical but shall be consistent with the terms of the Plan. Subject to the requirements of applicable law, the Committee shall determine the price, if any, at which awards of Restricted Stock or Restricted Stock Units, or shares of Common Stock issuable under Restricted Stock Unit awards, shall be sold or awarded to a Participant, which may vary from time to time and among Participants.

7.2 Restricted Stock Agreements. Awards of Restricted Stock and Restricted Stock Units shall be evidenced by restricted stock or restricted stock unit agreements or certificates of award containing such terms and conditions, consistent with the provisions of the Plan, as the Committee shall from time to time determine. Unless the restricted stock or restricted stock unit agreement or certificate provides otherwise, Restricted Stock and Restricted Stock Unit awards shall be subject to the terms and conditions set forth in this Section 7.

7.3 Vesting. The grant, issuance, retention, vesting and/or settlement of shares of Restricted Stock and Restricted Stock Units shall occur at such time and in such installments as determined by the Committee or under criteria established by the Committee. The Committee shall have the right to make the timing of the grant and/or the issuance, ability to retain, vesting and/or settlement of shares of Restricted Stock and under Restricted Stock Units subject to continued employment, passage of time and/or such performance criteria as deemed appropriate by the Committee.

7.4 Termination of Employment, Directorship or Officer Status. Unless the Committee otherwise consents or permits (before or after the grant of Restricted Stock or Restricted Stock Units) or unless the restricted stock or restricted stock unit agreement or grant provides otherwise:

(a) General. In the event of termination of employment, directorship or officer status during the Restricted Period for any reason other than death, Disability, Retirement or termination for cause (which are addressed below in Subsections 7.4(b), (c), (d) and (e), respectively), each Restricted Stock and Restricted Stock Unit award still subject in full or in part to restrictions at the date of such termination shall automatically be forfeited and returned to the Company. For purposes of the Plan, the following shall not be considered a termination of employment, or, where applicable, directorship or officer status: (i) a transfer of an employee from the Company to any Subsidiary; (ii) a leave of absence, duly authorized in writing by the Company, for military service or for any other purpose approved by the Company if the period of such leave does not exceed 90 days; (iii) a leave of absence in excess of 90 days duly authorized in writing by the Company, provided that the employee's right to re-employment is guaranteed by statute, contract or written policy of the Company; (iv) a termination of employment with continued service as an officer or director; or (v) a termination of a directorship with continued service as an employee or officer. For purposes of the Plan, termination of employment shall be considered to occur on the date on which the employee is no longer obligated to perform services for the Company or any of its Subsidiaries and the employee's right to re-employment is not guaranteed by statute, contract or written policy of the Company, regardless of whether the employee continues to receive compensation from the Company or any of its Subsidiaries after such date.

(b) Death. If a Participant dies either while a director of the Company or an employee or officer of the Company or one of its Subsidiaries or after the termination of employment or directorship other than for cause (termination for cause is addressed below in Subsection 7.4(e)) but during the time when the Participant holds Restricted Stock or Restricted Stock Units still subject in full or in part to restrictions at the date of death, (1) the Participant's Restricted Stock and Restricted Stock Units subject to a Restricted Period of one year or less from the date of the Participant's death shall vest in accordance with their terms and the Participant's ownership (or that of his successor in interest) of such Restricted Stock and Restricted Stock Units shall not be affected by the Participant's death, and (2) the Participant's Restricted Stock and Restricted Stock Units subject to a Restricted Period of more than one year from the date of the Participant's death shall be forfeited and returned to the Company. Notwithstanding any provisions to the contrary in this paragraph, the Committee may, in its sole discretion and either before or after the Participant's death, waive the restrictions remaining on any or all remaining shares of Restricted Stock and Restricted Stock Units.

(c) Disability. If a Participant ceases to be a director of the Company or ceases to be an employee or officer of the Company or one of its Subsidiaries due to the Participant's Disability, (1) the Participant's Restricted Stock and Restricted Stock Units subject to a Restricted Period of one year or less from the date the Participant became Disabled shall vest in accordance with their terms and the Participant's ownership of such Restricted Stock and Restricted Stock Units shall not be affected by such Disability, and (2) the Participant's Restricted Stock and Restricted Stock Units subject to a Restricted Period of more than one year from the date the Participant became Disabled shall be

forfeited and returned to the Company. Notwithstanding any provisions to the contrary in this paragraph, the Committee may, in its sole discretion and either before or after the Participant becomes Disabled, waive the restrictions remaining on any or all remaining shares of Restricted Stock and Restricted Stock Units.

(d) Participant Retirement. If a Participant Retires as a director of the Company or an employee or officer of the Company or one of its Subsidiaries, Restricted Stock and Restricted Stock Units granted under the Plan shall vest in accordance with their terms and the Participant's ownership of the Restricted Stock and Restricted Stock Units shall not be affected by such Retirement.

(e) Termination for Cause. Notwithstanding anything to the contrary in this Section 7.4, if a Participant's employment or directorship is terminated for cause, the Participant shall have no further right to receive any Restricted Stock or Restricted Stock Units and all Restricted Stock and Restricted Stock Units still subject to restrictions at the date of such termination shall automatically be forfeited and returned to the Company. For purposes of the Plan, the Committee or officers designated by the Committee shall have absolute discretion to determine whether a termination is for cause.

7.5 Restrictions on Transferability.

(a) General. Unless the Committee otherwise consents or permits or unless the terms of the restricted stock or restricted stock unit agreement or grant provide otherwise: (i) shares of Restricted Stock or and interests in Restricted Stock Units shall not be sold, exchanged, transferred, pledged, assigned or otherwise alienated or hypothecated during the Restricted Period except by will or the laws of descent and distribution; and (ii) all rights with respect to Restricted Stock and Restricted Stock Units granted to a Participant under the Plan shall be exercisable during the Participant's lifetime only by such Participant, his or her guardian or legal representative.

(b) Other Restrictions. The Committee may impose other restrictions on any shares of Common Stock subject to Restricted Stock and Restricted Stock Unit awards under the Plan as the Committee considers advisable, including, without limitation, holding periods or further transfer restrictions, forfeiture or "claw-back" provisions, and restrictions under applicable federal or state securities laws.

7.6 Legending of Restricted Stock. In addition to any other legend that may be set forth on a Participant's share certificate, any certificates evidencing shares of Restricted Stock awarded pursuant to the Plan shall bear the following legend:

The shares represented by this certificate were issued subject to certain restrictions under the Spartan Motors, Inc. Stock Incentive Plan of 2005 (the "Plan"). This certificate is held subject to the terms and conditions contained in a restricted stock agreement that includes a prohibition against the sale or transfer of the stock represented by this certificate except in compliance with that

agreement and that provides for forfeiture upon certain events. Copies of the Plan and the restricted stock agreement are on file in the office of the Secretary of the Company.

The Committee may require that certificates representing shares of Restricted Stock be retained and held in escrow by a designated employee or agent of the Company or any Subsidiary until any restrictions applicable to shares of Restricted Stock so retained have been satisfied or lapsed.

7.7 Rights as a Shareholder. A Participant shall have all dividend, liquidation and other rights with respect to Restricted Stock held by such Participant as if the Participant held unrestricted Common Stock; *provided*, that the unvested portion of any award of Restricted Stock shall be subject to any restrictions on transferability or risks of forfeiture imposed pursuant to this Section 7 and the terms and conditions set forth in the Participant's restricted stock agreement. Unless the Committee otherwise determines or unless the terms of the applicable restricted stock unit agreement or grant provide otherwise, a Participant shall have all dividend and liquidation rights with respect to shares of Common Stock subject to awards of Restricted Stock Units held by such Participant as if the Participant held unrestricted Common Stock. Unless the Committee determines otherwise or unless the terms of the applicable restricted stock or restricted stock unit agreement or grant provide otherwise, any noncash dividends or distributions paid with respect to shares of unvested Restricted Stock and shares of Common Stock subject to unvested Restricted Stock Units shall be subject to the same restrictions and vesting schedule as the shares to which such dividends or distributions relate.

7.8 Voting Rights. Unless otherwise determined by the Committee, Participants holding shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those shares during the Restricted Period. Participants shall have no voting rights with respect to shares of Common Stock underlying Restricted Stock Units unless and until such shares are reflected as issued and outstanding shares on the Company's stock ledger.

7.9 Annual Grant to Non-Employee Directors. Subject to the limitation imposed by Section 4.2 and the adjustments provided for by Section 4.3 and in lieu of all Stock Options to be granted to non-employee directors on June 30 of each year under the Spartan Motors, Inc. Stock Option and Restricted Stock Plan of 1998 and/or the Spartan Motors, Inc. Stock Option and Restricted Stock Plan of 2003, 2,100 shares of Restricted Stock shall be granted automatically on June 30 of each year (beginning on June 30, 2006), to each director of the Company who is, at the time of such grant, a Non-Employee Director; *provided, however*, that if any Non-Employee Director is at the time of grant the Chairman of the Board, the number of shares of Restricted Stock granted to that Non-Employee Director on such date shall be 4,500. The Restricted Period(s) for such Restricted Stock shall be not less than one year from the date of grant, during which time such Restricted Stock shall be restricted from being sold, exchanged, transferred, pledged, assigned or otherwise alienated or hypothecated, except by will or according to the laws of descent and distribution. Such Restricted Stock shall be subject to all of the provisions of this Section 7. The automatic grants provided for by this Section 7.9 may be suspended, modified or terminated by the Board, in its sole discretion.

SECTION 8

Stock Awards

8.1 Grant. Subject to the limitations set forth in Sections 4.1 and 4.2 of the Plan, a Participant may be granted one or more Stock Awards under the Plan. Stock Awards shall be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion.

8.2 Rights as a Shareholder. A Participant shall have all voting, dividend, liquidation and other rights with respect to shares of Common Stock issued to the Participant as a Stock Award under this Section 8 upon the Participant becoming the holder of record of the Common Stock granted pursuant to such Stock Award; *provided*, that the Committee may impose such restrictions on the assignment or transfer of Common Stock awarded pursuant to a Stock Award as it considers appropriate.

SECTION 9

Change in Control

9.1 Acceleration of Vesting. If a Change in Control of the Company shall occur, then, unless the Committee or the Board otherwise determines with respect to one or more Incentive Awards, without action by the Committee or the Board: (a) all outstanding Stock Options and Stock Appreciation Rights shall become immediately exercisable in full and shall remain exercisable during the remaining terms thereof as set forth in Sections 5.6 and 6.1, regardless of whether the Participants to whom such Stock Options and Stock Appreciation Rights have been granted remain in the employ or service of the Company or any Subsidiary; and (b) all other outstanding Incentive Awards shall become immediately fully vested and exercisable and nonforfeitable.

9.2 Cash Payment for Stock Options and Stock Appreciation Rights. If a Change in Control of the Company shall occur, then the Committee, in its sole discretion, without the consent of any Participant affected thereby, may determine that some or all Participants holding outstanding Stock Options and/or Stock Appreciation Rights shall receive, with respect to some or all of the shares of Common Stock subject to such Stock Options and/or Stock Appreciation Rights, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the greater of the excess of (a) the highest sales price of the shares on Nasdaq on the date immediately prior to the effective date of such Change in Control of the Company or (b) the highest price per share actually paid in connection with any Change in Control of the Company over the exercise price per share of such Stock Options and/or the base price per share of such Stock Appreciation Rights.

SECTION 10

General Provisions

10.1 No Rights to Awards. No Participant or other person shall have any claim to be granted any Incentive Award under the Plan and there is no obligation of uniformity of treatment of Participants or holders or beneficiaries of Incentive Awards under the Plan. The terms and conditions of Incentive Awards of the same type and the determination of the Committee to grant a waiver or modification of any Incentive Award and the terms and conditions thereof need not be the same with respect to each Participant or the same Participant.

10.2 Withholding. The Company or a Subsidiary shall be entitled to: (a) withhold and deduct from future wages of a Participant (or from other amounts that may be due and owing to a Participant from the Company or a Subsidiary), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, state, local and foreign withholding and employment-related tax requirements attributable to an Incentive Award, including, without limitation, the grant, exercise or vesting of, or payment of dividends with respect to, an Incentive Award or a disqualifying disposition of Common Stock received upon exercise of an incentive stock option; or (b) require a Participant promptly to remit the amount of such withholding to the Company before taking any action with respect to an Incentive Award. Unless the Committee determines otherwise, withholding may be satisfied (but only to the extent required to satisfy the minimum amount required to be withheld by law or regulation) by withholding Common Stock to be received upon exercise or vesting of an Incentive Award or by delivery to the Company of previously owned Common Stock. The Company may establish such rules and procedures concerning timing of any withholding election as it deems appropriate.

10.3 Compliance With Laws; Listing and Registration of Shares. All Incentive Awards granted under the Plan (and all issuances of Common Stock or other securities under the Plan) shall be subject to all applicable laws, rules and regulations, and to the requirement that if at any time the Committee shall determine, in its discretion, that the listing, registration or qualification of the shares covered thereby upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the grant of such Incentive Award or the issuance or purchase of shares thereunder, such Incentive Award may not be exercised in whole or in part, or the restrictions on such Incentive Award shall not lapse, unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

10.4 No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Subsidiary from adopting or continuing in effect other or additional compensation arrangements, including the grant of stock options and other stock-based awards, and such arrangements may be either generally applicable or applicable only in specific cases.

10.5 No Right to Employment. The grant of an Incentive Award shall not be construed as giving a Participant the right to be retained in the employ or directorship of the Company or any Subsidiary. The Company or any Subsidiary may at any time dismiss a Participant from employment and a directorship may be terminated consistent with the Company's Restated Articles of Incorporation and Bylaws, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any written agreement with a Participant.

10.6 No Liability of Company. The Company and any Subsidiary or affiliate which is in existence or hereafter comes into existence shall not be liable to a Participant or any other person as to: (a) the non-issuance or sale of Common Stock as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder; (b) any tax consequence to any Participant or other person due to the receipt, exercise or settlement of any Incentive Award granted hereunder; and (c) any provision of law or legal restriction that prohibits or restricts the transfer of shares of Common Stock issued pursuant to any Incentive Award.

10.7 Suspension of Rights under Incentive Awards. The Company, by written notice to a Participant, may suspend a Participant's and any transferee's rights under any Incentive Award for a period not to exceed 60 days while the termination for cause of that Participant's employment or directorship with the Company and its Subsidiaries is under consideration.

10.8 Governing Law. The validity, construction and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Michigan and applicable federal law.

10.9 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions of the Plan and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included, unless such construction would cause the Plan to fail in its essential purposes.

SECTION 11

Termination and Amendment

11.1 The Board may terminate the Plan at any time or may from time to time amend or alter the Plan or any aspect of it as it considers proper and in the best interests of the Company, provided that no such amendment may be made, without the approval of shareholders of the Company, that would (i) reduce the exercise price at which Stock Options, or the base price at which Stock Appreciation Rights, may be granted below the prices provided for in Sections 5.3 and 6.1, respectively (ii) reduce the exercise price of outstanding Stock Options or the base price of outstanding Stock Appreciation Rights, (iii) increase the individual maximum limits in

Section 4.2 or (iv) otherwise amend the Plan in any manner requiring shareholder approval by law or under Nasdaq listing requirements or other applicable Nasdaq rules. The Committee may alter or amend an award agreement and/or Incentive Award previously granted under the Plan to the extent it determines that such action is appropriate.

11.2 Notwithstanding anything to the contrary in Section 11.1, no such amendment or alteration to the Plan or to any previously granted award agreement or Incentive Award shall be made which would impair the rights of the holder of the Incentive Award, without such holder's consent, provided that no such consent shall be required if the Committee determines in its sole discretion and prior to the date of any Change of Control that such amendment or alteration either is required or advisable in order for the Company, the Plan or the Incentive Award to satisfy any law or regulation or to meet the requirements of or avoid adverse financial accounting consequences under any accounting standard.

SECTION 12

Effective Date and Duration of the Plan

This Plan shall take effect May 24, 2005, subject to approval by the shareholders at the 2005 Annual Meeting of Shareholders or any adjournment thereof or at a Special Meeting of Shareholders. Unless earlier terminated by the Board of Directors, no Incentive Award shall be granted under the Plan after May 23, 2015.

EXHIBIT 31.1

CERTIFICATION

I, John E. Szykiel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spartan Motors, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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EXHIBIT 31.2

CERTIFICATION

I, James W. Knapp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Spartan Motors, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2005

/s/ James W. Knapp

James W. Knapp
Chief Financial Officer, Secretary and Treasurer
Spartan Motors, Inc.

EXHIBIT 32

CERTIFICATION

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

1. The Quarterly Report on Form 10-Q of the Company for the three month period ended September 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition at the end of such period and results of operations of the Company for such period.

Dated: November 9, 2005

/s/ John E. Szykiel

John E. Szykiel
President and Chief Executive Officer

Dated: November 9, 2005

/s/ James W. Knapp

James W. Knapp
Chief Financial Officer, Secretary and Treasurer