

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

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended **September 30, 2017**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: **001-34728**

**DOUGLAS DYNAMICS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**134275891**  
(I.R.S. Employer  
Identification No.)

**7777 North 73rd Street**  
**Milwaukee, Wisconsin 53223**  
(Address of principal executive offices) (Zip code)

**(414) 354-2310**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of registrant's common shares outstanding as of November 7, 2017 was 22,590,897.

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**DOUGLAS DYNAMICS, INC.**

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**Item 1. Financial Statements****Douglas Dynamics, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(In thousands except share data)**

	September 30, 2017 <u>(unaudited)</u>	December 31, 2016 <u>(unaudited)</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,482	\$ 18,609
Accounts receivable, net	117,536	78,589
Inventories	77,447	70,871
Inventories - truck chassis floor plan	6,034	3,939
Refundable income taxes paid	-	1,541
Prepaid and other current assets	3,417	2,886
Total current assets	<u>205,916</u>	<u>176,435</u>
Property, plant, and equipment, net	52,698	52,141
Goodwill	240,906	238,286
Other intangible assets, net	189,019	194,851
Other long-term assets	5,531	4,460
Total assets	<u>\$ 694,070</u>	<u>\$ 666,173</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 15,437	\$ 17,299
Accrued expenses and other current liabilities	20,749	27,325
Floor plan obligations	6,034	3,939
Income taxes payable	1,440	-
Short term borrowings	23,000	-
Current portion of long-term debt	2,749	2,829
Total current liabilities	<u>69,409</u>	<u>51,392</u>
Retiree health benefit obligation	7,547	7,193
Pension obligation	9,620	10,184
Deferred income taxes	59,027	54,563
Long-term debt, less current portion	305,354	306,726
Other long-term liabilities	16,522	15,652
Stockholders' equity:		
Common Stock, par value \$0.01, 200,000,000 shares authorized, 22,590,897 and 22,501,640 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	226	225
Additional paid-in capital	146,536	144,523
Retained earnings	86,707	82,387
Accumulated other comprehensive loss, net of tax	(6,878)	(6,672)
Total stockholders' equity	<u>226,591</u>	<u>220,463</u>
Total liabilities and stockholders' equity	<u>\$ 694,070</u>	<u>\$ 666,173</u>

See the accompanying notes to condensed consolidated financial statements

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**Douglas Dynamics, Inc.**  
**Condensed Consolidated Statements of Operations and Comprehensive Income**  
(In thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(unaudited)		(unaudited)	
Net sales	\$ 125,339	\$ 123,573	\$ 336,958	\$ 286,125
Cost of sales	89,284	86,929	238,683	193,829
Gross profit	36,055	36,644	98,275	92,296
Selling, general, and administrative expense	13,093	15,761	45,074	37,986
Intangibles amortization	2,997	4,395	8,532	7,847
Income from operations	19,965	16,488	44,669	46,463
Interest expense, net	(4,860)	(4,518)	(14,348)	(10,253)
Litigation proceeds	-	-	1,275	10,050
Other expense, net	(24)	(97)	(132)	(230)
Income before taxes	15,081	11,873	31,464	46,030
Income tax expense	5,754	4,571	10,668	17,122
Net income	\$ 9,327	\$ 7,302	\$ 20,796	\$ 28,908
Weighted average number of common shares outstanding:				
Basic	22,590,897	22,501,640	22,571,560	22,473,642
Diluted	22,604,921	22,501,640	22,582,502	22,473,642
Earnings per common share:				
Basic	\$ 0.41	\$ 0.32	\$ 0.91	\$ 1.27
Diluted	\$ 0.40	\$ 0.32	\$ 0.90	\$ 1.26
Cash dividends declared and paid per share	\$ 0.24	\$ 0.24	\$ 0.72	\$ 0.71
Comprehensive income	\$ 9,396	\$ 7,321	\$ 20,590	\$ 27,400

See the accompanying notes to condensed consolidated financial statements.

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**Douglas Dynamics, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
(In thousands)

	Nine Months Ended	
	September 30, 2017	September 30, 2016
	(unaudited)	
<b>Operating activities</b>		
Net income	\$ 20,796	\$ 28,908
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,815	12,217
Inventory step up of acquired business included in cost of sales	-	125
Amortization of deferred financing costs and debt discount	911	642
Stock-based compensation	2,750	2,258
Provision for losses on accounts receivable	1,424	221
Deferred income taxes	4,464	2,734
Earnout liability	(1,186)	(51)
Changes in operating assets and liabilities:		
Accounts receivable	(39,519)	(37,659)
Inventories	(4,929)	(1,973)
Prepaid refundable income taxes and other assets	(55)	3,087
Accounts payable	(2,556)	(1,763)
Accrued expenses and other current liabilities	3,069	952
Benefit obligations and other long-term liabilities	347	1,513
Net cash provided by (used in) operating activities	(669)	11,211
<b>Investing activities</b>		
Capital expenditures	(5,216)	(7,084)
Acquisition of business	(7,385)	(175,927)
Net cash used in investing activities	(12,601)	(183,011)
<b>Financing activities</b>		
Shares withheld on restricted stock vesting paid for employees' taxes	(923)	-
Payments of financing costs	(1,608)	(2,250)
Earnout payment	(5,487)	-
Dividends paid	(16,476)	(16,086)
Net revolver borrowings	23,000	26,000
Borrowings on long-term debt	-	129,350
Repayment of long-term debt	(2,363)	(1,755)
Net cash provided by (used in) financing activities	(3,857)	135,259
Change in cash and cash equivalents	(17,127)	(36,541)
Cash and cash equivalents at beginning of period	18,609	36,844
Cash and cash equivalents at end of period	\$ 1,482	\$ 303
<b>Non-cash operating and financing activities</b>		
Truck chassis inventory acquired through floorplan obligations	\$ 33,271	\$ 8,481

See the accompanying notes to condensed consolidated financial statements.

**Douglas Dynamics, Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**(In thousands except share and per share data)**

**1. Basis of presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for fiscal year-end financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the financial statements and related footnotes included in our 2016 Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission on March 13, 2017.

The Company currently conducts business in two segments: Work Truck Attachments and Work Truck Solutions. Financial information regarding these segments is reported in Note 13 to the Unaudited Condensed Consolidated Financial Statements.

Certain reclassifications have been made to the prior period financial statements to conform to the 2017 presentation. In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. This ASU requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. The Company adopted ASU No. 2015-17 during the quarter ended March 31, 2017 and applied it retrospectively. The adoption resulted in the reclassification of Deferred income taxes as included in Current assets to Deferred income taxes as included in Liabilities and shareholders' equity on the balance sheet of \$5,726 for December 31, 2016.

***Interim Condensed Consolidated Financial Information***

The accompanying condensed consolidated balance sheet as of September 30, 2017 and the condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2017 and 2016 and condensed cash flows for the nine months ended September 30, 2017 and 2016 have been prepared by the Company and have not been audited.

The Company's Work Truck Attachments segment is seasonal and consequently its results of operations and financial condition vary from quarter-to-quarter. Because of this seasonality, the results of operations of the Work Truck Attachments segment for any quarter may not be indicative of results of operations that may be achieved for a subsequent quarter or the full year, and may not be similar to results of operations experienced in prior years. The Company attempts to manage the seasonal impact of snowfall on its revenues in part through its pre-season sales program. This pre-season sales program encourages the Company's distributors to re-stock their inventory of Work Truck Attachments products during the second and third quarters in anticipation of the peak fourth quarter retail sales period by offering favorable pre-season pricing and payment deferral until the fourth quarter. Thus, the Company's Work Truck Attachments segment tends to generate its greatest volume of sales during the second and third quarters. By contrast, its revenue and operating results tend to be lowest during the first quarter, as management believes the end-users of Work Truck Attachments products prefer to wait until the beginning of a snow season to purchase new equipment and as the Company's distributors sell off Work Truck Attachments inventory and wait for the pre-season sales incentive period to re-stock inventory. Fourth quarter sales vary from year-to-year as they are primarily driven by the level, timing and location of snowfall during the quarter. This is because most of the Company's Work Truck Attachments fourth quarter sales and shipments consist of re-orders by distributors seeking to restock inventory to meet immediate customer needs caused by snowfall during the winter months. In addition, due to the factors noted above, Work Truck Attachments working capital needs are highest in the second and third quarters as its accounts receivable rise from pre-season sales. These working capital needs decline in the fourth quarter as the Company receives payments for its pre-season shipments.

The Company relies on a combination of patents, trade secrets and trademarks to protect certain of the proprietary aspects of its business and technology. In the nine months ended September 30, 2017, the Company

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received a settlement resulting from an ongoing lawsuit with one of its competitors. Previously under the same lawsuit the competitor was required to stop using the Company's intellectual property. Under the settlement agreement the Company received \$1,275 as part of defending its intellectual property. In the nine months ended September 30, 2016, the Company received a settlement resulting from an ongoing lawsuit with one of its competitors. Previously under the same lawsuit the competitor was required to stop using the Company's intellectual property. Under the settlement agreement the Company received \$10,050 as part of defending its intellectual property. The proceeds of the lawsuits are included on the Condensed Consolidated Statements of Operations and Comprehensive Income as Litigation proceeds.

## 2. Acquisition

On May 1, 2017, the Company purchased substantially all of the assets of Arrowhead Equipment, Inc. ("Arrowhead"). Total consideration was \$7,385 including a preliminary estimated working capital adjustment of \$100 that increased the purchase price at the close of the transaction on May 1, 2017 that was subsequently adjusted by \$215 paid by the seller to the Company, resulting in a final negative net working capital adjustment of \$115 paid by the seller to the Company. The acquisition includes the Arrowhead's assets acquired at two up-fit locations in Albany and Queensbury, New York that are both being leased by the Company. The assets were acquired with on hand cash and short term borrowings under the Company's Revolving Credit Agreement. The acquired assets are included in the Work Truck Solutions segment and were acquired to expand the geographical footprint of that segment. The Company incurred \$418 of transaction expenses related to this acquisition that are included in selling, general and administrative expense in the Condensed Consolidated Statements of Income in the nine months ended September 30, 2017, which includes \$70 accrual reversal for estimated transaction-related expenses related to this acquisition that is included in selling, general and administrative expense in the Condensed Consolidated Statements of Income in the three months ended September 30, 2017.

The following table summarizes the preliminary allocation of the purchase price paid and the subsequent working capital adjustment to the fair value of the net assets acquired as of the acquisition date:

Accounts receivable - trade	\$ 852
Inventories	1,647
Prepays and other current assets	6
Property and equipment	624
Goodwill	2,620
Intangible assets	2,700
Accounts payable and other current liabilities	(957)
Unfavorable lease	(107)
Total	<u>\$ 7,385</u>

The goodwill for the acquisition is a result of acquiring and retaining the existing workforces and expected synergies from integrating the operations into the Company. Due to the limited amount of time since the acquisition of substantially all of the assets of Arrowhead, the initial purchase price allocation is preliminary as of September 30, 2017 as the Company has not completed its analysis of working capital, the fair value of inventories, property and equipment, intangible assets and income tax liabilities. The Company expects to be able to deduct amortization of goodwill for income tax purposes over a fifteen-year period. The acquisition was accounted for under the purchase method, and accordingly, the results of operations are included in the Company's financial statements from the date of acquisition. From the date of acquisition through September 30, 2017, the Arrowhead assets contributed \$3,379 of revenues and (\$100) of pre-tax operating loss to the Company.

On July 15, 2016, the Company acquired substantially all of the assets of Dejana Truck & Utility Equipment Company, Inc. and certain entities directly or indirectly owned by Peter Paul Dejana Family Trust Dated 12/31/98 ("Dejana"). Total consideration was \$191,544 including a preliminary estimated working capital adjustment of \$3,989 that reduced the purchase price at the close of the transaction on July 15, 2016 that was

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subsequently adjusted by \$5,417 paid by the Company to the seller. Thus, the net working capital adjustment paid to the former owners of Dejana was \$1,428 in addition to contingent consideration with an estimated fair value of \$10,200. The acquisition was financed through exercising the accordion feature on the Company's term loan for \$130,000 less an original issue discount of \$650 and \$20,000 of short term revolver borrowings and through the use of \$31,994 of on hand cash. The Company incurred \$2,096 and \$2,841 of transaction expenses related to this acquisition that are included in selling, general and administrative expense in the Condensed Consolidated Statements of Income in the three and nine months ended September 30, 2016, respectively.

The Dejana purchase agreement includes contingent consideration in the form of an earnout capped at \$26,000. Under the earnout agreement, the former owners of Dejana are entitled to receive payments contingent upon the revenue growth and financial performance of the acquired business for the years 2016, 2017, and 2018. There is no requirement for continued employment related to the contingent consideration, and thus the earnout is recorded as a component of purchase price. The preliminary estimated fair value of the earnout consideration was \$10,200, which was further adjusted at December 31, 2016 to \$10,373 as a result of the 2016 performance exceeding the 2016 fair value established at the opening balance sheet by \$173. As a result of the year ending December 31, 2016 financial results, the new possible range of outcomes was reduced from \$26,000 to a maximum earnout of \$21,487. The Company made a payment to the former owners of Dejana of \$5,487 in the nine months ended September 30, 2017. The earnout agreement was amended on September 20, 2017 to extend the earnout measurement periods for an additional two years, namely the fiscal years ended December 31, 2019 and December 31, 2020, with the potential for the former owners of Dejana to earn up to 50% of the remaining earnout payments unearned based on the original earnout targets and measurement periods. The most recent valuation resulted in a fair value adjustment to the earnout of (\$1,186), which is included in selling, general and administrative expense in the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2017.

The following table summarizes the preliminary allocation of the purchase price paid and the subsequent working capital adjustment to the fair value of the net assets acquired as of the acquisition date:

Accounts receivable	\$ 13,509
Inventories	20,017
Truck chassis floor plan inventory	13,479
Prepays and other current assets	705
Property and equipment	5,821
Goodwill	77,354
Intangible assets	77,800
Other assets - long term	219
Accounts payable and other current liabilities	(3,881)
Floor plan obligations	(13,479)
Earnout	(10,200)
Total	<u>\$ 181,344</u>

The goodwill for the acquisition is a result of acquiring and retaining the existing workforces and expected synergies from integrating the operations into the Company. The Company expects to be able to deduct amortization of goodwill for income tax purposes over a fifteen-year period. The acquisition was accounted for under the purchase method, and accordingly, the results of operations are included in the Company's financial statements from the date of acquisition.



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The following unaudited pro forma information presents the combined results of operations of the Company and Dejana for the three and nine months ended September 30, 2016 as if the acquisition had occurred on January 1, 2015, with pro forma adjustments to give effect to amortization of intangible assets, depreciation of fixed assets, an increase in interest expense from the acquisition financing and certain other adjustments:

	<b>Three Months Ended September 30, 2016</b>	<b>Nine Months Ended September 30, 2016</b>
Net sales	\$ 129,253	\$ 364,065
Net income	\$ 9,921	\$ 32,601
Earnings per common share assuming dilution attributable to common shareholders	\$ 0.44	\$ 1.45

The unaudited pro forma information above includes the historical financial results of the Company and Dejana, adjusted to record depreciation and intangible asset amortization related to valuation of the acquired tangible and intangible assets at fair value and the addition of incremental costs related to debt to finance the acquisition, and the tax benefits related to the increased costs. This information is presented for information purposes only and is not necessarily indicative of what the Company's results of operations would have been had the acquisition been in effect for the periods presented or future results.

### 3. Fair Value

Fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Fair value measurements are categorized into one of three levels based on the lowest level of significant input used: Level 1 (unadjusted quoted prices in active markets); Level 2 (observable market inputs available at the measurement date, other than quoted prices included in Level 1); and Level 3 (unobservable inputs that cannot be corroborated by observable market data).

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The following table presents financial assets and liabilities measured at fair value on a recurring basis and discloses the fair value of long-term debt:

	<u>Fair Value at September 30, 2017</u>	<u>Fair Value at December 31, 2016</u>
<b>Assets:</b>		
Other long-term assets (a)	\$ 4,634	\$ 3,458
<b>Total Assets</b>	<u>\$ 4,634</u>	<u>\$ 3,458</u>
<b>Liabilities:</b>		
Interest rate swaps (b)	\$ 2,781	\$ 1,985
Long term debt (c)	312,297	315,940
Earmout - Henderson (d)	553	636
Earmout - Dejana (e)	3,700	10,373
<b>Total Liabilities</b>	<u>\$ 319,331</u>	<u>\$ 328,934</u>

(a) Included in other assets is the cash surrender value of insurance policies on various individuals that are associated with the Company. The carrying amount of these insurance policies approximates their fair value and is considered Level 2 inputs.

(b) Valuation models are calibrated to initial trade price. Subsequent valuations are based on observable inputs to the valuation model (e.g. interest rates and credit spreads). Model inputs are changed only when corroborated by market data. A credit risk adjustment is made on each swap using observable market credit spreads. Thus, inputs used to determine fair value of the interest rate swap are Level 2 inputs. Interest rate swaps of \$608 and \$2,173 at September 30, 2017 are included in Accrued expenses and other current liabilities and Other long-term liabilities, respectively. Interest rate swaps of \$335 and \$1,650 at December 31, 2016 are included in Accrued expenses and other current liabilities and Other long-term liabilities, respectively.

(c) The fair value of the Company's long-term debt, including current maturities, is estimated using discounted cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements, which is a Level 2 input for all periods presented. Meanwhile, long-term debt is recorded at carrying amount, net of discount and deferred debt issuance costs, as disclosed on the face of the balance sheet.

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(d) Included in Accrued expenses and other current liabilities and Other long term liabilities in the amounts of \$111 and \$442, respectively, at September 30, 2017 is the fair value of an obligation for a portion of the potential earnout acquired in conjunction with the acquisition of Henderson Enterprise Group, Inc. (“Henderson”). Included in Accrued expenses and other current liabilities and Other long term liabilities in the amounts of \$235 and \$442, respectively, at September 30, 2016 is the fair value of an obligation for a portion of the potential earnout acquired in conjunction with the acquisition of Henderson. Fair value is based upon Level 3 discounted cash flow analysis using key inputs of forecasted future sales as well as a growth rate reduced by the market required rate of return. See reconciliation of liability included below:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Beginning Balance	\$ 580	\$ 636	\$ 705	\$ 761
Additions	—	—	—	—
Adjustments to fair value	—	—	—	—
Payment to former owners	(27)	(83)	(28)	(84)
Ending balance	\$ 553	\$ 553	\$ 677	\$ 677

(e) Included in Other long term liabilities in the amount of \$3,700 at September 30, 2017 is the fair value of an obligation for a portion of the potential earnout incurred in conjunction with the acquisition of Dejana. Included in Accrued expenses and other current liabilities and Other long term liabilities in the amounts of \$5,314 and \$4,886, respectively, at September 30, 2016 is the fair value of an obligation for a portion of the potential earnout incurred in conjunction with the acquisition of Dejana. Fair value is based upon Level 3 inputs of a real options approach where gross sales were simulated in a risk-neutral framework using Geometric Brownian Motion, a well-accepted model of stock price behavior that is used in option pricing models such as the Black-Scholes option pricing model, using key inputs of forecasted future sales and financial performance as well as a risk adjusted expected growth rate adjusted appropriately based on its correlation with the market. See reconciliation of liability included below:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Beginning Balance	\$ 4,886	\$ 10,373	\$ —	\$ —
Additions	—	—	10,200	10,200
Adjustments to fair value	(1,186)	(1,186)	—	—
Payment to former owners	—	(5,487)	—	—
Ending balance	\$ 3,700	\$ 3,700	\$ 10,200	\$ 10,200

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**4. Inventories**

Inventories consist of the following:

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Finished goods and work-in-process	\$ 46,183	\$ 44,047
Raw material and supplies	31,264	26,824
	<u>\$ 77,447</u>	<u>\$ 70,871</u>

The inventories in the table above do not include truck chassis inventory financed through a floor plan financing agreement as discussed in Note 6. The Company takes title to truck chassis upon receipt of the inventory through its floor plan agreement and performs up-fitting service installations to the truck chassis inventory during the installation period. The floor plan obligation is then assumed by the dealer customer upon delivery. At September 30, 2017 and December 31, 2016, the Company had \$6,034 and \$3,939 of chassis inventory and related floor plan financing obligation, respectively. The Company recognizes revenue associated with up-fitting and service installations net of the truck chassis.

Unlike the floor plan agreement, the Company does not record inventory related to the truck chassis acquired through the bailment pool agreement as these truck chassis are held on consignment. Like the revenue recognized on floor plan arrangement, revenue recognized for up-fitting services on chassis acquired through the bailment agreement are also recognized net of the truck chassis.

**5. Property, plant and equipment**

Property, plant and equipment are summarized as follows:

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Land	\$ 2,378	\$ 2,378
Land improvements	4,357	4,357
Leasehold Improvements	4,096	2,569
Buildings	26,342	26,058
Machinery and equipment	43,928	40,878
Furniture and fixtures	13,207	12,561
Mobile equipment and other	4,600	3,873
Construction-in-process	3,237	3,850
Total property, plant and equipment	<u>102,145</u>	<u>96,524</u>
Less accumulated depreciation	<u>(49,447)</u>	<u>(44,383)</u>
Net property, plant and equipment	<u>\$ 52,698</u>	<u>\$ 52,141</u>

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Long-term debt is summarized below:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Term Loan, net of debt discount of \$1,660 and \$1,953 at September 30, 2017 and December 31, 2016, respectively	\$ 311,518	\$ 313,588
Less current maturities	2,749	2,829
Long term debt before deferred financing costs	308,769	310,759
Deferred financing costs, net	3,415	4,033
Long term debt, net	\$ 305,354	\$ 306,726

On February 8, 2017 the Company entered into an amendment to its senior secured term loan facility (the "Term Loan Credit Agreement") to decrease the interest rate margins that apply to the term loan facility from 3.25% to 2.50% for ABR Loans (as defined in the Term Loan Credit Agreement) and from 4.25% to 3.50% for Eurodollar Rate Loans (as defined in the Term Loan Credit Agreement), such that the senior secured term loan facility generally bears interest at a rate of (at the Company's election) either (i) 2.50% per annum plus the greatest of (a) the Prime Rate (as defined in the Term Loan Credit Agreement) in effect on such day, (b) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers plus 0.50% and (c) 1.00% plus the greater of (1) the LIBOR for a one month interest period multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (2) 2.00% or (ii) 3.50% per annum plus the greater of (a) the LIBOR for the applicable interest period multiplied by the Statutory Reserve Rate and (b) 1.00%. Meanwhile the discount, principal and tenure of the Company's Term Loan Credit Agreement has remained unchanged. The amendment to the Term Loan Credit Agreement did not result in a significant debt modification under ASC 470-50. Additionally, the Company incurred approximately \$932 in costs with third parties directly related to the amendment that the Company expensed as incurred in the nine months ended September 30, 2017.

On August 17, 2017 the Company entered into an amendment to the Term Loan Credit Agreement to further decrease the interest rate margins that apply to the term loan facility from 2.50% to 2.00% for ABR Loans (as defined in the Term Loan Credit Agreement) and from 3.50% to 3.00% for Eurodollar Rate Loans (as defined in the Term Loan Credit Agreement), such that the senior secured term loan facility generally bears interest at a rate of (at the Company's election) either (i) 2.00% per annum plus the greatest of (a) the Prime Rate (as defined in the Term Loan Credit Agreement) in effect on such day, (b) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers plus 0.50% and (c) 1.00% plus the greater of (1) the LIBOR for a one month interest period multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (2) 2.00% or (ii) 3.00% per annum plus the greater of (a) the LIBOR for the applicable interest period multiplied by the Statutory Reserve Rate and (b) 1.00%. Meanwhile the discount, principal and tenure of the Company's Term Loan Credit Agreement has remained unchanged. The amendment to the Term Loan Credit Agreement did not result in a significant debt modification under ASC 470-50. Additionally, the Company incurred approximately \$676 in costs with third parties directly related to the amendment that the Company expensed as incurred in the three and nine months ended September 30, 2017.

The Term Loan Credit Agreement amortizes in nominal amounts quarterly with the balance payable on December 31, 2021. The Term Loan Credit Agreement also allows the Company to request the establishment of one or more additional term loan commitments in an aggregate amount not in excess of \$80,000 subject to specified terms and conditions, which amount may be further increased so long as the First Lien Debt Ratio (as defined in the Term Loan Credit Agreement) is not greater than 3.25 to 1.00. The Term Loan Credit Agreement permits the Company to enter into floor plan financing arrangements in an aggregate amount not to exceed \$20,000 under both the term loan and revolving credit facility.

The Company's senior credit facilities also include a \$100,000 revolving credit facility (the "Revolving Credit Agreement") with a group of banks, of which \$10,000 is available in the form of letters of credit and \$5,000 is

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available for the issuance of short-term swing line loans. The Revolving Credit Agreement provides that the Company has the option to select whether borrowings will bear interest at either (i) a margin ranging from 1.50% to 2.00% per annum, depending on the utilization of the facility, plus the LIBOR for the applicable interest period multiplied by the Statutory Reserve Rate (as defined in the Revolving Credit Agreement) or (ii) a margin ranging from 0.50% to 1.00% per annum, depending on the utilization of the facility, plus the greatest of (a) the Prime Rate (as defined in the Revolving Credit Agreement) in effect on such day, (b) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers plus 0.50% and (c) the LIBOR for a one month interest period multiplied by the Statutory Reserve Rate plus 1%. The maturity date for the Revolving Credit Agreement is June 30, 2021.

The Term Loan Credit Agreement was originally issued at a \$1,900 discount and the incremental term loan used to fund the Dejana acquisition on July 15, 2016 was issued at a \$650 discount both of which are being amortized over the term of the term loan.

At September 30, 2017, the Company had outstanding borrowings under the Term Loan Credit Agreement of \$311,518, and outstanding borrowings of \$23,000 on the Revolving Credit Agreement and remaining borrowing availability of \$74,186. At December 31, 2016, the Company had outstanding borrowings under the Term Loan Credit Agreement of \$313,588, no outstanding borrowings on the Revolving Credit Agreement at December 31, 2016 and remaining borrowing availability of \$89,664.

The Company's senior credit facilities include certain negative and operating covenants, including restrictions on its ability to pay dividends, and other customary covenants, representations and warranties and events of default. The senior credit facilities entered into and recorded by the Company's subsidiaries significantly restrict its subsidiaries from paying dividends and otherwise transferring assets to Douglas Dynamics, Inc. The terms of the Revolving Credit Agreement specifically restrict subsidiaries from paying dividends if a minimum availability under the Revolving Credit Agreement is not maintained, and both senior credit facilities restrict subsidiaries from paying dividends above certain levels or at all if an event of default has occurred. These restrictions would affect the Company indirectly since the Company relies principally on distributions from its subsidiaries to have funds available for the payment of dividends. In addition, the Revolving Credit Agreement includes a requirement that, subject to certain exceptions, capital expenditures may not exceed \$12,500 in any calendar year (plus the unused portion of permitted capital expenditures from the preceding year subject to a \$12,500 cap and a separate one-time \$15,000 capital expenditures to be used for the consolidation of facilities and costs associated with the acquiring and/or development and construction of one new manufacturing facility) and, if certain minimum availability under the Revolving Credit Agreement is not maintained, that the Company comply with a monthly minimum fixed charge coverage ratio test of 1.0:1.0. Compliance with the fixed charge coverage ratio test is subject to certain cure rights under the Revolving Credit Agreement. At September 30, 2017, the Company was in compliance with the respective covenants. The credit facilities are collateralized by substantially all assets of the Company.

In accordance with the senior credit facilities, the Company is required to make additional principal prepayments over the above scheduled payments under certain conditions. This includes, in the case of the term loan facility, 100% of the net cash proceeds of certain asset sales, certain insurance or condemnation events, certain debt issuances, and, within 150 days of the end of each fiscal year, 50% of consolidated excess cash flow including a deduction for certain distributions (which percentage is reduced to 0% upon the achievement of certain leverage ratio thresholds), for such fiscal year. Consolidated excess cash flow is defined in the senior credit facilities as consolidated adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) plus a consolidated working capital adjustment, less the sum of repayments of debt and capital expenditures (subject to certain adjustments), interest and taxes paid in cash, management fees and certain restricted payments (including certain dividends or distributions). Consolidated working capital adjustment is defined in the senior credit facilities as the change in working capital, defined as current assets, excluding cash and cash equivalents, less current liabilities, excluding the current portion of long term debt. As of September 30, 2017, the Company was not required to make an excess cash flow payment.

The Company entered into interest rate swap agreements on February 20, 2015 to reduce its exposure to interest rate volatility. The three interest rate swap agreements have notional amounts of \$45,000, \$90,000 and \$135,000 effective for the periods December 31, 2015 through March 29, 2018, March 29, 2018 through March 31, 2020 and March 31, 2020 through June 30, 2021, respectively. The interest rate swaps' negative fair value at September 30, 2017 was \$2,781, of which \$608 and \$2,173 are included in Accrued expenses and other current liabilities and Other

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long-term liabilities on the Condensed Consolidated Balance Sheet, respectively. Meanwhile, the interest rate swaps' negative fair value at December 31, 2016 was \$1,985, of which \$335 and \$1,650 are included in Accrued expenses and other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet, respectively. The Company may have counterparty credit risk resulting from the interest rate swap, which it monitors on an on-going basis. This risk lies with one global financial institution. Under the interest rate swap agreement, effective as of December 31, 2015, the Company will either receive or make payments on a monthly basis based on the differential between 6.105% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement, effective as of March 29, 2018, the Company will either receive or make payments on a monthly basis based on the differential between 6.916% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement, effective as of March 31, 2020, the Company will either receive or make payments on a monthly basis based on the differential between 7.168% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%).

The Company receives on consignment, truck chassis on which it performs up-fitting service installations under "bailment pool" arrangements with major truck manufacturers. The Company never receives title to the truck chassis. The aggregate value of all bailment pool chassis on hand as of September 30, 2017 and December 31, 2016 were \$15,447 and \$22,420, respectively. The Company is responsible to the manufacturer for interest on chassis held for up-fitting. Interest rates vary depending on the number of days in the bailment pool. As of September 30, 2017, rates were based on prime plus a margin ranging from 0% to 8%. During the three months and nine months ended September 30, 2017, the Company incurred \$52 and \$187 in interest on the bailment pool arrangement, respectively. During the three months and nine months ended September 30, 2016, the Company incurred \$25 in interest on the bailment pool arrangement.

The Company has a floor plan line of credit for up to \$20,000 with a financial institution. The terms of the line of credit are contained in a credit agreement dated July 15, 2016 and expired on July 31, 2017, which the Company has renewed through December 31, 2018. Under the floor plan agreement the Company receives truck chassis and title on up-fitting service installations. Upon up-fit completion, the title transfers from the Company to the dealer customer. The note bears interest at an adjusted LIBOR rate, plus an applicable rate of 1.75%. The obligation under the floor plan agreement was \$6,034 and \$3,939 at September 30, 2017 and December 31, 2016, respectively. During the three and nine months ended September 30, 2017, the Company incurred \$52 and \$134 in interest on the floor plan arrangements, respectively. During the three and nine months ended September 30, 2016, the Company incurred \$56 in interest on the floor plan arrangements.

## 7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other liabilities are summarized as follows:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Payroll and related costs	\$ 7,104	\$ 8,731
Employee benefits	4,947	5,179
Accrued warranty	3,364	3,535
Earnout - Dejana (current)	-	5,487
Other	5,334	4,393
	<u>\$ 20,749</u>	<u>\$ 27,325</u>

## 8. Warranty Liability

The Company accrues for estimated warranty costs as sales are recognized and periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary. The Company's warranties generally provide, with respect to its snow and ice control equipment, that all material and workmanship will be free from defect for a period of two years after the date of purchase by the end-user, and with respect to its parts

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and accessories purchased separately, that such parts and accessories will be free from defect for a period of one year after the date of purchase by the end-user. Certain snowplows only provide for a one year warranty. The Company determines the amount of the estimated warranty costs (and its corresponding warranty reserve) based on the Company's prior five years of warranty history utilizing a formula driven by historical warranty expense and applying management's judgment. The Company adjusts its historical warranty costs to take into account unique factors such as the introduction of new products into the marketplace that do not provide a historical warranty record to assess. The warranty reserve is \$5,817 at September 30, 2017 of which \$2,453 is included in Other long term liabilities and \$3,364 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet. The warranty reserve was \$6,160 at December 31, 2016 of which \$2,625 is included in Other long term liabilities and \$3,535 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet.

The following is a rollforward of the Company's warranty liability:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Balance at the beginning of the period	\$ 5,575	\$ 6,297	\$ 6,160	\$ 7,423
Establish warranty provision for acquired companies	-	35	65	35
Warranty provision	615	750	2,178	1,940
Claims paid/settlements	(373)	(572)	(2,586)	(2,888)
Balance at the end of the period	\$ 5,817	\$ 6,510	\$ 5,817	\$ 6,510

**9. Employee Retirement Plans**

The components of net periodic pension cost consist of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Component of net periodic pension cost:				
Service cost	\$ 89	\$ 80	\$ 267	\$ 241
Interest cost	403	410	1,209	1,229
Expected return on plan assets	(448)	(456)	(1,344)	(1,368)
Amortization of net loss	181	181	543	543
Net periodic pension cost	\$ 225	\$ 215	\$ 675	\$ 645

The Company estimates its total required minimum contributions to its pension plans in 2017 will be \$216. Through September 30, 2017, the Company has made \$655 of cash contributions to the pension plans versus \$711 through the same period in 2016.



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Components of net periodic other postretirement benefit cost consist of the following:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Component of periodic other postretirement benefit cost:				
Service cost	\$ 51	\$ 52	\$ 153	\$ 158
Interest cost	70	69	210	209
Amortization of net gain	(27)	(31)	(81)	(95)
Net periodic other postretirement benefit cost	\$ 94	\$ 90	\$ 282	\$ 272

**10. Earnings per Share**

Basic earnings per share of common stock is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed by dividing net income by the weighted average number of common shares, using the two-class method. As the Company has granted restricted stock units (“RSUs”) that both participate in dividend equivalents and do not participate in dividend equivalents, the Company has calculated earnings per share pursuant to the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. Diluted net income per share is calculated by dividing net income attributable to common stockholders as adjusted for the effect of dilutive non-participating securities, by the weighted average number of common stock and dilutive common stock outstanding during the period. Potential common shares in the diluted net earnings per share computation are excluded to the extent that they would be anti-dilutive.

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>Basic earnings per common share</b>				
Net income	\$ 9,327	\$ 7,302	\$ 20,796	\$ 28,908
Less income allocated to participating securities	117	101	268	390
Net income allocated to common shareholders	\$ 9,210	\$ 7,201	\$ 20,528	\$ 28,518
Weighted average common shares outstanding	22,590,897	22,501,640	22,571,560	22,473,642
	\$ 0.41	\$ 0.32	\$ 0.91	\$ 1.27
<b>Earnings per common share assuming dilution</b>				
Net income	\$ 9,327	\$ 7,302	\$ 20,796	\$ 28,908
Less income allocated to participating securities	117	101	268	390
Net income allocated to common shareholders	\$ 9,210	\$ 7,201	\$ 20,528	\$ 28,518
Weighted average common shares outstanding	22,590,897	22,501,640	22,571,560	22,473,642
Incremental shares applicable to non-participating RSUs	14,024	-	10,942	-
Weighted average common shares assuming dilution	22,604,921	22,501,640	22,582,502	22,473,642
	\$ 0.40	\$ 0.32	\$ 0.90	\$ 1.26

## **11. Employee Stock Plans**

In March 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-09, *Stock-based Compensation: Improvements to Employee Share-based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, and statement of cash flow classification. The amended guidance became effective for the Company commencing in the first quarter of 2017. The Company has implemented ASU 2016-09 as follows:

- ASU 2016-09 eliminates the requirement to estimate and apply a forfeiture rate to reduce stock compensation expense during the vesting period, and instead, provides an alternative option to account for forfeitures as they occur, which is the option the Company has adopted. ASU 2016-09 requires that this change be adopted using the modified retrospective approach. The adoption of this section had no material impact on the financial statements.
- ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the statement of cash flows. The standard requires presentation of excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity. The Company adopted this change prospectively during the first quarter of 2017. ASU 2016-09 also requires the presentation of amounts withheld for applicable income taxes on employee share-based awards as a financing activity on the statement of cash flows, which the Company also adopted in the first quarter of 2017.
- ASU No 2016-09 also eliminates additional paid in capital (“APIC”) pools and requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. This requirement was adopted prospectively by the Company. The impact of this section of the standard was a benefit of \$616 to income tax expense for the nine month period ending September 30, 2017. In addition, the ASU requires that the excess tax benefit be removed from the overall calculation of diluted shares. The impact on diluted earnings per share of this adoption was not material.

### ***2010 Stock Incentive Plan***

In May 2010, the Company’s Board of Directors and stockholders adopted the 2010 Stock Incentive Plan (the “2010 Plan”). The Company’s Board of Directors approved an amendment and restatement of the 2010 Plan on March 5, 2014, contingent on stockholder approval of the performance goals under the 2010 Plan, and the amendment and restatement became effective upon stockholder approval of the performance goals at the 2014 annual meeting of stockholders held on April 30, 2014. The 2010 Plan provides for the issuance of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock awards and restricted stock units (“RSUs”), any of which may be performance-based, and for incentive bonuses, which may be paid in cash or stock or a combination of both, to eligible employees, officers, non-employee directors and other service providers to the Company and its subsidiaries. A maximum of 2,130,000 shares of common stock may be issued pursuant to all awards under the 2010 Plan.

### ***Performance Share Unit Awards***

The Company granted performance share units as performance based awards under the 2010 Plan in the first quarter of 2017 that are subject to performance conditions. Upon meeting the prescribed performance conditions, in the first quarter of the year subsequent to grant, employees will be issued RSUs, a portion of which will be subject to vesting over the two years following the end of the performance period. In accordance with ASC 718, such awards are being expensed over the vesting period from the date of grant through the requisite service period, based upon the most probable outcome. The fair value per share of the awards is the closing stock price on the date of grant, which was \$33.60. The Company recognized \$451 and \$380 of compensation expense related to the awards in the three months ended September 30, 2017 and September 30, 2016, respectively. The Company recognized \$1,121 and \$886 of compensation expense related to the awards in the nine months ended September 30, 2017 and September 30, 2016,

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respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of September 30, 2017, expected to be earned through the requisite service period was approximately \$819 and is expected to be recognized through 2020.

**Restricted Stock Unit Awards**

RSUs are granted to both non-employee directors and management. RSUs do not carry voting rights. While all non-employee director RSUs participate in dividend equivalents, there are two classes of management RSUs, one for executives that participate in dividend equivalents, and a second for non-executives that do not participate in dividend equivalents. Each RSU represents the right to receive one share of the Company's common stock and is subject to time based vesting restrictions. Participants are not required to pay any consideration to the Company at either the time of grant of a RSU or upon vesting.

RSUs issued to management include a retirement provision under which members of management who either (1) are age 65 or older or (2) have at least ten years of service and are at least age 55 will continue to vest in unvested RSUs upon retirement. As the retirement provision does not qualify as a substantive service condition, the Company incurred \$619 and \$528 in additional expense in the first quarter of 2017 and 2016, respectively, for employees who meet the thresholds of the retirement provision. In 2013, the Company's nominating and governance committee approved a retirement provision for the RSUs issued to non-employee directors that accelerates the vesting of such RSUs upon retirement. Such awards are fully expensed immediately upon grant in accordance with ASC 718, as the retirement provision eliminates substantive service conditions associated with the awards.

A summary of RSU activity for the nine months ended September 30, 2017 is as follows:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair value</b>	<b>Weighted Average Remaining Contractual Term</b>
Unvested at December 31, 2016	47,790	\$ 20.31	0.96 years
Granted	127,750	\$ 24.15	0.34 years
Vested	(127,531)	\$ 22.94	
Cancelled and forfeited	-	\$ -	
Unvested at September 30, 2017	48,009	\$ 23.56	1.00 years
Expected to vest in the future at September 30, 2017	48,009	\$ 23.56	1.00 years

The Company recognized \$191 and \$142 of compensation expense related to the RSU awards in the three months ended September 30, 2017 and September 30, 2016, respectively. The Company recognized \$1,628 and \$1,372 of compensation expense related to the RSU awards in the nine months ended September 30, 2017 and September 30, 2016, respectively. The unrecognized compensation expense, calculated under the fair value method for shares that were, as of September 30, 2017, expected to be earned through the requisite service period was approximately \$536 and is expected to be recognized through 2020.

Vested director RSUs are "settled" by the delivery to the participant or a designated brokerage firm of one share of common stock per vested RSU as soon as reasonably practicable following a termination of service of the participant that constitutes a separation from service, and in all events no later than the end of the calendar year in which such termination of service occurs or, if later, two and one-half months after such termination of service. Vested management RSUs are "settled" by the delivery to the participant or a designated brokerage firm of one share of common stock per vested RSU as soon as reasonably practicable following vesting.

**12. Commitments and Contingencies**

In the ordinary course of business, the Company is engaged in various litigation including product liability and intellectual property disputes. However, the Company does not believe that any pending litigation will have a material adverse effect on its consolidated financial position. In addition, the Company is not currently a party to any environmental-related claims or legal matters.

**13. Segments**

The Company operates through two operating segments for which separate financial information is available, and for which operating results are evaluated regularly by the Company's chief operating decision maker in determining resource allocation and assessing performance. Prior to the acquisition of Dejana on July 15, 2016, the Company operated one operating segment and one reportable business segment which consisted of the manufacture and sale of snow and ice control products. The Company's two current reportable business segments are described below.

**Work Truck Attachments.** The Work Truck Attachments segment includes snow and ice management attachments sold under the FISHER®, WESTERN®, HENDERSON® and SNOWEX® brands. This segment consists of our operations that, prior to our acquisition of Dejana, were our single operating segment, consisting of the manufacture and sale of snow and ice control products.

**Work Truck Solutions.** The Work Truck Solutions segment, which was created as a result of the Dejana acquisition, includes the up-fit of market leading attachments and storage solutions for commercial work vehicles under the DEJANA® brand and its related sub-brands.

Segment performance is evaluated based on segment net sales and operating income. Items not allocated to segment operating income include corporate administrative expenses and certain other amounts. No single customer's revenues amounted to 10% or more of our total revenue. Sales are primarily within the United States and substantially all assets are located within the United States.

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	<b>Three Months Ended</b>	<b>Three Months Ended</b>	<b>Nine Months Ended</b>	<b>Nine Months Ended</b>
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Net sales</b>				
Work Truck Attachments	\$ 98,002	\$ 100,448	\$ 247,088	\$ 262,860
Work Truck Solutions	32,243	27,107	96,767	27,107
Corporate & Eliminations	(4,906)	(3,982)	(6,897)	(3,842)
	<b>\$ 125,339</b>	<b>\$ 123,573</b>	<b>\$ 336,958</b>	<b>\$ 286,125</b>
<b>Selling, general, and administrative expense</b>				
Work Truck Attachments	\$ 7,378	\$ 8,005	\$ 22,780	\$ 23,047
Work Truck Solutions	2,997	2,934	11,309	2,934
Corporate & Eliminations	2,718	4,822	10,985	12,005
	<b>\$ 13,093</b>	<b>\$ 15,761</b>	<b>\$ 45,074</b>	<b>\$ 37,986</b>
<b>Income from operations</b>				
Work Truck Attachments	\$ 23,105	\$ 24,077	\$ 52,186	\$ 62,577
Work Truck Solutions	1,784	(377)	5,143	(377)
Corporate & Eliminations	(4,924)	(7,212)	(12,660)	(15,737)
	<b>\$ 19,965</b>	<b>\$ 16,488</b>	<b>\$ 44,669</b>	<b>\$ 46,463</b>
<b>Depreciation Expense</b>				
Work Truck Attachments	\$ 1,366	\$ 1,359	\$ 4,085	\$ 4,012
Work Truck Solutions	408	209	1,086	209
Corporate & Eliminations	32	49	112	149
	<b>\$ 1,806</b>	<b>\$ 1,617</b>	<b>\$ 5,283</b>	<b>\$ 4,370</b>
<b>Assets</b>				
Work Truck Attachments	\$ 471,163	\$ 484,261		
Work Truck Solutions	215,669	203,403		
Corporate & Eliminations	7,238	12,398		
	<b>\$ 694,070</b>	<b>\$ 700,062</b>		
<b>Capital Expenditures</b>				
Work Truck Attachments	\$ 1,470	\$ 1,645	\$ 3,560	\$ 6,439
Work Truck Solutions	600	645	1,656	645
Corporate & Eliminations	-	-	-	-
	<b>\$ 2,070</b>	<b>\$ 2,290</b>	<b>\$ 5,216</b>	<b>\$ 7,084</b>

All intersegment sales are eliminated in consolidation.

**14. Income Taxes**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The largest item affecting deferred taxes is the difference between book and tax amortization of goodwill and other intangibles amortization. The Company's effective tax rate was 38.1% and 38.5% for the three months ended September 30, 2017 and 2016, respectively. The Company's effective tax rate was 33.9% and 37.2% for the nine months ended September 30, 2017 and 2016, respectively. The effective tax rate for the three months ended September 30, 2017 was relatively flat when compared to the same period in 2016. The effective tax rate for the nine months ended September 30, 2017 is lower than the corresponding period in 2016 due to the release of the reserve for uncertain tax positions and for excess stock compensation benefit recognized, slightly offset by changes in state deferred income tax rates.

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**15. Changes in Accumulated Other Comprehensive Loss by Component**

Changes to accumulated other comprehensive loss by component for the nine months ended September 30, 2017 are as follows:

	Unrealized Net Loss on Interest Rate Swap	Retiree Health Benefit Obligation	Pension Obligation	Total
Balance at December 31, 2016	\$ (1,195)	\$ 937	\$ (6,414)	\$ (6,672)
Other comprehensive loss before reclassifications	(656)	—	—	(656)
Amounts reclassified from accumulated other comprehensive loss: (1)	164	(50)	336	450
Balance at September 30, 2017	<u>\$ (1,687)</u>	<u>\$ 887</u>	<u>\$ (6,078)</u>	<u>\$ (6,878)</u>
(1) Amounts reclassified from accumulated other comprehensive loss:				
Amortization of Other Postretirement Benefit items:				
Actuarial gains (a)	(81)			
Tax expense	31			
Reclassification net of tax	<u>\$ (50)</u>			
Amortization of pension items:				
Actuarial losses (a)	543			
Tax benefit	(207)			
Reclassification net of tax	<u>\$ 336</u>			
Realized losses on interest rate swaps reclassified to interest expense	264			
Tax benefit	(100)			
Reclassification net of tax	<u>\$ 164</u>			

(a) These components are included in the computation of benefit plan costs in Note 9.

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Changes to accumulated other comprehensive loss by component for the nine months ended September 30, 2016 are as follows:

	Unrealized Net Loss on Interest Rate Swap	Retiree Health Benefit Obligation	Pension Obligation	Total
Balance at December 31, 2015	\$ (937)	\$ 1,048	\$ (6,294)	\$ (6,183)
Other comprehensive loss before reclassifications	(1,967)	-	-	(1,967)
Amounts reclassified from accumulated other comprehensive loss: (1)	181	(59)	337	459
Balance at September 30, 2016	<u>\$ (2,723)</u>	<u>\$ 989</u>	<u>\$ (5,957)</u>	<u>\$ (7,691)</u>
(1) Amounts reclassified from accumulated other comprehensive loss:				
Amortization of Other Postretirement Benefit items:				
Actuarial gains (a)	(95)			
Tax expense	36			
Reclassification net of tax	<u>\$ (59)</u>			
Amortization of pension items:				
Actuarial losses (a)	543			
Tax benefit	(206)			
Reclassification net of tax	<u>\$ 337</u>			
Realized losses on interest rate swaps reclassified to interest expense	292			
Tax benefit	(111)			
Reclassification net of tax	<u>\$ 181</u>			

(a) These components are included in the computation of benefit plan costs in Note 9..

**16. Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02 *Leases: Amendments to the FASB Accounting Standards Codification*. ASU 2016-02 increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning on January 1, 2019. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is in the process of analyzing the impact of the guidance on its inventory of lease contracts and currently intends to adopt the standard in the first quarter of fiscal 2019. The Company expects this ASU to have a material impact on its consolidated financial statements upon recognition of the lease liability and right-of-use asset for lease contracts which are currently accounted for as operating leases.

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "*Revenue from Contracts with Customers* (Topic 606)", which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant

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judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This pronouncement is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period and is to be applied using one of two retrospective application methods, with early application permitted for fiscal reporting periods beginning after December 15, 2016. The Company has developed a project plan with respect to its implementation of this standard, including identification of revenue streams and reviews of contracts and procedures currently in place, and is evaluating the impact on the Company's financial position, results of operations and cash flows. The adoption of this guidance will result in increased disclosures to help users of financial statements understand the nature, amount, and timing of revenue and cash flows arising from contracts. The Company expects to adopt the ASU using the modified retrospective method, which will be applied to all contracts not completed as of the date of initial application. Upon adoption, the Company will recognize the cumulative effect of adopting the guidance as an adjustment to the opening balance of retained earnings. The Company is in the process of identifying and implementing changes to processes and controls to meet the standard's updated reporting and disclosure requirements and continues to update its assessment of the impact of the standard.

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, "*Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*" ("ASU 2017-04"). This standard simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test, which required a hypothetical purchase price allocation to measure goodwill impairment. Under the new guidance, the amount of goodwill impairment will be determined by the amount the carrying value of the reporting unit exceeds its fair value. ASU 2017-04 is required to be applied on a prospective basis. The Company adopted ASU 2017-04 effective January 1, 2017. The adoption of this standard did not impact the Company's condensed consolidated financial statements, as no triggering events or indicators of potential impairment were identified during the nine months ended September 30, 2017 and the Company performs its annual goodwill impairment test in the fourth quarter of each fiscal year.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires that an employer report the service cost component in the same line items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of operating profit. The standard is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Prior periods are required to be recast. We will adopt this standard as of January 1, 2018. Net periodic benefit cost for pensions and other postretirement benefits for the nine months ended September 30, 2017 and 2016 were \$957 and \$917 of which \$420 and \$399, respectively, related to service cost.

In May 2017, the FASB issued ASU 2017-09, "*Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*" ("ASU 2017-09"). This standard clarifies when to account for a change in the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of a change in terms or conditions. No other changes were made to the current guidance on stock compensation. ASU 2017-09 is required to be applied on a prospective basis. The Company adopted ASU 2017-09 effective April 1, 2017. The adoption of this standard did not impact the Company's condensed consolidated financial statements for the three and nine months ended September 30, 2017.



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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes which are included in Item 1 of this Quarterly Report on Form 10-Q, as well as the information contained in our Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission.*

*In this Quarterly Report on Form 10-Q, unless the context indicates otherwise: “Douglas Dynamics,” the “Company,” “we,” “our,” or “us” refer to Douglas Dynamics, Inc.*

**Forward-Looking Statements**

*This Quarterly Report on Form 10-Q contains certain “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements include information relating to future events, product demand, the payment of dividends, future financial performance, strategies, expectations, competitive environment, regulation and availability of financial resources. These statements are often identified by use of words such as “anticipate,” “believe,” “intend,” “estimate,” “expect,” “continue,” “should,” “could,” “may,” “plan,” “project,” “predict,” “will” and similar expressions and include references to assumptions and relate to our future prospects, developments and business strategies. Such statements involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: (i) weather conditions, particularly lack of or reduced levels of snowfall and the timing of such snowfall; (ii) a significant decline in economic conditions; (iii) our inability to maintain good relationships with the original equipment manufacturers with whom we currently do significant business; (iv) lack of available or favorable financing options for our end-users, distributors or customers; (v) increases in the price of steel or other materials necessary for the production of our products that cannot be passed on to our distributors; (vi) increases in the price of fuel; (vii) the inability of our suppliers and original equipment manufacturer partners to meet our volume or quality requirements; (viii) inaccuracies in our estimates of future demand for our products; (ix) our inability to protect or continue to build our intellectual property portfolio; (x) the effects of laws and regulations and their interpretations on our business and financial condition; (xi) our inability to develop new products or improve upon existing products in response to end-user needs; (xii) losses due to lawsuits arising out of personal injuries associated with our products; (xiii) factors that could impact the future declaration and payment of dividends; (xiv) our inability to compete effectively against competition; and (xv) our inability to achieve the projected financial performance with the business of Henderson, which we acquired in 2014, or the assets of Dejana, which we acquired in 2016, and unexpected costs or liabilities related to such acquisitions, as well as those discussed in the sections entitled “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q, if any, or in our most recent Annual Report on Form 10-K. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. In addition, the forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date hereof and we undertake no obligation, except as required by law, to update or release any revisions to any forward-looking statement, even if new information becomes available in the future.*

**Results of Operations**

The Company operates through two reportable business segments as described below.

**Work Truck Attachments.** The Work Truck Attachments segment includes snow and ice management attachments sold under the FISHER®, WESTERN®, HENDERSON® and SNOWEX® brands. This segment consists of our operations that, prior to our acquisition of Dejana, were our single operating segment, consisting of the manufacture and sale of snow and ice control products. As described under “Seasonality and Year-To Year Variability,” the Work Truck Attachments Segment is seasonal and, as a result, its results of operations can vary from quarter-to-quarter and from year-to-year.

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**Work Truck Solutions.** The Work Truck Solutions segment, which was created as a result of the Dejana acquisition, includes the premier truck up-fit of market leading attachments and storage solutions for commercial work vehicles under the DEJANA® brand and its related sub-brands.

Because the Work Truck Solutions segment consists only of the assets of Dejana that were acquired on July 15, 2016, and the assets of Arrowhead that were acquired on May 1, 2017, results from periods prior to the acquisition of Dejana are solely attributable to the Work Truck Attachments segment and we therefore continue to report our results of operations from such periods on a consolidated basis. As a result, all references to results for the third quarter of 2016 for the Work Truck Solutions segment refer to the period from July 16, 2016 to September 30, 2016 following the Dejana acquisition. See Note 13 to the Consolidated Financial Statements for information concerning individual segment performance.

#### Overview

The following table sets forth, for the three and nine months ended September 30, 2017 and 2016, the consolidated statements of operations of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the table below and throughout this “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” consolidated statements of operations data for the three and nine months ended September 30, 2017 and 2016 have been derived from our unaudited consolidated financial statements. The information contained in the table below should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q.

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(unaudited) (in thousands)		(unaudited) (in thousands)	
Net sales	\$ 125,339	\$ 123,573	\$ 336,958	\$ 286,125
Cost of sales	89,284	86,929	238,683	193,829
Gross profit	36,055	36,644	98,275	92,296
Selling, general, and administrative expense	13,093	15,761	45,074	37,986
Intangibles amortization	2,997	4,395	8,532	7,847
Income from operations	19,965	16,488	44,669	46,463
Interest expense, net	(4,860)	(4,518)	(14,348)	(10,253)
Litigation proceeds	-	-	1,275	10,050
Other expense, net	(24)	(97)	(132)	(230)
Income before taxes	15,081	11,873	31,464	46,030
Income tax expense	5,754	4,571	10,668	17,122
Net income	\$ 9,327	\$ 7,302	\$ 20,796	\$ 28,908

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The following table sets forth for the three and nine months ended September 30, 2017 and 2016, the percentage of certain items in our condensed consolidated statement of operations, relative to net sales:

	Three Months Ended		Nine Months Ended	
	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)	September 30, 2017 (unaudited)	September 30, 2016 (unaudited)
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	71.2 %	70.3 %	70.8 %	67.7 %
Gross profit	28.8 %	29.7 %	29.2 %	32.3 %
Selling, general, and administrative expense	10.4 %	12.8 %	13.4 %	13.3 %
Intangibles amortization	2.4 %	3.6 %	2.5 %	2.7 %
Income from operations	16.0 %	13.3 %	13.3 %	16.3 %
Interest expense, net	(3.9)%	(3.7)%	(4.3)%	(3.6)%
Litigation proceeds	- %	- %	0.4 %	3.5 %
Other expense, net	- %	- %	- %	(0.1)%
Income before taxes	12.1 %	9.6 %	9.4 %	16.1 %
Income tax expense	4.6 %	3.7 %	3.2 %	6.0 %
Net income	7.5 %	5.9 %	6.2 %	10.1 %

*Net Sales*

Net sales were \$125.3 million for the three months ended September 30, 2017 compared to \$123.6 million in the three months ended September 30, 2016, an increase of \$1.7 million, or 1.4%. Net sales were \$337.0 million for the nine months ended September 30, 2017 compared to \$286.1 million in the nine months ended September 30, 2016, an increase of \$50.9 million or 17.8%. While net sales in the three month period ended September 30, 2017 were relatively flat compared to the same period last year, there were offsetting changes across our two reporting segments. Namely, net sales at our Work Truck Solutions segment increased \$5.1 million, resulting from the segment generating net sales over the entire three month period in 2017, compared to the period following July 15, 2016, when the Work Truck Solutions segment was created following the acquisition of Dejana. Meanwhile, net sales at our Work Truck Attachments segment decreased \$2.4 million due primarily to below average levels of snowfall in the snow season ending March 31, 2017. Net sales increased in the nine months ended September 30, 2017 due to the increase in net sales at our Work Truck Solutions segment of \$69.7 million, resulting from the timing of the Dejana acquisition compared to the same period last year. Work Truck Attachments segment net sales decreased \$15.8 million for the nine months ended September 30, 2017, due primarily to below average levels of snowfall in the snow season ending March 31, 2017.

*Cost of Sales*

Cost of sales was \$89.3 million for the three months ended September 30, 2017 compared to \$86.9 million for the three months ended September 30, 2016, an increase of \$2.4 million, or 2.8%. Cost of sales was \$238.7 million for the nine months ended September 30, 2017 compared to \$193.8 million for the nine months ended September 30, 2016, an increase of \$44.9 million, or 23.2%. The increase in cost of sales for both the three and nine months ended September 30, 2017 compared to the corresponding periods in 2016 was driven by the addition of cost of sales attributable to the Work Truck Solutions segment that resulted from the Dejana acquisition as discussed above under “—Net Sales.” The Company experienced higher cost of sales as a percentage of sales of 71.2% for the three month period ended September 30, 2017 compared to 70.3% for the three month period ended September 30, 2016. The Company experienced higher cost of sales as a percentage of sales of 70.8% for the nine month period ended September 30, 2017 compared to 67.7% for the nine month period ended September 30, 2016. For both the three and nine months ended September 30, 2017 cost of sales as percentage of net sales increased as a result of increasing marginal production costs at our Work Truck Attachments segment due to decreased volume. Also contributing to the increase is a lower margin channel mix in Work Truck Solutions. As a percentage of sales, cost of sales are higher in

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our Work Truck Solutions segment than historically experienced by our Work Truck Attachments segment, also contributing to the increase. Additionally, the Company experienced favorable commodity pricing, namely steel, in the three and nine months ended September 30, 2016, while commodity prices returned to normal in the three and nine months ended September 30, 2017.

*Gross Profit*

Gross profit was \$36.1 million for the three months ended September 30, 2017 compared to \$36.6 million for the three months ended September 30, 2016, a decrease of \$0.5 million, or 1.4%. Gross profit was \$98.3 million for the nine months ended September 30, 2017 compared to \$92.3 million for the nine months ended September 30, 2016, an increase of \$6.0 million, or 6.5%. Gross profit increased for the nine month period due to increased sales as discussed above under “-Net Sales.” As a percentage of net sales, gross profit decreased from 29.7% for the three months ended September 30, 2016 to 28.8% for the corresponding period in 2017. As a percentage of net sales, gross profit decreased from 32.3% for the nine months ended September 30, 2016 to 29.2% for the corresponding period in 2017. The reasons for the decrease in gross profit as a percentage of net sales are the same as those relating to the increase in cost of sales as a percentage of sales discussed above under “—Cost of Sales.”

*Selling, General and Administrative Expense*

Selling, general and administrative expenses, including intangibles amortization, were \$16.1 million for the three months ended September 30, 2017, compared to \$20.2 million for the three months ended September 30, 2016, a decrease of \$4.1 million, or 20.3%. Selling, general and administrative expenses, including intangibles amortization, were \$53.6 million for the nine months ended September 30, 2017, compared to \$45.8 million for the nine months ended September 30, 2016, an increase of \$7.8 million, or 17.0%. See the following summary of Selling, general and administrative expenses, including intangibles amortization by segment:

	<b>Three Months Ended</b>	<b>Three Months Ended</b>	<b>Nine Months Ended</b>	<b>Nine Months Ended</b>
	<b>September 30, 2017</b>	<b>September 30, 2016</b>	<b>September 30, 2017</b>	<b>September 30, 2016</b>
<b>Selling, general, and administrative expense</b>				
Work Truck Attachments	\$ 7,378	\$ 8,005	\$ 22,780	\$ 23,047
Work Truck Solutions	2,997	2,934	11,309	2,934
Corporate & Eliminations	2,718	4,822	10,985	12,005
	<u>\$ 13,093</u>	<u>\$ 15,761</u>	<u>\$ 45,074</u>	<u>\$ 37,986</u>
<b>Intangibles amortization</b>				
Work Truck Attachments	\$ 1,726	\$ 1,725	\$ 5,178	\$ 5,177
Work Truck Solutions	1,271	2,670	3,354	2,670
Corporate & Eliminations	-	-	-	-
	<u>\$ 2,997</u>	<u>\$ 4,395</u>	<u>\$ 8,532</u>	<u>\$ 7,847</u>
<b>Selling, general, and administrative expense including intangibles amortization</b>				
Work Truck Attachments	\$ 9,104	\$ 9,730	\$ 27,958	\$ 28,224
Work Truck Solutions	4,268	5,604	14,663	5,604
Corporate & Eliminations	2,718	4,822	10,985	12,005
	<u>\$ 16,090</u>	<u>\$ 20,156</u>	<u>\$ 53,606</u>	<u>\$ 45,833</u>

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The decrease in the three months ended September 30, 2017 was driven by a decrease in acquisition expenses of \$1.9 million at Corporate, a decrease in intangible amortization expense at Work Truck Solutions of \$1.7 million resulting from fully amortizing the order backlog acquired in the Dejana acquisition, and a decrease in discretionary spending due to low snowfall in the season ending March 31, 2017 at Work Truck Attachments. Additionally contributing to the decrease in the three months ended September 30, 2017 is \$1.2 million in earnout reversal at Work Truck Solutions related to the Dejana acquisition. The increase in the nine months ended September 30, 2017 were driven by our Work Truck Solutions segment incurring \$14.7 million of ongoing selling, general and administrative expenses in the period, compared to \$5.6 million in the corresponding period in the prior year, due to the timing of the acquisition in the prior year. Slightly offsetting the increase in the nine months ended September 30, 2017 was a decrease in discretionary spending due to low snowfall in the season ending March 31, 2017 at Work Truck Attachments, lower acquisition related expenses incurred at Corporate, and \$1.2 million in earnout reversal at Work Truck Solutions related to the Dejana acquisition.

### *Income from operations*

Income from operations was \$20.0 million for the three months ended September 30, 2017 compared to \$16.5 million for the three months ended September 30, 2016 an increase of \$3.5 million, or 21.2%. Income from operations was \$44.7 million for the nine months ended September 30, 2017 compared to \$46.5 million for the nine months ended September 30, 2016, a decrease of \$1.8 million, or 3.9%. Income from operations at our Work Truck Attachments segment was \$52.2 million for the nine months ended September 30, 2017 compared to \$62.6 million for the nine months ended September 30, 2016, a decrease of \$10.4 million, or 16.6%. Income from operations at our Work Truck Solutions segment was \$5.1 million for the nine months ended September 30, 2017. The changes in income from operations for the three and nine months ended September 30, 2017 was driven by the factors described above under “—Net Sales,” “—Cost of Sales,” and “—Selling, General and Administrative Expense.”

### *Interest Expense*

Interest expense was \$4.9 million for the three months ended September 30, 2017, which was higher than the \$4.5 million incurred in the same period in the prior year. Interest expense was \$14.3 million for the nine months ended September 30, 2017 which was higher than the \$10.3 million incurred in the same period in the prior year. The increase in interest expense for the three months ended September 30, 2017 was due to the payment of financing costs of \$0.7 million to refinance the Term Loan Credit Agreement to decrease the interest rate margins that apply to the term loan facility, which was completed in August of 2017. The increase in interest expense for the nine months ended September 30, 2017 was due to the incremental \$130.0 million in borrowings under the Company’s term loan used to finance the Dejana acquisition. Additionally, the Company incurred \$1.6 million of interest expense in the nine months ended September 30, 2017 related to the amendments to its Term Loan Credit Agreement to decrease the interest rate margins that apply to the term loan facility, which were completed in February 2017 and August 2017.

### *Litigation Proceeds*

Litigation proceeds were \$1.3 million for the nine months ended September 30, 2017 due to a settlement related to the successful conclusion of a patent infringement lawsuit against Meyer Products, LLC. There were no litigation proceeds in the three months ended September 30, 2017 or September 30, 2016. Litigation proceeds were \$10.0 million for the nine months ended September 30, 2016 due to a settlement related to the successful conclusion of a patent infringement lawsuit against Buyers Products Company. Under the settlement agreement, the Company received a payment of \$10.0 million.

### *Income Taxes*

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The largest item affecting deferred taxes is the difference between book and tax amortization of goodwill and other intangibles amortization. The Company’s effective tax rate was 38.1% and 38.5% for the three months ended September 30, 2017 and 2016, respectively. The Company’s effective tax rate was 33.9% and 37.2% for the nine months ended September 30, 2017 and 2016, respectively. The effective tax rate for the three months ended September 30, 2017 was relatively flat when compared to the same period in 2016. The effective tax rate for the nine months ended September

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30, 2017 is lower than the corresponding period in 2016 due to the release of the reserve for uncertain tax positions and for excess stock compensation benefit recognized, slightly offset by changes in state deferred income tax rates in the nine months ended September 30, 2017.

### *Net Income*

Net income for the three months ended September 30, 2017 was \$9.3 million, compared to net income of \$7.3 million for the corresponding period in 2016, an increase in net income of \$2.0 million. Net income for the nine months ended September 30, 2017 was \$20.8 million, compared to net income of \$28.9 million for the corresponding period in 2016, a decrease in net income of \$8.1 million. The increase in net income for the three months ended September 30, 2017 and the decrease in net income in the nine months ended September 30, 2017 were driven by the factors described above under “— Net Sales,” “—Cost of Sales,” “— Selling, General and Administrative Expense,” and “—Litigation Proceeds.” As a percentage of net sales, net income was 7.5% for the three months ended September 30, 2017 compared to 5.9% for the three months ended September 30, 2016. As a percentage of net sales, net income was 6.2% for the nine months ended September 30, 2017 compared to 10.1% for the nine months ended September 30, 2016.

### *Adjusted EBITDA*

Adjusted EBITDA for the three months ended September 30, 2017 was \$24.2 million compared to \$25.1 million in the corresponding period in 2016, a decrease of \$0.9 million. Adjusted EBITDA for the nine months ended September 30, 2017 was \$60.6 million compared to \$64.0 million in the corresponding period in 2016, a decrease of \$3.4 million. For the three and nine month periods ended September 30, 2017, the decrease in Adjusted EBITDA is attributable to the factors described above under “— Net Sales” and “— Cost of Sales.”

### **Discussion of Critical Accounting Policies**

For a discussion of our critical accounting policies, please see the disclosure included in our Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission, under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies.”

### **Liquidity and Capital Resources**

Our principal sources of cash have been and we expect will continue to be, cash from operations and borrowings under our senior credit facilities.

Our primary uses of cash are to provide working capital, meet debt service requirements, finance capital expenditures, pay dividends under our dividend policy and support our growth, including through potential acquisitions, and for other general corporate purposes. For a description of the seasonality of our working capital rates see “—Seasonality and Year-To-Year Variability.”

Our Board of Directors has adopted a dividend policy that reflects an intention to distribute to our stockholders a regular quarterly cash dividend. The declaration and payment of these dividends to holders of our common stock is at the discretion of our Board of Directors and depends upon many factors, including our financial condition and earnings, legal requirements, taxes and other factors our Board of Directors may deem to be relevant. The terms of our indebtedness may also restrict us from paying cash dividends on our common stock under certain circumstances. As a result of this dividend policy, we may not have significant cash available to meet any large unanticipated liquidity requirements. As a result, we may not retain a sufficient amount of cash to fund our operations or to finance unanticipated capital expenditures or growth opportunities, including acquisitions. Our Board of Directors may, however, amend, revoke or suspend our dividend policy at any time and for any reason.

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As of September 30, 2017, we had \$75.7 million of total liquidity, comprised of \$1.5 million in cash and cash equivalents and borrowing availability of \$74.2 million under our revolving credit facility, compared with total liquidity as of December 31, 2016 of approximately \$108.3 million, comprised of approximately \$18.6 million in cash and cash equivalents and borrowing availability of approximately \$89.7 million under our revolving credit facility. The decrease in our total liquidity from December 31, 2016 is primarily due to the seasonality of our business. Borrowing availability under our revolving credit facility is governed by a borrowing base, the calculation of which includes cash on hand. Accordingly, use of cash on hand may also result in a reduction in the amount available for borrowing under our revolving credit facility. Furthermore, our revolving credit facility requires us to maintain at least \$10.5 million of borrowing availability and 15% of the aggregate revolving commitments at the time of determination. We expect that cash on hand and cash we generate from operations, as well as available credit under our senior credit facilities, will provide adequate funds for the purposes described above for at least the next 12 months.

The following table shows our cash and cash equivalents and inventories in thousands at September 30, 2017, December 31, 2016 and September 30, 2016.

	As of		
	September 30, 2017	December 31, 2016	September 30, 2016
Cash and cash equivalents	\$ 1,482	\$ 18,609	\$ 303
Inventories	77,447	70,871	71,607

We had cash and cash equivalents of \$1.5 million at September 30, 2017 compared to cash and cash equivalents of \$18.6 million and \$0.3 million at December 31, 2016 and September 30, 2016, respectively. The table below sets forth a summary of the significant sources and uses of cash for the periods presented in thousands.

Cash Flows (in thousands)	Nine Months Ended			%
	September 30, 2017	September 30, 2016	Change	
Net cash provided by (used in) operating activities	\$ (669)	\$ 11,211	\$ (11,880)	(106.0)%
Net cash used in investing activities	(12,601)	(183,011)	170,410	(93.1)%
Net cash provided by (used in) financing activities	(3,857)	135,259	(139,116)	(102.9)%
Decrease in cash	\$ (17,127)	\$ (36,541)	\$ 19,414	53.1 %

Net cash provided by operating activities decreased \$11.9 million from the nine months ended September 30, 2016 to the nine months ended September 30, 2017. The decrease in cash provided by operating activities was due to unfavorable changes in working capital of \$7.8 million and by a \$4.1 million decrease in net income adjusted for reconciling items. The largest unfavorable change in working capital was driven by the increase in cash used in income tax receivables and inventory. The increase in income tax receivables is a result of being less profitable in the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. Meanwhile the increase in cash used in inventory is a result of increased inventory at Work Truck Solutions. Also affecting net cash provided by operating activities is the decrease in net income attributable to litigation proceeds, where \$10.0 million of litigation proceeds were included in income in the nine months ended September 30, 2016, compared to \$1.3 million in the nine months ended September 30, 2017.

Net cash used in investing activities decreased \$170.4 million for the nine months ended September 30, 2017, compared to the corresponding period in 2016. This decrease was primarily due to the \$175.9 million in cash payments that occurred in the nine months ended September 30, 2016 related to the acquisition of Dejana. Slightly offsetting this decrease was the \$7.4 million in cash payments that occurred in the nine months ended September 30, 2017 related to the acquisition of Arrowhead. Also contributing to the decrease was a \$1.9 million decrease in capital expenditures

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in the nine months ended September 30, 2017 compared to the corresponding period in 2016, due to the Company reducing discretionary spending following the below average snowfall in the snow season ending March 31, 2017.

Net cash provided by financing activities decreased \$139.1 million for the nine months ended September 30, 2017 as compared to the corresponding period in 2016. The decrease was primarily a result of the non-recurrence of \$129.4 million in borrowings on long-term debt used to fund the Dejana acquisition in 2016. Additionally, the decrease is due to a \$5.5 million earout payment related to Dejana that occurred in the nine months ended September 30, 2017. Further, the decrease is due to a \$3.0 million decrease in revolver borrowings for the nine months ended September 30, 2017 compared to the corresponding period in 2016 due to changes in working capital needs.

### *Free Cash Flow*

Free cash flow for the three months ended September 30, 2017 was (\$16.1) million compared to (\$19.4) million in the corresponding period in 2016, a decrease in cash used of \$3.3 million. Cash used in operating activities decreased from (\$17.1) million for the three months ended September 30, 2016 to (\$14.0) million for the three months ended September 30, 2017, as discussed above under "Liquidity and Capital Resources." Free cash flow for the nine months ended September 30, 2017 was (\$5.9) million compared to \$4.1 million in the corresponding period in 2016, a decrease in cash provided of \$10.0 million. The decrease in free cash flow is primarily a result of lower cash provided by operating activities of \$11.9 million, as discussed above under "Liquidity and Capital Resources." Meanwhile, acquisitions of property and equipment also decreased from \$7.1 million for the nine months ended September 30, 2016 to \$5.2 million for the nine months ended September 30, 2017.

### *Non-GAAP Financial Measures*

This Quarterly Report on Form 10-Q contains financial information calculated other than in accordance with U.S. generally accepted accounting principles ("GAAP").

These non-GAAP measures include:

- Free cash flow; and
- Adjusted EBITDA.

These non-GAAP disclosures should not be construed as an alternative to the reported results determined in accordance with GAAP.

Free cash flow is a non-GAAP financial measure which we define as net cash provided by (used in) operating activities less capital expenditures. Free cash flow should be evaluated in addition to, and not considered a substitute for, other financial measures such as net income and cash flow provided by operations. We believe that free cash flow represents our ability to generate additional cash flow from our business operations.

The following table reconciles net cash provided by operating activities, a GAAP measure, to free cash flow, a non-GAAP measure.

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	(In Thousands)		(In Thousands)	
Net cash provided by (used in) operating activities	\$ (14,006)	\$ (17,079)	\$ (669)	\$ 11,211
Acquisition of property and equipment	(2,070)	(2,290)	(5,216)	(7,084)
Free cash flow	\$ (16,076)	\$ (19,369)	\$ (5,885)	\$ 4,127

Adjusted EBITDA represents net income before interest, taxes, depreciation and amortization, as further adjusted for certain charges consisting of unrelated legal and consulting fees, stock-based compensation, litigation proceeds and certain purchase accounting expenses. We use, and we believe our investors benefit from the presentation



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of, Adjusted EBITDA in evaluating our operating performance because it provides us and our investors with additional tools to compare our operating performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our core operations. In addition, we believe that Adjusted EBITDA is useful to investors and other external users of our consolidated financial statements in evaluating our operating performance as compared to that of other companies, because it allows them to measure a company's operating performance without regard to items such as interest expense, taxes, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets and liabilities, capital structure and the method by which assets were acquired. Our management also uses Adjusted EBITDA for planning purposes, including the preparation of our annual operating budget and financial projections. Management also uses Adjusted EBITDA to evaluate our ability to make certain payments, including dividends, in compliance with our senior credit facilities, which is determined based on a calculation of "Consolidated Adjusted EBITDA" that is substantially similar to Adjusted EBITDA.

Adjusted EBITDA has limitations as an analytical tool. As a result, you should not consider it in isolation, or as a substitute for net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- Other companies, including other companies in our industry, may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure; and
- Adjusted EBITDA does not reflect tax obligations whether current or deferred.

The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to Adjusted EBITDA as well as the resulting calculation of Adjusted EBITDA for the three and nine months ended September 30, 2017 and 2016:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2017</u>	<u>September 30, 2016</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net income</b>	\$ 9,327	\$ 7,302	\$ 20,796	\$ 28,908
Interest expense, net	4,860	4,518	14,348	10,253
Income tax expense	5,754	4,571	10,668	17,122
Depreciation expense	1,806	1,617	5,283	4,370
Amortization	2,997	4,395	8,532	7,847
<b>EBITDA</b>	<u>24,744</u>	<u>22,403</u>	<u>59,627</u>	<u>68,500</u>
Stock-based compensation expense	642	522	2,750	2,258
Litigation proceeds	-	-	(1,275)	(10,050)
Purchase accounting (1)	(1,186)	(58)	(1,186)	74
Other charges (2)	(41)	2,221	728	3,239
<b>Adjusted EBITDA</b>	<u>\$ 24,159</u>	<u>\$ 25,088</u>	<u>\$ 60,644</u>	<u>\$ 64,021</u>

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- (1) Reflects \$1,186 in reversal of earnout compensation related to Dejana in the three and nine months ended September 30 2017. Reflects (\$183) in earnout compensation benefit related to TrynEx in the three months ended September 30, 2016 and (\$51) in earnout compensation benefit related to TrynEx in the nine months ended September 30, 2016. Reflects \$125 in inventory step-up related to Dejana included in cost of sales in the three and nine months ended September 30, 2016.
- (2) Reflects expenses of (\$41) and \$2,221 for unrelated legal and consulting fees for the three months ended September 30, 2017 and September 30, 2016, respectively and expenses of \$728 and \$3,239 for unrelated legal and consulting fees for the nine months ended September 30, 2017 and September 30, 2016, respectively.

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**Contractual Obligations**

We amended our Term Loan Credit Agreement in August 2017 as included in Note 6 to the Unaudited Consolidated Financial Statement. There have been no other material changes to our contractual obligations in the three months ended September 30, 2017.

**Off-Balance Sheet Arrangements**

We are not party to any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

**Seasonality and Year-to-Year Variability**

Our Work Truck Attachments segment is seasonal and also varies from year-to-year. Consequently, our results of operations and financial condition for this segment vary from quarter-to-quarter and from year-to-year as well. In addition, because of this seasonality and variability, the results of operations for our Work Truck Attachments segment and our consolidated results of operations for any quarter may not be indicative of results of operations that may be achieved for a subsequent quarter or the full year, and may not be similar to results of operations experienced in prior years. That being the case, while snowfall levels vary within a given year and from year-to-year, snowfall, and the corresponding replacement cycle of snow and ice control equipment manufactured and sold by our Work Truck Attachments segment, is relatively consistent over multi-year periods.

Sales of our Work Truck Attachments products are significantly impacted by the level, timing and location of snowfall, with sales in any given year and region most heavily influenced by snowfall levels in the prior snow season (which we consider to begin in October and end in March) in that region. This is due to the fact that end-user demand for our Work Truck Attachments products is driven primarily by the condition of their snow and ice control equipment, and in the case of professional snowplowers, by their financial ability to purchase new or replacement snow and ice control equipment, both of which are significantly affected by snowfall levels. Heavy snowfall during a given winter causes usage of our Work Truck Attachments products to increase, resulting in greater wear and tear to our products and a shortening of their life cycles, thereby creating a need for replacement snow and ice control equipment and related parts and accessories. In addition, when there is a heavy snowfall in a given winter, the increased income our professional snowplowers generate from their professional snowplow activities provides them with increased purchasing power to purchase replacement snow and ice control equipment prior to the following winter. To a lesser extent, sales of our Work Truck Attachments products are influenced by the timing of snowfall in a given winter. Because an early snowfall can be viewed as a sign of a heavy upcoming snow season, our end-users may respond to an early snowfall by purchasing replacement snow and ice control equipment during the current season rather than delaying purchases until after the season is over when most purchases are typically made by end-users.

We attempt to manage the seasonal impact of snowfall on our revenues in part through our pre-season sales program, which involves actively soliciting and encouraging pre-season distributor orders in the second and third quarters by offering our Work Truck Attachments distributors a combination of pricing, payment and freight incentives during this period. These pre-season sales incentives encourage our Work Truck Attachments distributors to re-stock their inventory during the second and third quarters in anticipation of the peak fourth quarter retail sales period by offering pre-season pricing and payment deferral until the fourth quarter. As a result, we tend to generate our greatest volume of sales (an average of over two-thirds over the last ten years) for the Work Truck Attachments segment during the second and third quarters, providing us with manufacturing visibility for the remainder of the year. By contrast, our revenue and operating results for the Work Truck Attachments segment tend to be lowest during the first quarter, as management believes our end-users prefer to wait until the beginning of a snow season to purchase new equipment and as our distributors sell off inventory and wait for our pre-season sales incentive period to re-stock inventory. Fourth quarter sales for the Work Truck Attachments segment vary from year-to-year as they are primarily driven by the level, timing and location of snowfall during the quarter. This is because most of our fourth quarter sales and shipments for the Work Truck Attachments segment consist of re-orders by distributors seeking to restock inventory to meet immediate customer needs caused by snowfall during the winter months.

Because of the seasonality of our sales of Work Truck Attachments products, we experience seasonality in our working capital needs as well. In the first quarter, we typically require capital as we are generally required to build

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our inventory for the Work Truck Attachments segment in anticipation of our second and third quarter pre-season sales. During the second and third quarters, our working capital requirements rise as our accounts receivable for the Work Truck Attachments segment increase as a result of the sale and shipment of products ordered through our pre-season sales program and we continue to build inventory. Working capital requirements peak towards the end of the third quarter and then begin to decline through the fourth quarter through a reduction in accounts receivable for the Work Truck Attachments segment when we receive the majority of the payments for pre-season shipped products.

We also attempt to manage the impact of seasonality and year-to-year variability on our business costs through the effective management of our assets. Our asset management and profit focus strategies include:

- the employment of a highly variable cost structure facilitated by a core group of workers that we supplement with a temporary workforce as sales volumes dictate, which allows us to adjust costs on an as-needed basis in response to changing demand;
- our enterprise-wide lean concept, which allows us to adjust production levels up or down to meet demand;
- the pre-season order program described above, which incentivizes distributors to place orders prior to the retail selling season; and
- a vertically integrated business model.

These asset management and profit focus strategies, among other management tools, allow us to adjust fixed overhead and sales, general and administrative expenditures to account for the year-to-year variability of our sales volumes.

Additionally, although modest, our annual capital expenditure requirements can be temporarily reduced by up to approximately 40% in response to actual or anticipated decreases in sales volumes. If we are unsuccessful in our asset management initiatives, the seasonality and year-to-year variability effects on our business may be compounded and in turn our results of operations and financial condition may suffer.

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

We do not use financial instruments for speculative trading purposes, and do not hold any derivative financial instruments that could expose us to significant market risk. Our primary market risk exposures are changes in interest rates and steel price fluctuations.

#### **Interest Rate Risk**

We are exposed to market risk primarily from changes in interest rates. Our borrowings, including our term loan and any revolving borrowings under our senior credit facilities, are at variable rates of interest and expose us to interest rate risk. A portion of our interest rate risk associated with our term loan is mitigated through an interest rate swap as discussed in Note 6 to the Condensed Consolidated Financial Statements above. In addition, the interest rate on any revolving borrowings is subject to an increase in the interest rate based on our average daily availability under our revolving credit facility.

As of September 30, 2017, we had outstanding borrowings under our term loan of \$311.5 million. A hypothetical interest rate change of 1%, 1.5% and 2% on our term loan would have changed interest incurred for the three months ended September 30, 2017 by \$0.7 million, \$1.0 million and \$1.4 million, respectively. We entered into three interest rate swap agreements with notional amounts of \$45.0 million, \$90.0 million and \$135.0 million effective for the periods December 31, 2015 through March 29, 2018, March 29, 2018 through March 31, 2020 and March 31, 2020 through June 30, 2021, respectively. We may have counterparty credit risk resulting from the interest rate swap, which we monitor on an on-going basis. This risk lies with one global financial institution. Under the interest rate swap agreement, effective as of December 31, 2015, we will either receive or make payments on a monthly basis based on the differential between 6.105% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement, effective as of March 29, 2018, we will either receive or make payments on a monthly basis based on the differential between 6.916% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement, effective as of March 31, 2020, we will either receive or make payments on a monthly basis based on the differential between 7.168% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%). As of September 30, 2017, we had outstanding borrowings under our revolving credit facility of \$23.0 million. A hypothetical interest

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rate change of 1%, 1.5% and 2% on our revolving credit facility would have changed interest incurred for the three months ended September 30, 2017 by \$0.0 million, \$0.0 million and \$0.0 million, respectively.

**Commodity Price Risk**

In the normal course of business, we are exposed to market risk related to our purchase of steel, the primary commodity upon which our manufacturing depends. Our steel purchases as a percentage of revenue were 8.5% and 10.3% for the three and nine months ended September 30, 2017, respectively, compared to 10.4% and 13.1% for the three and nine months ended September 30, 2016, respectively. While steel is typically available from numerous suppliers, the price of steel is a commodity subject to fluctuations that apply across broad spectrums of the steel market. We do not use any derivative or hedging instruments to manage steel price risk. If the price of steel increases, our variable costs could also increase. While historically we have successfully mitigated these increased costs through the implementation of either permanent price increases and/or temporary invoice surcharges, in the future we may not be able to successfully mitigate these costs, which could cause our gross margins to decline. If our costs for steel were to increase by \$1.00 in a period where we are not able to pass any of this increase onto our distributors, our gross margins would decline by \$1.00 in the period in which such inventory was sold.

**Item 4.           *Controls And Procedures***

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this Quarterly Report our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that the information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. In July 2016, the Company acquired substantially all of the assets of Dejana and we are in the process of implementing the Dejana internal control structure and may make changes as we integrate our controls and procedures.

**PART II. OTHER INFORMATION**

**Item 1.           *Legal Proceedings***

In the ordinary course of business, we are engaged in various litigation primarily including product liability and intellectual property disputes. However, management does not believe that any current litigation is material to our operations or financial position. In addition, we are not currently party to any environmental-related claims or legal matters.

**Item 1A.         *Risk Factors***

There have been no significant changes in our risk factors from those described in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

**Unregistered Sales of Equity Securities**

During the three months ended September 30, 2017, the Company sold no securities that were not registered under the Securities Act of 1933, as amended.

**Dividend Payment Restrictions**

The Company's senior credit facilities include certain restrictions on its ability to pay dividends. The senior credit facilities also restrict the Company's subsidiaries from paying dividends and otherwise transferring assets to Douglas Dynamics, Inc. For additional detail regarding these restrictions, see Note 6 to the consolidated financial statements.

**Item 3. *Defaults Upon Senior Securities***

None.

**Item 4. *Mine Safety Disclosures***

None.

**Item 5. *Other Information***

None.

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### **Item 6. Exhibits**

The following documents are filed as Exhibits to this Quarterly Report on Form 10-Q:

<b>Exhibit Numbers</b>	<b>Description</b>
2.1	<a href="#"><u>Second Amendment, dated September 20, 2017, to the Asset Purchase Agreement, dated June 15, 2016 and amended on February 27, 2017, among Dejana Truck &amp; Utility Equipment Company, LLC (formerly known as Acquisition Delta LLC), Peter Paul Dejana Family Trust 12/31/98, Peteco Kings Park Inc. (formerly known as Dejana Truck &amp; Utility Equipment Company, Inc.) and Andrew Dejana, as appointed agent [Incorporated by reference to Exhibit 2.1 to Douglas Dynamics, Inc.'s Current Report on Form 8-K filed on September 26, 2017 (File No. 001-34728)].</u></a>
3.1	<a href="#"><u>Third Amended and Restated Bylaws of Douglas Dynamics, Inc. [Incorporated by reference to Exhibit 3.1 to Douglas Dynamics, Inc.'s Current Report on Form 8-K filed on August 23, 2017 (File No. 001-34728)].</u></a>
10.1	<a href="#"><u>2017 Replacement Term Loan Amendment, dated as of August 17, 2017, among Douglas Dynamics, L.L.C., as borrower, Douglas Dynamics, Inc., Douglas Dynamics Finance Company, Fisher, LLC, Trynex International LLC, Henderson Enterprises Group, Inc., Henderson Products, Inc., and Dejana Truck &amp; Utility Equipment Company, LLC as guarantors, JPMorgan Chase Bank, N.A., as administrative agent and as collateral agent, and the banks and financial institutions party thereto [Incorporated by reference to Exhibit 10.1 to Douglas Dynamics, Inc.'s Current Report on Form 8-K filed on August 18, 2017 (File No. 001-34728)].</u></a>
10.2	<a href="#"><u>Employment Agreement between Sarah C. Lauber and Douglas Dynamics, LLC, effective August 28, 2017 [Incorporated by reference to Exhibit 10.1 to Douglas Dynamics, Inc.'s Current Report on Form 8-K filed on August 23, 2017 (File No. 001-347280)].</u></a>
31.1*	<a href="#"><u>Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1*	<a href="#"><u>Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101*	Financial statements from the quarterly report on Form 10-Q of Douglas Dynamics, Inc. for the quarter ended September 30, 2017, filed on November 7, 2017, formatted in XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; and (iv) the Notes to the Consolidated Financial Statements.

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\* Filed herewith.

**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.

**DOUGLAS DYNAMICS, INC.**

By: /s/ SARAH LAUBER  
Sarah Lauber  
Chief Financial Officer  
(Principal Financial Officer and Authorized  
Signatory)

Dated: November 7, 2017



**Section 302 Certification**

I, James L. Janik, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Douglas Dynamics, 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
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 the 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.

By: /s/ James L. Janik

James L. Janik

*Chairman, President and Chief Executive Officer*

Dated: November 7, 2017

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Section 302 Certification

I, Sarah Lauber, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Douglas Dynamics, 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
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 the 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

By: /s/ Sarah Lauber  
Sarah Lauber  
*Chief Financial Officer*

Dated: November 7, 2017

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**CERTIFICATION**  
**Pursuant to 18 U.S.C. Section 1350**  
**Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Douglas Dynamics, Inc., or the Company, on Form 10-Q for the fiscal quarter ended September 30, 2017 as filed with the U.S. Securities and Exchange Commission on the date hereof, or Report, and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of the Company certifies that:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ James L. Janik  
James L. Janik  
*Chairman, President and Chief Executive Officer*

Dated: November 7, 2017

By: /s/ Sarah Lauber  
Sarah Lauber  
*Chief Financial Officer*

Dated: November 7, 2017

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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