

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2020

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)

**13-4275891**  
(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.01 per share	PLOW	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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 August 4, 2020 was 22,857,457.

**DOUGLAS DYNAMICS, INC.**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	June 30, 2020 <u>(unaudited)</u>	December 31, 2019 <u>(unaudited)</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 34,932	\$ 35,665
Accounts receivable, net	76,827	87,871
Inventories	99,780	77,942
Inventories - truck chassis floor plan	6,663	6,539
Refundable income taxes paid	103	-
Prepaid and other current assets	4,714	3,511
Total current assets	223,019	211,528
Property, plant, and equipment, net	59,114	58,444
Goodwill	113,134	241,006
Other intangible assets, net	158,245	163,722
Operating lease - right of use asset	22,460	22,557
Other long-term assets	8,915	8,438
Total assets	<u>\$ 584,887</u>	<u>\$ 705,695</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 18,743	\$ 16,113
Accrued expenses and other current liabilities	25,845	26,496
Floor plan obligations	6,663	6,539
Operating lease liability - current	4,085	3,822
Income taxes payable	-	2,990
Current portion of long-term debt	1,972	22,143
Total current liabilities	57,308	78,103
Retiree health benefit obligation	6,549	6,338
Deferred income taxes	27,458	47,211
Long-term debt, less current portion	266,336	222,081
Operating lease liability - noncurrent	18,638	18,981
Other long-term liabilities	24,178	19,818
Stockholders' equity:		
Common Stock, par value \$0.01, 200,000,000 shares authorized, 22,857,457 and 22,795,412 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	229	228
Additional paid-in capital	157,497	155,001
Retained earnings	33,320	160,748
Accumulated other comprehensive loss, net of tax	(6,626)	(2,814)
Total stockholders' equity	184,420	313,163
Total liabilities and stockholders' equity	<u>\$ 584,887</u>	<u>\$ 705,695</u>

See the accompanying notes to condensed consolidated financial statements.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
	(unaudited)		(unaudited)	
Net sales	\$ 120,043	\$ 176,356	\$ 188,233	\$ 269,543
Cost of sales	87,968	116,763	144,468	187,004
Gross profit	32,075	59,593	43,765	82,539
Selling, general, and administrative expense	13,858	18,767	31,007	35,411
Impairment charges	127,872	-	127,872	-
Intangibles amortization	2,739	2,739	5,477	5,480
Income (loss) from operations	(112,394)	38,087	(120,591)	41,648
Interest expense, net	(5,662)	(4,189)	(10,702)	(8,339)
Debt modification expense	(3,192)	-	(3,192)	-
Other expense, net	(67)	(125)	(178)	(296)
Income (loss) before taxes	(121,315)	33,773	(134,663)	33,013
Income tax expense (benefit)	(17,456)	8,299	(20,718)	7,836
Net income (loss)	<u>\$ (103,859)</u>	<u>\$ 25,474</u>	<u>\$ (113,945)</u>	<u>\$ 25,177</u>
Weighted average number of common shares outstanding:				
Basic	22,857,457	22,795,412	22,835,356	22,762,431
Diluted	22,857,457	22,830,145	22,835,356	22,795,406
Earnings (loss) per common share:				
Basic	\$ (4.55)	\$ 1.10	\$ (5.00)	\$ 1.09
Diluted	\$ (4.55)	\$ 1.10	\$ (5.00)	\$ 1.08
Cash dividends declared and paid per share	\$ 0.28	\$ 0.27	\$ 0.56	\$ 0.55
Comprehensive income (loss)	<u>\$ (103,377)</u>	<u>\$ 23,075</u>	<u>\$ (117,757)</u>	<u>\$ 21,756</u>

See the accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	June 30, 2020	June 30, 2019
	(unaudited)	
<b>Operating activities</b>		
Net income (loss)	\$ (113,945)	\$ 25,177
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	9,797	9,607
Amortization of deferred financing costs and debt discount	605	607
Debt modification expense	267	-
Stock-based compensation	2,569	2,536
Adjustments on derivatives not classified as hedges	3,057	-
Provision for losses on accounts receivable	491	891
Deferred income taxes	(19,753)	492
Impairment charges	127,872	-
Earnout liability	(2,017)	(217)
Changes in operating assets and liabilities:		
Accounts receivable	9,996	(34,106)
Inventories	(21,838)	(11,920)
Prepaid assets, refundable income taxes and other assets	(1,783)	(1,824)
Accounts payable	2,688	(109)
Accrued expenses and other current liabilities	(3,749)	9,438
Benefit obligations and other long-term liabilities	(281)	(892)
Net cash used in operating activities	(6,024)	(320)
<b>Investing activities</b>		
Capital expenditures	(5,048)	(5,451)
Net cash used in investing activities	(5,048)	(5,451)
<b>Financing activities</b>		
Shares withheld on restricted stock vesting paid for employees' taxes	(72)	(50)
Payments of financing costs	(992)	-
Dividends paid	(12,926)	(12,570)
Net revolver borrowings	-	27,000
Borrowings on long-term debt	270,875	-
Repayment of long-term debt	(246,546)	(31,418)
Net cash provided by (used in) financing activities	10,339	(17,038)
Change in cash and cash equivalents	(733)	(22,809)
Cash and cash equivalents at beginning of period	35,665	27,820
Cash and cash equivalents at end of period	\$ 34,932	\$ 5,011
<b>Non-cash operating and financing activities</b>		
Truck chassis inventory acquired through floorplan obligations	\$ 8,510	\$ 22,485

See the accompanying notes to condensed consolidated financial statements.

**Douglas Dynamics, Inc.**  
**Condensed Consolidated Statements of Shareholders' Equity**  
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Dollars				
<b>Three Months Ended June 30, 2020</b>						
Balance at March 31, 2020	22,857,457	\$ 229	\$ 156,296	\$ 143,618	\$ (7,108)	\$ 293,035
Net income (loss)	—	—	—	(103,859)	—	(103,859)
Dividends paid	—	—	—	(6,439)	—	(6,439)
Adjustment for postretirement benefit liability, net of tax of \$20	—	—	—	—	(57)	(57)
Adjustment for interest rate swap, net of tax of (\$194)	—	—	—	—	539	539
Stock based compensation	—	—	1,201	—	—	1,201
Balance at June 30, 2020	<u>22,857,457</u>	<u>\$ 229</u>	<u>\$ 157,497</u>	<u>\$ 33,320</u>	<u>\$ (6,626)</u>	<u>\$ 184,420</u>
<b>Six Months Ended June 30, 2020</b>						
Balance at December 31, 2019	22,795,412	\$ 228	\$ 155,001	\$ 160,748	\$ (2,814)	\$ 313,163
Net income (loss)	—	—	—	(113,945)	—	(113,945)
Dividends paid	—	—	—	(12,926)	—	(12,926)
Impact due to adoption of ASC 2016-13 (credit losses), net of tax of \$193	—	—	—	(557)	—	(557)
Adjustment for pension and postretirement benefit liability, net of tax of \$40	—	—	—	—	(114)	(114)
Adjustment for interest rate swap, net of tax of \$1,295	—	—	—	—	(3,698)	(3,698)
Shares withheld on restricted stock vesting	—	—	(72)	—	—	(72)
Stock based compensation	62,045	1	2,568	—	—	2,569
Balance at June 30, 2020	<u>22,857,457</u>	<u>\$ 229</u>	<u>\$ 157,497</u>	<u>\$ 33,320</u>	<u>\$ (6,626)</u>	<u>\$ 184,420</u>
<b>Three Months Ended June 30, 2019</b>						
Balance at March 31, 2019	22,795,412	\$ 228	\$ 152,816	\$ 130,176	\$ (7,071)	\$ 276,149
Net income	—	—	—	25,474	—	25,474
Dividends paid	—	—	—	(6,278)	—	(6,278)
Adjustment for pension and postretirement benefit liability, net of tax of (\$18)	—	—	—	—	53	53
Adjustment for interest rate swap, net of tax of \$862	—	—	—	—	(2,452)	(2,452)
Shares withheld on restricted stock vesting	—	—	—	—	—	—
Stock based compensation	—	—	1,482	—	—	1,482
Balance at June 30, 2019	<u>22,795,412</u>	<u>\$ 228</u>	<u>\$ 154,298</u>	<u>\$ 149,372</u>	<u>\$ (9,470)</u>	<u>\$ 294,428</u>
<b>Six Months Ended June 30, 2019</b>						
Balance at December 31, 2018	22,700,991	\$ 227	\$ 151,813	\$ 136,765	\$ (6,049)	\$ 282,756
Net income	—	—	—	25,177	—	25,177
Dividends paid	—	—	—	(12,570)	—	(12,570)
Adjustment for pension and postretirement benefit liability, net of tax of (\$36)	—	—	—	—	106	106
Adjustment for interest rate swap, net of tax of \$1,240	—	—	—	—	(3,527)	(3,527)
Shares withheld on restricted stock vesting	—	—	(50)	—	—	(50)
Stock based compensation	94,421	1	2,535	—	—	2,536
Balance at June 30, 2019	<u>22,795,412</u>	<u>\$ 228</u>	<u>\$ 154,298</u>	<u>\$ 149,372</u>	<u>\$ (9,470)</u>	<u>\$ 294,428</u>

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 2019 Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission on February 25, 2020.

The Company conducts business in two segments: Work Truck Attachments and Work Truck Solutions. Under this reporting structure, the Company's two reportable business segments are as follows:

**Work Truck Attachments.** The Work Truck Attachments segment includes commercial snow and ice management attachments sold under the FISHER®, WESTERN® and SNOWEX® brands. This segment consists of our operations that manufacture and sell snow and ice control products.

**Work Truck Solutions.** The Work Truck Solutions segment includes manufactured municipal snow and ice control products under the HENDERSON® brand and the up-fit of market leading attachments and storage solutions under the HENDERSON® brand, and the DEJANA® brand and its related sub-brands.

See Note 16 to the Unaudited Condensed Consolidated Financial Statements for financial information regarding these segments.

***Interim Condensed Consolidated Financial Information***

The accompanying Condensed Consolidated Balance Sheet as of June 30, 2020, the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and the Condensed Consolidated Statements of Shareholders' Equity for the three and six months ended June 30, 2020 and 2019, and the Condensed Cash Flows for the six months ended June 30, 2020 and 2019 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.

As a result of the COVID-19 pandemic, including the market volatility and other economic implications associated with the crisis and the economic and regulatory measures enacted to contain its spread, the Company's results of operations have been impacted in the three and six months ended June 30, 2020, and may be significantly impacted in future quarters. In addition, the Company's working capital and liquidity needs may become more unpredictable as a result of changes in order patterns among customers due to the pandemic. Based on the COVID-19 pandemic, the results of operations of the Company for any quarter during the crisis 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 preventatively and voluntarily closed its facilities on March 18, 2020. The Company slowly ramped up production and returned to full production during the second quarter. The Company has taken what it believes to be the appropriate and necessary safety steps and precautions as employees have returned to work.

During the six months ended June 30, 2020, the Company benefited from credits related to the passage of the CARES Act on March 27, 2020 in response to the COVID-19 pandemic. Under the CARES Act, the Company qualified for an Employee Retention Credit for wages paid to employees who were not working due to a plant shutdown related to the COVID-19 pandemic. As a result of the CARES Act, the Company recorded a total benefit of \$1,152 for the six months ended June 30, 2020 to Cost of sales and Selling, general and administrative expense on the Consolidated Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

### ***Goodwill***

The Company performs an annual impairment test for goodwill and more frequently if an event or circumstances indicate that an impairment loss has been incurred. Conditions that would trigger an impairment assessment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset. The amount of goodwill impairment is determined by the amount the carrying value of the reporting unit exceeds its fair value. The Company has determined it has three reporting units, and all significant decisions are made on a company-wide basis by the chief operating decision maker. The fair value of the reporting unit is estimated by using an income and market approach. The estimated fair value is compared with the aggregate carrying value. If the fair value is greater than the carrying amount, there is no impairment. If the carrying amount is greater than the fair value, an impairment loss is recognized equal to the difference. Annual impairment tests conducted by the Company on December 31, 2019 resulted in no adjustment to the carrying value of goodwill. During the quarter ended June 30, 2020, the Company identified a triggering event as there has been a significant decline in the business climate and in results of operations as a result of uncertainty related to the COVID-19 pandemic and chassis availability. Given these indicators, the Company determined that there was a higher degree of uncertainty in achieving its financial projections. Therefore, the Company performed an impairment test as of June 30, 2020 for each of its reporting units.

The Work Truck Attachments segment consists of one reporting unit: Commercial. The impairment test performed as of June 30, 2020 indicated no impairment for the Commercial reporting unit. The Work Truck Solutions consists of two reporting units; Municipal and Dejana. At June 30, 2020, the Municipal reporting unit's carrying value exceeded its fair value. As a result, \$47,799 of the Municipal goodwill balance was recorded as an impairment charge during the three and six months ended June 30, 2020 and is included in Impairment charges on the Condensed Consolidated Statements of Operations and Comprehensive Loss. At June 30, 2020, the Dejana reporting unit's carrying value exceeded its fair value. As a result, \$80,073 of the Dejana goodwill balance was recorded as an impairment charge during the three and six months ended June 30, 2020 and is included in Impairment charges on the Condensed Consolidated Statements of Operations and Comprehensive Loss.

### ***Recently Adopted Accounting Pronouncements***

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses," which modifies the measurement of expected credit losses for financial instruments held at the reporting date. The standard is effective for annual periods beginning after December 15, 2019. The Company adopted this standard in the first quarter of fiscal 2020. Upon adoption, the Company recognized the cumulative effect of adopting this guidance as an adjustment to the opening balance of retained earnings of \$557, net of tax. The Company has identified and

implemented changes to processes and controls to meet the standard's updated reporting and disclosure requirements. See Note 3 for additional information.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform," which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The Company adopted this standard in the first quarter of fiscal 2020 specifically related to its interest rate swap, where the Company asserts the forecasted transaction using the existing reference rate associated with the swap remains probable.

## **2. Revenue Recognition**

### Revenue Streams

The following is a description of principal activities from which the Company generates revenue. Revenues are recognized when control of the promised goods or services are transferred to the customer, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services. The Company generates all of its revenue from contracts with customers. Additionally, contract amounts represent the full amount of the transaction price as agreed upon with the customer at the time of order, resulting in a single performance obligation in all cases.

#### Work Truck Attachments

The Company recognizes revenue upon shipment of equipment to the customer. Within the Work Truck Attachments segment, the Company offers a variety of discounts and sales incentives to its distributors. The estimated liability for sales discounts and allowances is calculated using the expected value method and recorded at the time of sale as a reduction of net sales. The liability is estimated based on the costs of the program, the planned duration of the program and historical experience.

The Work Truck Attachments segment has two revenue streams, as identified below.

*Independent Dealer Sales* – Revenues from sales to independent dealers are recognized when the customer obtains control of the Company's product, which occurs at a point in time, typically upon shipment. In these instances, each product is considered a separate performance obligation, and revenue is recognized upon shipment of the goods. Any shipping and handling activities performed by the Company after the transfer of control to the customer (e.g., when control transfers upon shipment) are considered fulfillment activities, and accordingly, the costs are accrued for when the related revenue is recognized.

*Parts & Accessory Sales* – The Company's equipment is used in harsh conditions and parts frequently wear out. These parts drive recurring revenues through parts and accessory sales. The process for recording parts and accessory sales is consistent with the independent dealer sales noted above.

#### Work Truck Solutions

The Work Truck Solutions segment primarily participates in the truck and vehicle upfitting industry in the United States. Customers are billed separately for the truck chassis by the chassis manufacturer. The Company only records sales for the amount of the upfit, excluding the truck chassis. Generally, the Company obtains the truck chassis from the truck chassis manufacturer through either its floor plan agreement with a financial institution or bailment pool agreement with the truck chassis manufacturer. Additionally, in some instances the Company upfits chassis which are owned by the end customer. For truck chassis acquired through the floor plan agreement, the Company holds title to the vehicle from the time the chassis is received by the Company until the completion of the up-fit. Under the bailment pool agreement, the Company does not take title to the truck chassis, but rather only holds the truck chassis on consignment. The Company pays interest on both of these arrangements. The Company records revenue in the same manner net of the value of the truck chassis in both the Company's floor plan and bailment pool agreements. The Company does not set the price for the truck chassis, is not responsible for the billing of the chassis and does not have inventory risk in either the bailment pool or floor plan agreements. The Work Truck

Solutions segment also has manufacturing operations of municipal snow and ice control equipment, where revenue is recognized upon shipment of equipment to the customer.

Revenues from the sales of the Work Truck Solutions products are recognized net of the truck chassis with the selling price to the customer recorded as sales and the manufacturing and up-fit cost of the product recorded as cost of sales. In these cases, the Company acts as an agent as it does not have inventory or pricing control over the truck chassis. Within the Work Truck Solutions segment, the Company also sells certain third-party products for which it acts as an agent. These sales do not meet the criteria for gross sales recognition, and thus are recognized on a net basis at the time of sale. Under net sales recognition, the cost paid to the third-party service provider is recorded as a reduction to sales, resulting in net sales being equal to the gross profit on the transaction.

The Work Truck Solutions segment has four revenue streams, as identified below.

*State and Local Bids* – The Company records revenue of separately sold snow and ice equipment upon shipment and fully upfit vehicles upon delivery. The state and local bid process does not obligate the entity to buy any products from the Company, but merely allows the entity to purchase products in the future typically for a fixed period of time. The entity commits to actually purchasing products from the Company when it issues purchase orders off of a previously awarded bid, which lists out actual quantities of equipment being ordered and the delivery terms. On upfit transactions, the Company is providing a significant service by assembling and integrating the individual products onto the customer's truck. Each individual product and installation activity is highly interdependent and highly interrelated, and therefore the Company considers the manufacture and upfit of a truck a single performance obligation. Any shipping and handling activities performed by the Company after the transfer of control to the Customer (e.g., when control transfers upon shipment) are considered fulfillment activities, and accordingly, the costs are accrued for when the related revenue is recognized.

*Fleet Upfit Sales* – The Company enters into contracts with certain fleet customers. Fleet agreements create enforceable rights without the issuance of a purchase order. Typically, these agreements outline the terms of sale, payment terms, standard pricing, and the rights of the customer and seller. Fleet sales are performed on both customer owned vehicles as well as non-customer owned vehicles. For non-customer owned vehicles, revenue is recognized at a point in time upon delivery of the truck to the customer. For customer-owned vehicles, per Topic 606, revenue is recognized over time based on a cost input method. The Company accumulates costs incurred on partially completed customer-owned upfits based on estimated margin and completion. The Company books an adjustment to account for revenue over time related to customer owned vehicles, which decreased revenue by \$84 and \$1 for the three months ended June 30, 2020 and 2019, respectively. The adjustment decreased revenue by \$190 and increased revenue by \$144 for the six months ended June 30, 2020 and 2019, respectively.

*Dealer Upfit Sales* – The Company upfits work trucks for independent dealer customers. Dealer upfit revenue is recorded upon delivery. The customer does not own the vehicles during the upfit process, and as such revenue is recorded at a point in time upon delivery to the customer.

*Over the Counter / Parts & Accessory Sales* – Work Truck Solutions part and accessory sales are recorded as revenue upon shipment. Additionally, customers can purchase parts at any of the Company's showrooms. In these instances, each product is considered a separate performance obligation, and revenue is recognized upon shipment of the goods or customer pick up.

#### Disaggregation of Revenue

The following table provides information about disaggregated revenue by customer type and timing of revenue recognition, and includes a reconciliation of the disaggregated revenue with reportable segments.

Revenue by customer type was as follows:

<b>Three Months Ended June 30, 2020</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 73,830	\$ 25,826	\$ 99,656
Government	-	11,700	11,700
Fleet	-	7,133	7,133
Other	-	1,554	1,554
<b>Total revenue</b>	<b>\$ 73,830</b>	<b>\$ 46,213</b>	<b>\$ 120,043</b>

<b>Three Months Ended June 30, 2019</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 112,244	\$ 29,149	\$ 141,393
Government	-	16,083	16,083
Fleet	-	16,565	16,565
Other	-	2,315	2,315
<b>Total revenue</b>	<b>\$ 112,244</b>	<b>\$ 64,112</b>	<b>\$ 176,356</b>

<b>Six Months Ended June 30, 2020</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 92,950	\$ 53,878	\$ 146,828
Government	-	22,190	22,190
Fleet	-	16,362	16,362
Other	-	2,853	2,853
<b>Total revenue</b>	<b>\$ 92,950</b>	<b>\$ 95,283</b>	<b>\$ 188,233</b>

<b>Six Months Ended June 30, 2019</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 138,061	\$ 62,192	\$ 200,253
Government	-	31,612	31,612
Fleet	-	31,517	31,517
Other	-	6,161	6,161
<b>Total revenue</b>	<b>\$ 138,061</b>	<b>\$ 131,482</b>	<b>\$ 269,543</b>

Revenue by timing of revenue recognition was as follows:

<b>Three Months Ended June 30, 2020</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Point in time	\$ 73,830	\$ 30,381	\$ 104,211
Over time	-	15,832	15,832
<b>Total revenue</b>	<b>\$ 73,830</b>	<b>\$ 46,213</b>	<b>\$ 120,043</b>

<b>Three Months Ended June 30, 2019</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Point in time	\$ 112,244	\$ 37,455	\$ 149,699
Over time	-	26,657	26,657
<b>Total revenue</b>	<b>\$ 112,244</b>	<b>\$ 64,112</b>	<b>\$ 176,356</b>

<b>Six Months Ended June 30, 2020</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Point in time	\$ 92,950	\$ 60,095	\$ 153,045
Over time	-	35,188	35,188
<b>Total revenue</b>	<b>\$ 92,950</b>	<b>\$ 95,283</b>	<b>\$ 188,233</b>

<b>Six Months Ended June 30, 2019</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Point in time	\$ 138,061	\$ 79,478	\$ 217,539
Over time	-	52,004	52,004
<b>Total revenue</b>	<b>\$ 138,061</b>	<b>\$ 131,482</b>	<b>\$ 269,543</b>

Contract Balances

The following table shows the changes in the Company's contract liabilities during the three and six months ended June 30, 2020 and 2019, respectively:

<b>Three Months Ended June 30, 2020</b>	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
Contract liabilities	\$ 2,035	\$ 6,869	\$ (2,588)	\$ 6,316

<b>Three Months Ended June 30, 2019</b>	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
Contract liabilities	\$ 2,300	\$ 7,816	\$ (3,230)	\$ 6,886

<b>Six Months Ended June 30, 2020</b>	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
Contract liabilities	\$ 2,187	\$ 8,506	\$ (4,377)	\$ 6,316

<b>Six Months Ended June 30, 2019</b>	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
Contract liabilities	\$ 2,006	\$ 10,151	\$ (5,271)	\$ 6,886

The Company receives payments from customers based upon contractual billing schedules. Contract assets include amounts related to our contractual right to consideration for completed performance objectives not yet invoiced. There were no contract assets as of June 30, 2020 or 2019. Contract liabilities include payments received in advance of performance under the contract, variable freight allowances which are refunded to the customer, and rebates paid to distributors under our municipal rebate program, and are realized with the associated revenue recognized under the contract.

The Company recognized revenue of \$947 and \$913 during the three months ended June 30, 2020 and 2019, respectively, which was included in contract liabilities at the beginning of each period. The Company recognized revenue of \$1,414 and \$1,285 during the six months ended June 30, 2020 and 2019, respectively, which was included in contract liabilities at the beginning of each period.

### **3. Credit Losses**

Effective January 1, 2020, the Company adopted new accounting guidance that significantly changes the impairment model for estimating credit losses on financial assets to a current expected credit losses (“CECL”) model that requires entities to estimate the lifetime expected credit losses on such assets, leading to earlier recognition of such losses. Under the new guidance, the Company is required to measure expected credit losses using forward-looking information to assess its allowance for credit losses. The guidance also requires the Company to consider of a broader range of reasonable and supportable information in estimating credit losses. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Effective January 1, 2020, the adoption of CECL accounting, through a modified-retrospective approach, caused an increase to the allowance for credit losses of approximately \$400 and \$350 for the Work Truck Attachments and Work Truck Solutions segments, respectively.

The majority of the Company’s accounts receivable are due from distributors of truck equipment and dealers of completed upfit trucks. Credit is extended based on an evaluation of a customer’s financial condition. A receivable is considered past due if payments have not been received within agreed upon invoice terms. Accounts receivable are written off after all collection efforts have been exhausted. The Company takes a security interest in the inventory as collateral for the receivable but often does not have a priority security interest. The Company has short-term accounts receivable at its Work Truck Attachments and Work Truck Solutions segments subject to evaluation for expected credit losses. Expected credit losses are estimated based on the loss-rate and probability of default methods. On a periodic basis, the Company evaluates its accounts receivable and establishes the allowance for credit losses based on specific customer circumstances, past events including collections and write-off history, current conditions, and reasonable forecasts about the future. Management evaluated the need for an additional allowance for credit losses related to economic conditions arising from the COVID-19 pandemic. Management has not seen indications of customers going out of business and not being able to pay their bills (although the receivables may become more aged). Management believes customers of the Work Truck Attachments segment have long-standing relationships with the Company, and are mature dealers that are likely able to weather the crisis. Many Work Truck Solutions customers are governments and municipal entities who management believes are highly unlikely to default. In addition management believes Work Truck Solutions has long-standing relationships with its customers, and the customers are in general mature dealers that are unlikely to default as a result of the pandemic. Therefore, as of June 30, 2020, no additional reserve related to the COVID-19 pandemic was deemed necessary. As of June 30, 2020 the Company had an allowance for credit losses on its trade accounts receivable of \$1,255 and \$1,471 at its Work Truck Attachments and Work Truck Solutions segments, respectively.

The following table rolls forward the activity related to credit losses for trade accounts receivable at each segment, and on a consolidated basis for the six months ended June 30, 2020:

	Balance at December 31, 2019	Adoption of ASU 2016-13	Additions charged to earnings	Writeoffs	Changes to reserve, net	Balance at June 30, 2020
Six Months Ended June 30, 2020						
Work Truck Attachments	\$ 600	\$ 400	\$ 200	\$ 12	\$ 43	\$ 1,255
Work Truck Solutions	887	350	291	-	(57)	1,471
Total	\$ 1,487	\$ 750	\$ 491	\$ 12	\$ (14)	\$ 2,726

#### 4. 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).

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:

	Fair Value at June 30, 2020	Fair Value at December 31, 2019
Assets:		
Other long-term assets (a)	\$ 7,776	\$ 7,270
Total Assets	\$ 7,776	\$ 7,270
Liabilities:		
Interest rate swaps (b)	\$ 14,772	\$ 6,736
Long-term debt (c)	267,001	247,630
Earnout - Dejana (d)	-	2,000
Total Liabilities	\$ 281,773	\$ 256,383

(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 \$4,021 and \$10,751 at June 30, 2020 are included in Accrued expenses and other current liabilities and Other long-term liabilities, respectively.

Interest rate swaps of \$1,522 and \$5,214 at December 31, 2019 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.

(d) Due to the remote probability of attaining targets related to the obligation for a portion of the potential earnout incurred in conjunction with the acquisition of substantially all of the assets of Dejana Truck & Utility Equipment Company, Inc. and certain entities directly or indirectly owned by the Peter Paul Dejana Family Trust dated 12/31/98 ("Dejana"), the earnout obligation was reduced to \$0 at June 30, 2020, which is the fair value of an obligation for a portion of the potential earnout incurred in conjunction with the acquisition of substantially all of the assets of Dejana Truck & Utility Equipment Company, Inc. and certain entities directly or indirectly owned by Dejana. Included in Other long-term liabilities in the amount of \$2,200 at June 30, 2019 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. There were no adjustments to fair value or payments to former owners in either the three or six months ended June 30, 2020 or June 30, 2019, other than the write off of the remaining balance.

## 5. Inventories

Inventories consist of the following:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Finished goods	\$ 52,290	\$ 42,125
Work-in-process	9,593	6,906
Raw material and supplies	37,897	28,911
	<u>\$ 99,780</u>	<u>\$ 77,942</u>

The inventories in the table above do not include truck chassis inventory financed through a floor plan financing agreement, which are recorded separately on the balance sheet. 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 June 30, 2020 and December 31, 2019, the Company had \$6,663 and \$6,539 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.

## 6. Property, plant and equipment

Property, plant and equipment are summarized as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Land	\$ 2,378	\$ 2,378
Land improvements	4,574	4,541
Leasehold improvements	4,087	4,087
Buildings	29,168	28,715
Machinery and equipment	58,051	55,238
Furniture and fixtures	18,605	17,918
Mobile equipment and other	5,249	5,285
Construction-in-process	7,190	6,555
Total property, plant and equipment	<u>129,302</u>	<u>124,717</u>
Less accumulated depreciation	<u>(70,188)</u>	<u>(66,273)</u>
Net property, plant and equipment	<u>\$ 59,114</u>	<u>\$ 58,444</u>

## 7. Leases

The Company has operating leases for manufacturing and upfit facilities, land and parking lots, warehousing space and certain equipment. The leases have remaining lease terms of less than one year to 16 years, some of which include options to extend the leases for up to 10 years. Such renewal options were not included in the determination of the lease term unless deemed reasonably certain of exercise. The discount rate used in measuring the lease liabilities is based on the Company's interest rate on its secured Term Loan Credit Agreement. Certain of the Company's leases contain escalating rental payments based on an index. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

### *Lease Expense*

The components of lease expense, which are included in Cost of sales and Selling, general and administrative expenses on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), were as follows:

	<u>Three Months Ended June 30, 2020</u>	<u>Six Months Ended June 30, 2020</u>	<u>Three Months Ended June 30, 2019</u>	<u>Six Months Ended June 30, 2019</u>
Operating lease expense	\$ 1,297	\$ 2,608	\$ 1,144	\$ 2,276
Short term lease cost	\$ 106	\$ 145	\$ 96	\$ 196
Total lease cost	<u>\$ 1,403</u>	<u>\$ 2,753</u>	<u>\$ 1,240</u>	<u>\$ 2,472</u>

### *Cash Flow*

Supplemental cash flow information related to leases is as follows:

	<u>Six Months Ended June 30, 2020</u>	<u>Six Months Ended June 30, 2019</u>
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 2,618	\$ 2,209
Non-cash lease expense - right-of-use assets	\$ 2,076	\$ 1,702
Right-of-use assets obtained in exchange for operating lease obligations	\$ 2,697	\$ 2,099

*Balance Sheet*

Supplemental balance sheet information related to leases is as follows:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
<b>Operating Leases</b>		
Operating lease right-of-use assets	\$ 22,460	\$ 22,557
Other current liabilities	4,085	3,822
Operating lease liabilities	<u>18,638</u>	<u>18,981</u>
Total operating lease liabilities	\$ 22,723	\$ 22,803
<b>Weighted Average Remaining Lease Term</b>		
Operating leases	72 months	78 months
<b>Weighted Average Discount Rate</b>		
Operating leases	5.18%	5.32%

*Lease Maturities*

Maturities of leases were as follows:

<b>Year ending December 31,</b>	<b>Operating Leases</b>
2020 (excluding the six months ended June 30, 2020)	\$ 2,591
2021	5,020
2022	4,658
2023	4,108
2024	3,509
Thereafter	6,471
<b>Total Lease Payments</b>	<u>26,357</u>
Less: imputed interest	(3,634)
<b>Total</b>	<u><u>\$ 22,723</u></u>

**8. Other Intangible Assets**

The following is a summary of the Company's other intangible assets:

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
<b>June 30, 2020</b>			
Indefinite-lived intangibles:			
Trademark and tradenames	\$ 77,600	\$ -	\$ 77,600
Amortizable intangibles:			
Dealer network	80,000	65,000	15,000
Customer relationships	80,920	24,566	56,354
Patents	21,136	13,857	7,279
Noncompete agreements	8,640	8,327	313
Trademarks	5,459	3,760	1,699
Backlog	1,900	1,900	-
License	20	20	-
Amortizable intangibles, net	<u>198,075</u>	<u>117,430</u>	<u>80,645</u>
<b>Total</b>	<b><u>\$ 275,675</u></b>	<b><u>\$ 117,430</u></b>	<b><u>\$ 158,245</u></b>

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
<b>December 31, 2019</b>			
Indefinite-lived intangibles:			
Trademark and tradenames	\$ 77,600	\$ -	\$ 77,600
Amortizable intangibles:			
Dealer network	80,000	63,000	17,000
Customer relationships	80,920	21,914	59,006
Patents	21,136	13,229	7,907
Noncompete agreements	8,640	8,177	463
Trademarks	5,459	3,713	1,746
Backlog	1,900	1,900	-
License	20	20	-
Amortizable intangibles, net	<u>198,075</u>	<u>111,953</u>	<u>86,122</u>
<b>Total</b>	<b><u>\$ 275,675</u></b>	<b><u>\$ 111,953</u></b>	<b><u>\$ 163,722</u></b>

Amortization expense for intangible assets was \$2,739 and \$2,739 for the three months ended June 30, 2020 and 2019, respectively. Amortization expense for intangible assets was \$5,477 and \$5,480 for the six months ended June 30, 2020 and 2019, respectively. Estimated amortization expense for the remainder of 2020 and each of the succeeding five years is as follows:

2020	\$ 5,466
2021	10,670
2022	10,520
2023	10,520
2024	7,520
2025	6,075

## 9. Long-Term Debt

Long-term debt is summarized below:

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Term Loan, net of debt discount of \$4,619 and \$781 at June 30, 2020 and December 31, 2019, respectively	\$ 270,381	\$ 245,787
Less current maturities	1,972	22,143
Long-term debt before deferred financing costs	268,409	223,644
Deferred financing costs, net	2,073	1,563
Long-term debt, net	<u>\$ 266,336</u>	<u>\$ 222,081</u>

On June 8, 2020, the Company amended and restated its senior credit facilities. Following the changes, the Company's senior credit facilities consist of a \$275,000 term loan facility (the "Term Loan Credit Agreement") and a \$100,000 revolving credit facility (the "Revolving Credit Agreement") with a group of banks, of which \$10,000 will be available in the form of letters of credit and \$10,000 will be available for the issuance of short-term swingline loans. 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 \$100,000 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 Revolving Credit Agreement also allows the Company, as a borrower, to request the establishment of one or more additional revolving commitments in an aggregate amount not in excess of \$50,000, subject to specified terms and conditions. The Company applied the proceeds of the Term Loan Credit Agreement to refinance its existing senior secured term loan facility and for the payment of transaction consideration and expenses in connection with the Revolving Credit Agreement and the Term Loan Credit Agreement.

Following the June 8, 2020 changes to senior credit facilities described above, the new term loan under the Term Loan Credit Agreement generally bears interest at (at the Company's election) either (i) 2.75% per annum plus the greatest of (which if the following would be less than 2.00%, such rate shall be deemed to be 2.00%) (a) the Prime Rate (as defined in the Term Loan Credit Agreement) in effect on such day, (b) the NYFRB Rate (as defined in the Term Loan Credit Agreement) plus 0.50% and (c) 1.00% plus the greater of (1) the London Interbank Offered Rate ("LIBOR") for a one month interest period multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (2) 1.00% or (ii) 3.75% per annum plus the greater of (a) the LIBOR for the applicable interest period multiplied by the Statutory Reserve Rate and (b) 1.00%. If the LIBOR for the applicable interest period is less than 1.00%, such rate shall be deemed to be 1.00% for purposes of calculating the foregoing interest rates in the Term Loan Credit Agreement. The final maturity date of the Term Loan Credit Agreement is June 8, 2026. The principal amount of the term loan will be repaid in quarterly installments in amounts equal to 0.25% of the principal amount of the Term Loan Credit Agreement, with the balance payable on the maturity date.

The Company will be required to pay a fee for unused amounts under the Revolving Credit Agreement in an amount ranging from 0.375% to 0.50% of the unused portion of the facility, depending on the utilization of the facility. 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 1.75% to 2.25% 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 0.75% to 1.25% per annum, depending on the utilization of the facility, plus the greatest of (which if the following would be less than 2.00%, such rate shall be deemed to be 2.00%) (a) the Prime Rate (as defined in the Revolving Credit Agreement) in effect on such day, (b) the NYFRB Rate (as defined in the Revolving Loan Credit Agreement) plus 0.50% and (c) the LIBOR for a one month interest period multiplied by the Statutory Reserve Rate plus 1%. If the LIBOR for the applicable interest period is less than 1.00%, such rate shall be deemed to be 1.00% for purposes of calculating the foregoing interest rates in the Revolving Credit Agreement. The final maturity date of the Revolving Credit Agreement is June 8, 2023.

The Term Loan Credit Agreement was issued at a \$4,125 discount which is being amortized over the term of the term loan. Additionally, deferred financing costs of \$1,095 are being amortized over the term of the term loan.

The Company's amendment to its term loan facility resulted in a significant modification to a portion of the Company's debt under ASC 470-50. The Company recorded debt expense of \$3,192 related to third party fees that were expensed as incurred as the debt was deemed to be modified under ASC 470-50, and such costs are included as debt modification expense in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2020.

At June 30, 2020, the Company had outstanding borrowings under its term loan credit agreement of \$270,381, outstanding borrowings on its revolving credit facility of \$0, and remaining borrowing availability of \$91,852. At December 31, 2019, the Company had outstanding borrowings under its previous term loan credit agreement of \$245,787, no outstanding borrowings on its previous revolving credit facility and remaining borrowing availability of \$99,352.

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 in 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 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 June 30, 2020, 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 June 30, 2020, the Company was not required to make additional excess cash flow payments during fiscal 2020. The Company made a voluntary payment of \$20,000 on its debt on January 31, 2020.

On June 13, 2019 the Company entered into an interest rate swap agreement to reduce its exposure to interest rate volatility. The interest rate swap has a notional amount of \$175,000 effective for the period May 31, 2019 through May 31, 2024. The Company may have counterparty credit risk resulting from the interest rate swap, which it monitors on an on-going basis. The risk lies with one global financial institution. Under the interest rate swap agreement, the Company will either receive or make payments on a monthly basis based on the differential between 2.495% and LIBOR (with a LIBOR floor of 1.0%). The interest rate swap was previously accounted for as a cash flow hedge. During the first quarter of 2020, the swap was determined to be ineffective. As a result, the swap was redesignated on March 19, 2020, and the remaining losses currently included in Accumulated other comprehensive loss on the Condensed Consolidated Balance Sheets will be amortized into interest expense on a straight line basis through the life of the swap. The amount expected to be amortized from Accumulated other

comprehensive loss into earnings in the next twelve months is \$2,991. A mark-to-market adjustment of \$897 and \$2,310 was recorded as Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2020, respectively, related to the swap.

The interest rate swap's negative fair value at June 30, 2020 was \$14,772, of which \$4,021 and \$10,751 are included in Accrued expenses and other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet, respectively. The interest rate swap's negative fair value at December 31, 2019 was \$6,736, of which \$1,522 and \$5,214 are included in Accrued expenses and other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet, respectively.

**10. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities are summarized as follows:

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Payroll and related costs	\$ 6,333	\$ 10,382
Employee benefits	7,044	6,097
Accrued warranty	3,195	3,941
Interest rate swaps	4,021	1,522
Other	5,252	4,554
	<u>\$ 25,845</u>	<u>\$ 26,496</u>

**11. 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 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. All of the Company's warranties are assurance-type warranties. 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 was \$5,355 at June 30, 2020, of which \$2,160 is included in Other long-term liabilities and \$3,195 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet. The warranty reserve was \$6,541 at December 31, 2019, of which \$2,600 is included in Other long-term liabilities and \$3,941 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:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2020</b>	<b>June 30, 2019</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Balance at the beginning of the period	\$ 5,202	\$ 5,091	\$ 6,541	\$ 6,174
Warranty provision	712	1,219	1,261	1,780
Claims paid/settlements	(559)	(579)	(2,447)	(2,223)
Balance at the end of the period	<u>\$ 5,355</u>	<u>\$ 5,731</u>	<u>\$ 5,355</u>	<u>\$ 5,731</u>

**12. Employee Retirement Plans**

The Company sponsored qualified defined-benefit plans, including the Douglas Dynamics, L.L.C Pension Plan for Hourly Employees (“hourly plan”) and the Douglas Dynamics, L.L.C Salaried Pension Plan (“salaried plan”). The salaried plan generally provided pension benefits that were based on the employee’s average earnings and credited service. Such plan was partially frozen as of December 31, 2011 and subsequently was completely frozen as of December 31, 2018. The hourly plan generally provided benefits of stated amounts for each year of service. Such plan was frozen as of December 31, 2011. Consistent with its long term plans, the Company terminated its hourly plan and salaried plan during the fourth quarter of 2019. In October of 2019, lump-sum settlement payments of \$3,245 and \$12,476 were made from the hourly plan and salaried plan, respectively, in conjunction with the termination of these plans. In satisfaction of its obligations, in November of 2019 the Company purchased annuities of \$4,767 and \$20,044 for hourly plan and salaried plan participants, respectively. The Company recognized a non-cash charge within the Consolidated Statements of Income related to unrecognized actuarial losses in AOCL of \$6,380 in the year ended December 31, 2019.

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

	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
<b>Component of net periodic pension cost:</b>		
Service cost	\$ -	\$ -
Interest cost	410	820
Expected return on plan assets	(294)	(588)
Amortization of net loss	149	298
Net periodic pension cost	<u>\$ 265</u>	<u>\$ 530</u>

In conjunction with the termination of the plans, the Company made payments of \$464 in the fourth quarter of 2019. The Company made required minimum pension funding contributions of \$0 to the pension plans in 2019 as a result of \$7,000 in voluntary contributions in 2018.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
<b>Component of periodic other postretirement benefit cost:</b>				
Service cost	\$ 37	\$ 37	\$ 74	\$ 74
Interest cost	47	63	94	126
Amortization of net gain	(77)	(78)	(154)	(156)
Net periodic other postretirement benefit cost	<u>\$ 7</u>	<u>\$ 22</u>	<u>\$ 14</u>	<u>\$ 44</u>

Service cost is included in Income from operations on the Condensed Consolidated Statements of Operations and Comprehensive Loss. The other components of net periodic pension and postretirement benefit cost are included in Other expense on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

### 13. Earnings (Loss) per Share

Basic earnings (loss) per share of common stock is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share of common stock is computed by dividing net income (loss) by the weighted average number of common shares, using the two-class method. As the Company has granted RSUs that both participate in dividend equivalents and do not participate in dividend equivalents, the Company has calculated earnings (loss) per share pursuant to the two-class method, which is an earnings allocation formula that determines earnings (loss) per share for common stock and participating securities according to dividends declared and participation rights in undistributed losses. 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 earnings (loss) per share is calculated by dividing net earnings (loss) attributable to common stockholders by the weighted average number of common stock and dilutive common stock outstanding during the period. Potential common shares in the diluted net income (loss) per share computation are excluded to the extent that they would be anti-dilutive. Weighted average of potentially dilutive non-participating RSU's were 21,910 and 26,823 in the three and six months ended June 30, 2020, respectively.

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<b>Basic loss per common share</b>				
Net income (loss)	\$ (103,859)	\$ 25,474	\$ (113,945)	\$ 25,177
Less income allocated to participating securities	-	320	-	328
Net income (loss) allocated to common shareholders	\$ (103,859)	\$ 25,154	\$ (113,945)	\$ 24,849
Weighted average common shares outstanding	22,857,457	22,795,412	22,835,356	22,762,431
	<u>\$ (4.55)</u>	<u>\$ 1.10</u>	<u>\$ (5.00)</u>	<u>\$ 1.09</u>
<b>Loss per common share assuming dilution</b>				
Net income (loss)	\$ (103,859)	\$ 25,474	\$ (113,945)	\$ 25,177
Less income allocated to participating securities	-	320	-	328
Net income (loss) allocated to common shareholders	\$ (103,859)	\$ 25,154	\$ (113,945)	\$ 24,849
Weighted average common shares outstanding	22,857,457	22,795,412	22,835,356	22,762,431
Incremental shares applicable to non-participating RSUs	-	34,733	-	32,975
Weighted average common shares assuming dilution	22,857,457	22,830,145	22,835,356	22,795,406
	<u>\$ (4.55)</u>	<u>\$ 1.10</u>	<u>\$ (5.00)</u>	<u>\$ 1.08</u>

### 14. Employee Stock Plans

#### 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.

Equity awards 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 equity awards upon retirement. The retirement provision also stipulates that the employee remain employed by the Company for six months after the first day of the fiscal year of the grant. As the retirement provision does not qualify as a substantive service condition, the Company incurred \$659 and \$1,031 in the three months ended June 30, 2020 and 2019, respectively, and \$962 and \$1,374 in the six months ended June 30, 2020 and 2019, respectively, in additional expense 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 awards 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.

***Performance Share Unit Awards***

The Company granted performance share units as performance-based awards under the 2010 Plan in the first quarters of 2020 and 2019 that are subject to performance conditions over a three year performance period beginning in the year of the grant. Upon meeting the prescribed performance conditions, employees will be issued shares which vest immediately at the end of the measurement period. For performance share grants in years prior to 2018, upon meeting the prescribed performance conditions, in the first quarter of the year subsequent to grant, employees were issued RSUs, a portion of which is 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 \$53.50. The Company recognized \$268 and \$769 of compensation expense related to the awards in the three months ended June 30, 2020 and 2019, respectively. The Company recognized \$752 and \$1,063 of compensation expense related to the awards in the six months ended June 30, 2020 and 2019, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of June 30, 2020 expected to be earned through the requisite service period was approximately \$1,126 and is expected to be recognized through 2023.

***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 that participates in dividend equivalents, and a second that does 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.

A summary of RSU activity for the six months ended June 30, 2020 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, 2019	35,676	\$ 36.49	1.40 years
Granted	48,147	\$ 50.26	1.03 years
Vested	(28,985)	\$ 41.63	
Cancelled and forfeited	(467)	\$ 50.26	
Unvested at June 30, 2020	<u>54,371</u>	<u>\$ 45.95</u>	<u>1.31 years</u>
Expected to vest in the future at June 30, 2020	<u>54,371</u>	<u>\$ 45.95</u>	<u>1.31 years</u>

The Company recognized \$933 and \$713 of compensation expense related to the RSU awards in the three months ended June 30, 2020 and 2019, respectively. The Company recognized \$1,817 and \$1,473 of compensation expense related to the RSU awards in the six months ended June 30, 2020 and 2019, respectively. The unrecognized compensation expense, calculated under the fair value method for shares that were, as of June 30, 2020, expected to be earned through the requisite service period was approximately \$1,252 and is expected to be recognized through 2023.

For 2020 and 2019 grants to non-employee directors, vesting occurs as of the grant date. 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.

#### **15. 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.

#### **16. Segments**

The Company’s two reportable business segments are as follows:

**Work Truck Attachments.** The Work Truck Attachments segment includes commercial snow and ice management attachments sold under the FISHER®, WESTERN® and SNOWEX® brands. This segment consists of our operations that manufacture and sell snow and ice control products.

**Work Truck Solutions.** The Work Truck Solutions segment includes manufactured municipal snow and ice control products under the HENDERSON® brand and the up-fit of market leading attachments and storage solutions under the HENDERSON® brand, and the DEJANA® brand and its related sub-brands.

Separate financial information is available for the two operating segments. In addition, segment results include an allocation of all corporate costs to Work Truck Attachments and Work Truck Solutions.

Segment performance is evaluated based on segment net sales and Adjusted EBITDA. Segment results include an allocation of all corporate costs. No single customer’s revenues amounted to 10% or more of the Company’s total revenue. Sales are primarily within the United States and substantially all assets are located within the United States.

All intersegment sales are eliminated in consolidation. Sales between Work Truck Attachments and Work Truck Solutions reflect the Company's intercompany pricing policy. The following table shows summarized financial information concerning the Company's reportable segments:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Net sales</b>				
Work Truck Attachments	\$ 73,830	\$ 112,244	\$ 92,950	\$ 138,061
Work Truck Solutions	46,213	64,112	95,283	131,482
	<u>\$ 120,043</u>	<u>\$ 176,356</u>	<u>\$ 188,233</u>	<u>\$ 269,543</u>
<b>Adjusted EBITDA</b>				
Work Truck Attachments	\$ 20,448	\$ 38,466	\$ 18,372	\$ 40,750
Work Truck Solutions	(116)	5,644	245	12,379
	<u>\$ 20,332</u>	<u>\$ 44,110</u>	<u>\$ 18,617</u>	<u>\$ 53,129</u>
<b>Depreciation and amortization expense</b>				
Work Truck Attachments	\$ 2,652	\$ 2,522	\$ 5,311	\$ 5,055
Work Truck Solutions	2,251	2,277	4,486	4,552
	<u>\$ 4,903</u>	<u>\$ 4,799</u>	<u>\$ 9,797</u>	<u>\$ 9,607</u>
<b>Assets</b>				
Work Truck Attachments	\$ 373,378	\$ 374,687		
Work Truck Solutions	211,509	349,189		
	<u>\$ 584,887</u>	<u>\$ 723,876</u>		
<b>Capital Expenditures</b>				
Work Truck Attachments	\$ 2,397	\$ 3,643	\$ 4,255	\$ 4,254
Work Truck Solutions	339	997	735	1,074
	<u>\$ 2,736</u>	<u>\$ 4,640</u>	<u>\$ 4,990</u>	<u>\$ 5,328</u>

**Adjusted EBITDA**

Work Truck Attachments	\$ 20,448	\$ 38,466	\$ 18,372	\$ 40,750
Work Truck Solutions	(116)	5,644	245	12,379
<b>Total Adjusted EBITDA</b>	<u>\$ 20,332</u>	<u>\$ 44,110</u>	<u>\$ 18,617</u>	<u>\$ 53,129</u>

Less items to reconcile Adjusted EBITDA to Income (Loss) before taxes:

Interest expense - net	5,662	4,189	10,702	8,339
Depreciation expense	2,164	2,060	4,320	4,127
Amortization	2,739	2,739	5,477	5,480
Purchase accounting (1)	(2,000)	-	(2,017)	(217)
Stock based compensation	1,201	1,482	2,569	2,536
Impairment charges	127,872	-	127,872	-
Debt modification expense	3,192	-	3,192	-
COVID-19 (2)	848	-	1,165	-
Other charges (3)	(31)	(133)	-	(149)
Income (loss) before taxes	<u>\$ (121,315)</u>	<u>\$ 33,773</u>	<u>\$ (134,663)</u>	<u>\$ 33,013</u>

(1) - Reflects \$2,000 reversal of earn-out compensation acquired in conjunction with the acquisition of Dejana in the periods presented. Reflects \$17 and \$217 reversal of earn-out compensation in conjunction with the acquisition of Henderson in the six months ended June 30, 2020 and 2019, respectively.

(2) - Reflects incremental costs incurred related to the COVID-19 pandemic for the periods presented.

(3) - Reflects one time, unrelated legal and consulting fees for the periods presented.

**17. Income Taxes**

The Company's effective tax rate (benefit) was (14.4%) and 24.6% for the three months ended June 30, 2020 and 2019, respectively. The Company's effective tax rate (benefit) was (15.4%) and 23.7% for the six months ended June 30, 2020 and 2019, respectively. The following items caused the effective tax rate for the three and six months ended June 30, 2020 to be significantly different from the Company's historical annual effective tax rate:

- The Company recorded impairment of nondeductible goodwill related to the Municipal reporting unit. This decreased the rate by 8.4% and 7.5% for the three and six months ended June 30, 2020, respectively.
- After an evaluation of recent profitability, future projections of profitability, and future deferred tax liabilities, the Company concluded that an additional valuation allowance of approximately \$1,477 is necessary for certain state deferred tax assets. This decreased the rate by 0.3% and 0.2% for the three and six months ended June 30, 2020, respectively.

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.

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

Changes to accumulated other comprehensive loss by component for the six months ended June 30, 2020 are as follows:

	Unrealized Net Loss on Interest Rate Swap	Retiree Health Benefit Obligation	Total
Balance at December 31, 2019	\$ (5,023)	\$ 2,209	\$ (2,814)
Other comprehensive loss before reclassifications	(4,612)	—	(4,612)
Amounts reclassified from accumulated other comprehensive loss: (1)	914	(114)	800
Balance at June 30, 2020	<u>\$ (8,721)</u>	<u>\$ 2,095</u>	<u>\$ (6,626)</u>
(1) Amounts reclassified from accumulated other comprehensive loss:			
Amortization of Other Postretirement Benefit items:			
Actuarial gains (a)	\$ (154)		
Tax expense	40		
Reclassification net of tax	<u>\$ (114)</u>		
Realized losses on interest rate swaps reclassified to interest expense	\$ 1,235		
Tax benefit	<u>(321)</u>		
Reclassification net of tax	<u>\$ 914</u>		

- (a) These components are included in the computation of benefit plan costs in Note 12.

Changes to accumulated other comprehensive loss by component for the six months ended June 30, 2019 are as follows:

	Unrealized Net Loss on Interest Rate Swap	Retiree Health Benefit Obligation	Pension Obligation	Total
Balance at December 31, 2018	\$ (1,530)	\$ 2,118	\$ (6,637)	\$ (6,049)
Other comprehensive gain before reclassifications	(3,596)	-	-	(3,596)
Amounts reclassified from accumulated other comprehensive loss: (1)	70	(115)	220	175
Balance at June 30, 2019	<u>\$ (5,056)</u>	<u>\$ 2,003</u>	<u>\$ (6,417)</u>	<u>\$ (9,470)</u>
(1) Amounts reclassified from accumulated other comprehensive loss:				
Amortization of Other Postretirement Benefit items:				
Actuarial gains (a)	\$ (156)			
Tax expense	41			
Reclassification net of tax	<u>\$ (115)</u>			
Amortization of pension items:				
Actuarial losses (a)	\$ 298			
Tax benefit	(78)			
Reclassification net of tax	<u>\$ 220</u>			
Realized losses on interest rate swaps reclassified to interest expense	\$ 95			
Tax benefit	(25)			
Reclassification net of tax	<u>\$ 70</u>			

(a) These components are included in the computation of benefit plan costs in Note 12.

## **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, including as a result of global climate change; (ii) our ability to manage general economic, business and geopolitical conditions, including the impacts of natural disasters, pandemics and outbreaks of contagious diseases and other adverse public health developments, such as the COVID-19 pandemic (iii) our inability to maintain good relationships with the original equipment manufacturers ("OEM") with whom we currently do significant business; (iv) the inability of our suppliers and OEM partners to meet our volume or quality requirements ; (v) increases in the price of steel or other materials, including as a result of tariffs, necessary for the production of our products that cannot be passed on to our distributors; (vi) increases in the price of fuel or freight, (vii) the effects of laws and regulations (including those enacted in response to the COVID-19 pandemic) and their interpretations on our business and financial condition; (viii) a significant decline in economic conditions, including as a result of global health epidemics such as COVID-19; (ix) our inability to maintain good relationships with our distributors; (x) lack of available or favorable financing options for our end-users, distributors or customers; (xi) inaccuracies in our estimates of future demand for our products; (xii) our inability to protect or continue to build our intellectual property portfolio; (xiii) the effects of laws and regulations and their interpretations on our business and financial condition; (xiv) our inability to develop new products or improve upon existing products in response to end-user needs; (xv) losses due to lawsuits arising out of personal injuries associated with our products; (xvi) factors that could impact the future declaration and payment of dividends; (xvii) our inability to compete effectively against competition; and (xviii) our inability to achieve the projected financial performance with the business of Henderson Enterprises Group, Inc. ("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's two reportable business segments are as follows:

**Work Truck Attachments.** The Work Truck Attachments segment includes commercial snow and ice management attachments sold under the FISHER®, WESTERN® and SNOWEX® brands. This segment consists of our operations that manufacture and sell 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.

**Work Truck Solutions.** The Work Truck Solutions segment includes manufactured municipal snow and ice control products under the HENDERSON® brand and the up-fit of market leading attachments and storage solutions under the HENDERSON® brand, and the DEJANA® brand and its related sub-brands.

In addition, segment results include an allocation of all corporate costs to Work Truck Attachments and Work Truck Solutions.

#### *COVID-19*

As a result of the COVID-19 pandemic, including the market volatility and other economic implications associated with the pandemic and the economic and regulatory measures enacted to contain its spread, our results of operations have been impacted in the three and six months ended June 30, 2020, and may be significantly impacted in future quarters. See below for further discussion of the impact to our financial statements. We are not able to predict the full impact of the pandemic on our future financial results as the situation remains unpredictable, but the pandemic has had and is likely to continue to have a material impact on our results of operations for the year ended December 31, 2020. In particular, we recorded goodwill impairment charges of \$127.9 million in the three and six months ended June 30, 2020 as a result of the economic conditions stemming from the pandemic. See Note 1 for additional information.

We may have challenges in short-term liquidity which could impact our ability to fund working capital needs. We have taken various steps to preserve liquidity, including reducing discretionary spending and deferring payments where appropriate within existing contractual terms, while remaining committed to long term growth projects. In consideration of the COVID-19 pandemic, 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 throughout 2020. We are taking appropriate steps to mitigate the effects of the pandemic where possible. We preventatively and voluntarily closed our facilities on March 18, 2020, suspending production and shipments at all of our locations, which negatively impacted sales volumes and profitability during the shutdown period. Throughout the second quarter, we slowly ramped up production at various facilities as appropriate and have since returned to full production levels. We believe that we have taken all of the necessary and appropriate safety steps and precautions for employees who have returned to work. We will continue to monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, suppliers and shareholders.

#### *Overview*

The following table sets forth, for the three and six months ended June 30, 2020 and 2019, 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 six months ended June 30, 2020 and 2019 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		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	(unaudited) (in thousands)		(unaudited) (in thousands)	
Net sales	\$ 120,043	\$ 176,356	\$ 188,233	\$ 269,543
Cost of sales	87,968	116,763	144,468	187,004
Gross profit	32,075	59,593	43,765	82,539
Selling, general, and administrative expense	13,858	18,767	31,007	35,411
Impairment charges	127,872	-	127,872	-
Intangibles amortization	2,739	2,739	5,477	5,480
Income (loss) from operations	(112,394)	38,087	(120,591)	41,648
Interest expense, net	(5,662)	(4,189)	(10,702)	(8,339)
Debt modification expense	(3,192)	-	(3,192)	-
Other expense, net	(67)	(125)	(178)	(296)
Income (loss) before taxes	(121,315)	33,773	(134,663)	33,013
Income tax expense (benefit)	(17,456)	8,299	(20,718)	7,836
Net income (loss)	\$ (103,859)	\$ 25,474	\$ (113,945)	\$ 25,177

The following table sets forth for the three and six months ended June 30, 2020 and 2019, the percentage of certain items in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), relative to net sales:

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	(unaudited)		(unaudited)	
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	73.3 %	66.2 %	76.7 %	69.4 %
Gross profit	26.7 %	33.8 %	23.3 %	30.6 %
Selling, general, and administrative expense	11.5 %	10.6 %	16.5 %	13.1 %
Impairment charges	106.5 %	- %	67.9 %	- %
Intangibles amortization	2.3 %	1.6 %	2.9 %	2.0 %
Income (loss) from operations	(93.6)%	21.6 %	(64.0)%	15.5 %
Interest expense, net	(4.7)%	(2.4)%	(5.7)%	(3.1)%
Debt modification expense	(2.7)%	- %	(1.7)%	- %
Other expense, net	- %	- %	- %	- %
Income (loss) before taxes	(101.0)%	19.2 %	(71.4)%	12.4 %
Income tax expense (benefit)	(14.5)%	4.6 %	(11.0)%	2.9 %
Net income (loss)	(86.5)%	14.6 %	(60.4)%	9.5 %

*Net Sales*

Net sales were \$120.0 million for the three months ended June 30, 2020 compared to \$176.4 million in the three months ended June 30, 2019, a decrease of \$56.4 million, or 32.0%. Net sales were \$188.2 million for the six months ended June 3, 2020 compared to \$269.5 million in the six months ended June 30, 2019, a decrease of \$81.3 million, or 30.2%. Sales decreased for the three and six months ended June 30, 2020 compared to the same period in

the prior year due to lower volumes driven by below average snowfall, the effect of reduced shipments from our facilities being shut down as a result of the COVID-19 pandemic for several weeks throughout the first and second quarters, and chassis availability constraints. See below for a discussion of net sales for each of our segments.

	<b>Three Months Ended</b>		<b>Three Months Ended</b>		<b>Six Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2020</b>		<b>2019</b>		<b>2020</b>		<b>2019</b>	
<b>Net sales</b>								
Work Truck Attachments	\$	73,830	\$	112,244	\$	92,950	\$	138,061
Work Truck Solutions		46,213		64,112		95,283		131,482
	\$	120,043	\$	176,356	\$	188,233	\$	269,543

Net sales at our Work Truck Attachments segment were \$73.8 million for the three months ended June 30, 2020 compared to \$112.2 million in the three months ended June 30, 2019, a decrease of \$38.4 million primarily due to lower volumes resulting from well below average snowfall for the snow season ended March 31, 2020, as well as reduced shipments due to the facilities shutdown associated with the COVID-19 pandemic. Net sales at our Work Truck Attachments segment were \$93.0 million for the six months ended June 30, 2020 compared to \$138.1 million in the six months ended June 30, 2019, a decrease of \$45.1 million primarily due to lower volumes resulting from the COVID-19 shutdown as well as the below average snowfall. Snowfall in this most recent snow season was approximately 25% below the ten year average, and was the second below average snowfall season in a row.

Net sales at our Work Truck Solutions segment were \$46.2 million for the three months ended June 30, 2020 compared to \$64.1 million in the three months ended June 30, 2019, a decrease of \$17.9 million. Net sales at our Work Truck Solutions segment were \$95.3 million for the six months ended June 30, 2020 compared to \$131.5 million in the six months ended June 30, 2019, a decrease of \$36.2 million. Sales were lower for the three and six months ended June 30, 2020 when compared to the same periods in the prior year due to lower volumes as a result of chassis supply constraints, as well as result of the facilities shutdown associated with the COVID-19 pandemic leading to significantly reduced shipments in the first and second quarters of 2020.

#### *Cost of Sales*

Cost of sales was \$88.0 million for the three months ended June 30, 2020 compared to \$116.8 million for the three months ended June 30, 2019, a decrease of \$28.8 million, or 24.7%. Cost of sales was \$144.5 million for the six months ended June 30, 2020 compared to \$187.0 million for the six months ended June 30, 2019, a decrease of \$42.5 million, or 22.7%. The decrease in cost of sales was driven by decreased sales as discussed above under “—Net Sales”. Cost of sales as a percentage of sales were 73.3% for the three month period ended June 30, 2020 compared to 66.2% for the three month period ended June 30, 2019. Cost of sales as a percentage of sales were 76.7% for the six month period ended June 30, 2020 compared to 69.4% for the six month period ended June 30, 2019. The increase in cost of sales as a percentage of sales for the three and six month periods is due to lower sales volumes due to below average snowfall and reduced shipments related to facility shutdowns, as well as shutdown expenses related to COVID-19. Such shutdown expenses include the continuation of wages for employees who were not working during the shutdown, as well as an increase in fixed expenses and overhead, as these costs were not capitalized into inventory for the shutdown period.

#### *Gross Profit*

Gross profit was \$32.1 million for the three months ended June 30, 2020 compared to \$59.6 million for the three months ended June 30, 2019, a decrease of \$27.5 million, or 46.1%. Gross profit was \$43.8 million for the six months ended June 30, 2020 compared to \$82.5 million for the six months ended June 30, 2019, a decrease of \$38.7

million, or 46.9%. The change in gross profit is attributable to the changes in sales as discussed above under “—Net Sales.” As a percentage of net sales, gross profit decreased from 33.8% for the three months ended June 30, 2019 to 26.7% for the corresponding period in 2020. As a percentage of net sales, gross profit decreased from 30.6% for the six months ended June 30, 2019 to 23.3% for the corresponding period in 2020. The reasons for the change in gross profit as a percentage of net sales are the same as those relating to the changes 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 \$16.6 million for the three months ended June 30, 2020, compared to \$21.5 million for the three months ended June 30, 2019, a decrease of \$4.9 million, or 22.8%. Selling, general and administrative expenses, including intangibles amortization, were \$36.5 million for the six months ended June 30, 2020, compared to \$40.9 million for the six months ended June 30, 2019, a decrease of \$4.4 million, or 10.8%. The decrease was in part due to \$2.0 million of earnout valuation adjustments in the three and six months ended June 30, 2020. The remainder of the decrease is due to lower discretionary spending, including travel and advertising and promotions, as a result of facility shutdowns during the quarter and decreased volumes as a result of the COVID-19 pandemic.

#### *Impairment Charges*

Impairment charges were \$127.9 million for the three and six months ended June 30, 2020. There were no impairment charges in the same periods in the prior year. The impairment charges in 2020 relate to goodwill impairment taken on our Municipal and Dejana reporting units of \$47.8 and \$80.1 million, respectively. The increase in impairment charges was due to reduced performance in the current year and projected future years as a result of the COVID-19 pandemic and chassis and other supply chain constraints. See Note 1 for additional information.

#### *Interest Expense*

Interest expense was \$5.7 million for the three months ended June 30, 2020, which was higher than the \$4.2 million incurred in the same period in the prior year. Interest expense was \$10.7 million for the six months ended June 30, 2020, which was higher than the \$8.3 million incurred in the same period in the prior year. The increase in interest expense for the three and six months ended June 30, 2020 was due to \$1.6 million and \$3.1 million, respectively, in mark-to-market and amortization adjustments on an interest rate swap not accounted for as a hedge. During the first quarter of 2020, our interest rate swap was determined to be ineffective. As a result, the swap was redesignated on March 19, 2020, and ongoing mark-to-market adjustments are made through interest expense. This increase in interest expense was somewhat offset by the reduction to the principal balance of the Term Loan Credit Agreement due to a \$20.0 million voluntary prepayment made in January 2020. See Note 9 for additional information.

#### *Debt Modification Expense*

Debt modification expense was \$3.2 million in the three and six months ended June 30, 2020, compared to \$0.0 million in the same periods in the prior year. The debt modification expense in 2020 related to fees incurred in conjunction with the Company’s June 8, 2020 refinancing of its Term Loan and Revolving Credit Agreement.

#### *Income Taxes*

The Company’s effective tax rate (benefit) was (14.4%) and 24.6% for the three months ended June 30, 2020 and 2019, respectively. The Company’s effective tax rate (benefit) was (15.4%) and 23.7% for the six months ended June 30, 2020 and 2019, respectively. The following items caused the effective tax rate for the three and six months ended June 30, 2020 to be significantly different from our historical annual effective tax rate:

- We recorded impairment of nondeductible goodwill related to the Municipal reporting unit. This decreased the rate by 8.4% and 7.5% for the three and six months ended June 30, 2020, respectively.

- After an evaluation of recent profitability, future projections of profitability, and future deferred tax liabilities, we concluded that an additional valuation allowance of approximately \$1.5 million is necessary for certain state deferred tax assets. This decreased the rate by 0.3% and 0.2% for the three and six months ended June 30, 2020, respectively.

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.

#### *Net Income (Loss)*

Net loss for the three months ended June 30, 2020 was (\$103.9) million, compared to net income of \$25.5 million for the corresponding period in 2019, a decrease in net income of \$129.4 million. Net income (loss) for the six months ended June 30, 2020 was (\$113.9) million, compared to net income of \$25.2 million for the corresponding period in 2019, a decrease in net income of \$139.1 million. The decrease in net income for the three and six months ended June 30, 2020 was driven by the factors described above under “— Net Sales,” “—Cost of Sales,” “— Selling, General and Administrative Expense,” “— Impairment Charges,” “— Debt Modification Expense,” and “— Income Taxes.” As a percentage of net sales, net income (loss) was (86.5%) for the three months ended June 30, 2020 compared to 14.6% for the three months ended June 30, 2019. As a percentage of net sales, net income (loss) was (60.4%) for the six months ended June 30, 2020 compared to 9.5% for the six months ended June 30, 2019.

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

There have been no material changes, other than those described below, to our critical accounting policies previously disclosed 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.”

We assessed our reporting units for impairment as of June 30, 2020 as a result of the market volatility around the COVID-19 pandemic. Based on current facts and circumstances, including a reduction in future projections resulting from the economic slowdown and continued chassis availability challenges, we determined there to be a triggering event for the quarter ended June 30, 2020. As a result, we performed an impairment test as of June 30, 2020 for each of our reporting units. The Work Truck Attachments segment consists of one reporting unit: Commercial. The impairment test performed as of June 30, 2020 indicated no impairment for the Commercial reporting unit. The Work Truck Solutions consists of two reporting units; Municipal and Dejana. At June 30, 2020, the Municipal reporting unit’s carrying value exceeded its fair value. As a result, \$47.8 million of the Municipal goodwill balance was written off during the three and six months ended June 30, 2020 and is included in Impairment charges on the Condensed Consolidated Statements of Operations and Comprehensive Loss. At June 30, 2020, the Dejana reporting unit’s carrying value exceeded its fair value. As a result, \$80.1 million of the Dejana goodwill balance was written off during the three and six months ended June 30, 2020 and is included in Impairment charges on the Condensed Consolidated Statements of Operations and Comprehensive Loss.

#### **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.” Additionally, as a result of the COVID-19 pandemic, we may have challenges in short-term liquidity which could impact our ability to fund working capital and liquidity needs.

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.

As of June 30, 2020, we had \$126.8 million of total liquidity, comprised of \$34.9 million in cash and cash equivalents and borrowing availability of \$91.9 million under our revolving credit facility, compared with total liquidity as of December 31, 2019 of approximately \$135.1 million, comprised of approximately \$35.7 million in cash and cash equivalents and borrowing availability of approximately \$99.4 million under our revolving credit facility. The decrease in our total liquidity from December 31, 2019 is primarily due to the seasonality of our business, as well as the debt refinancing that occurred on June 8, 2020 at which time we paid down the outstanding revolver balance of \$30.0 million. 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. We have taken various steps to preserve liquidity, including reducing discretionary spending and deferring payments where appropriate within existing contractual terms, while remaining committed to long term growth projects. In consideration of the COVID-19 pandemic, 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 throughout 2020.

The following table shows our cash and cash equivalents and inventories in thousands at June 30, 2020, December 31, 2019 and June 30, 2019.

	As of		
	June 30, 2020	December 31, 2019	June 30, 2019
Cash and cash equivalents	\$ 34,932	\$ 35,665	\$ 5,011
Inventories	99,780	77,942	93,916

We had cash and cash equivalents of \$34.9 million at June 30, 2020 compared to cash and cash equivalents of \$35.7 million and \$5.0 million at December 31, 2019 and June 30, 2019, 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)	Six Months Ended			%
	June 30, 2020	June 30, 2019	Change	
Net cash used in operating activities	\$ (6,024)	\$ (320)	\$ (5,704)	1782.5 %
Net cash used in investing activities	(5,048)	(5,451)	403	(7.4)%
Net cash provided by (used in) financing activities	10,339	(17,038)	27,377	(160.7)%
Change in cash	<u>\$ (733)</u>	<u>\$ (22,809)</u>	<u>\$ 22,076</u>	<u>96.8 %</u>

Net cash used in operating activities increased \$5.7 million from the six months ended June 30, 2019 to the six months ended June 30, 2020. The increase in cash used in operating activities was due to a \$30.2 million decrease in net income (loss) adjusted for reconciling items as a result of the higher net loss in the six months ended June 30, 2020 from less favorable operating results, partially offset by favorable changes in working capital of \$24.5 million. The largest favorable change in working capital was a decrease in accounts receivable due to entering 2020 with a higher accounts receivable balance when compared to the prior year, as well as lower sales in the six months

ended June 30, 2020 compared to the six months ended June 30, 2019. Partially offsetting this favorable change in working capital were unfavorable changes related to a decrease in taxes payable on less favorable operating results, as well as the buildup of inventory in the current year in anticipation of supply chain constraints related to the COVID-19 pandemic.

Net cash used in investing activities decreased \$0.4 million for the six months ended June 30, 2020 compared to the corresponding period in 2019 due to a decrease in capital expenditures.

Net cash provided by financing activities increased \$27.4 million for the six months ended June 30, 2020 as compared to the corresponding period in 2019. The increase was primarily a result of the debt refinancing that occurred on June 8, 2020, which increased the net borrowings on our long-term debt. The increase was somewhat offset by decreases from payments of financing costs of \$1.0 million related to the debt refinancing in the six months ended June 30, 2020, and there being \$0.0 million in outstanding borrowings under our revolving credit facility at June 30, 2020 compared to \$27.0 million in short term borrowings at June 30, 2019. Additionally, we made a voluntary debt prepayment of \$30.0 million during the first quarter of 2019, compared to a voluntary prepayment of \$20.0 million in the first quarter of 2020.

#### *Free Cash Flow*

Free cash flow for the three months ended June 30, 2020 was \$0.3 million compared to \$0.6 million in the corresponding period in 2019, a decrease of \$0.3 million. Free cash flow for the six months ended June 30, 2020 was (\$11.1) million compared to (\$5.8) million in the corresponding period in 2019, a decrease of \$5.3 million. The decrease in free cash flow for the six months ended June 30, 2020 is primarily a result of higher cash used in operating activities of \$5.7 million slightly offset by a decrease in capital expenditures of \$0.4 million, as discussed above under “Liquidity and Capital Resources.”

#### *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; and
- Adjusted net income (loss) and earnings (loss) per share.

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 (used in) 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 (used in) operating activities, a GAAP measure, to free cash flow, a non-GAAP measure.

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	(In Thousands)		(In Thousands)	
Net cash provided by (used in) operations	\$ 3,056	\$ 5,257	\$ (6,024)	\$ (320)
Acquisition of property and equipment	(2,744)	(4,682)	(5,048)	(5,451)
Free cash flow	\$ 312	\$ 575	\$ (11,072)	\$ (5,771)

Adjusted EBITDA represents net income (loss) before interest, taxes, depreciation and amortization, as further adjusted for certain charges consisting of unrelated legal and consulting fees, pension termination costs, stock-based compensation, certain purchase accounting expenses, impairment charges, expenses related to debt modifications, and incremental costs incurred related to the COVID-19 pandemic. Such COVID-19 related costs include increased expenses directly related to the pandemic, and do not include either production related overhead inefficiencies or lost or deferred sales. We believe these costs are out of the ordinary, unrelated to our business and not representative of our results. We use, and we believe our investors benefit from the presentation 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 (loss), the most comparable GAAP financial measure, to Adjusted EBITDA as well as the resulting calculation of Adjusted EBITDA for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net income (loss)</b>	\$ (103,859)	\$ 25,474	\$ (113,945)	\$ 25,177
Interest expense, net	5,662	4,189	10,702	8,339
Income tax expense (benefit)	(17,456)	8,299	(20,718)	7,836
Depreciation expense	2,164	2,060	4,320	4,127
Amortization	2,739	2,739	5,477	5,480
<b>EBITDA</b>	<b>(110,750)</b>	<b>42,761</b>	<b>(114,164)</b>	<b>50,959</b>
Stock-based compensation expense	1,201	1,482	2,569	2,536
Impairment charges	127,872	-	127,872	-
Debt modification expense	3,192	-	3,192	-
COVID-19 (1)	848	-	1,165	-
Purchase accounting (2)	(2,000)	-	(2,017)	(217)
Other charges (3)	(31)	(133)	-	(149)
<b>Adjusted EBITDA</b>	<b>\$ 20,332</b>	<b>\$ 44,110</b>	<b>\$ 18,617</b>	<b>\$ 53,129</b>

- (1) Reflects incremental costs incurred related to the COVID-19 pandemic for the periods presented.
- (2) Reflects \$2,000 reversal of earn-out compensation acquired in conjunction with the acquisition of Dejana in the periods presented. Reflects \$17 and \$217 reversal of earn-out compensation acquired in conjunction with the acquisition of Henderson in the six months ended June 30, 2020 and 2019, respectively.
- (3) Reflects one time, unrelated legal, severance and consulting fees for the periods presented.

The following table presents Adjusted EBITDA by segment for the three and six months ended June 30, 2020 and 2019.

	Three Months Ended		Three Months Ended		Six Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<b>Adjusted EBITDA</b>								
Work Truck Attachments	\$ 20,448	\$ 38,466	\$ 18,372	\$ 40,750				
Work Truck Solutions	(116)	5,644	245	12,379				
	<b>\$ 20,332</b>	<b>\$ 44,110</b>	<b>\$ 18,617</b>	<b>\$ 53,129</b>				

Adjusted EBITDA at our Work Truck Attachments segment was \$20.4 million for the three months ended June 30, 2020 compared to \$38.5 million in the three months ended June 30, 2019, a decrease of \$18.1 million. Adjusted EBITDA at our Work Truck Attachments segment was \$18.4 million for the six months ended June 30, 2020 compared to \$40.8 million in the six months ended June 30, 2019, a decrease of \$22.4 million. The change in the three and six months ended June 30, 2020 from the corresponding periods in 2019 is primarily due to lower volumes resulting from well-below average snowfall for the snow season ended March 31, 2020. In addition, Adjusted EBITDA was lower in the current year due to additional costs and inefficiencies related to the COVID-19 pandemic.

Adjusted EBITDA at our Work Truck Solutions segment was (\$0.1) million for the three months ended June 30, 2020 compared to \$5.6 million in the three months ended June 30 2019, a decrease of \$5.7 million. Adjusted EBITDA at our Work Truck Solutions segment was \$0.2 million for the six months ended June 30, 2020 compared to \$12.4 million in the six months ended June 30 2019, a decrease of \$12.2 million. The change in the three and six months ended June 30, 2020 is primarily due to lower volumes from the effect of the COVID-19 pandemic and chassis availability constraints, as well as additional costs and inefficiencies related to the pandemic.

Adjusted Net Income (Loss) and Adjusted Earnings (Loss) Per Share (calculated on a diluted basis) represents net income (loss) and earnings (loss) per share (as defined by GAAP), excluding the impact of stock based compensation, pension termination costs, non-cash purchase accounting adjustments, impairment charges, expenses related to debt modifications, certain charges related to unrelated legal fees and consulting fees, incremental costs incurred related to the COVID-19 pandemic, adjustments on derivatives not classified as hedges, net of their income tax impact. Such COVID-19 related costs include increased expenses directly related to the pandemic, and do not include either production related overhead inefficiencies or lost or deferred sales. We believe these costs are out of the ordinary, unrelated to our business and not representative of our results. Adjustments on derivatives not classified as hedges are non-cash and are related to overall financial market conditions; therefore, management believes such costs are unrelated to our business and are not representative of our results. Management believes that Adjusted Net Income (Loss) and Adjusted Earnings (Loss) Per Share are useful in assessing the Company's financial performance by eliminating expenses and income that are not reflective of the underlying business performance. We believe that the presentation of adjusted net income (loss) for the periods presented allows investors to make meaningful comparisons of our operating performance between periods and to view our business from the same perspective as our management. Because the excluded items are not predictable or consistent, management does not consider them when evaluating our performance or when making decisions regarding allocation of resources.

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The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to Adjusted net income (loss) as well as a reconciliation of diluted earnings (loss) per share, the most comparable GAAP financial measure, to Adjusted diluted earnings (loss) per share for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Net income (loss) (GAAP)	\$ (103,859)	\$ 25,474	\$ (113,945)	\$ 25,177
Adjustments:				
- Stock-based compensation	1,201	1,482	2,569	2,536
- Impairment charges	127,872	-	127,872	-
- Debt modification expense	3,192	-	3,192	-
- COVID-19 (1)	848	-	1,165	-
- Purchase accounting (2)	(2,000)	-	(2,017)	(217)
- Adjustments on derivative not classified as hedge (3)	1,644	-	3,057	-
- Other charges (4)	(31)	(133)	-	(149)
Tax effect on adjustments	(21,232)	(337)	(22,010)	(543)
Adjusted net income (loss) (non-GAAP)	\$ 7,635	\$ 26,486	\$ (117)	\$ 26,804
Weighted average common shares outstanding assuming dilution	22,857,457	22,830,145	22,835,356	22,795,406
Adjusted earnings (loss) per common share - dilutive	\$ 0.33	\$ 1.14	\$ (0.02)	\$ 1.15
GAAP diluted earnings (loss) per share	\$ (4.55)	\$ 1.10	\$ (5.00)	\$ 1.08
Adjustments net of income taxes:				
- Stock-based compensation	0.04	0.04	0.07	0.08
- Impairment charges	4.72	-	4.72	-
- Debt modification expense	0.11	-	0.11	-
- COVID-19 (1)	0.03	-	0.05	-
- Purchase accounting (2)	(0.07)	-	(0.07)	(0.01)
- Adjustments on derivative not classified as hedge (3)	0.05	-	0.10	-
- Other charges (4)	-	-	-	-
Adjusted diluted earnings (loss) per share (non-GAAP)	\$ 0.33	\$ 1.14	\$ (0.02)	\$ 1.15

- (1) Reflects incremental costs incurred related to the COVID-19 pandemic for the periods presented.
- (2) Reflects \$2,000 reversal of earn-out compensation acquired in conjunction with the acquisition of Dejana in the periods presented. Reflects \$17 and \$217 reversal of earn-out compensation acquired in conjunction with the acquisition of Henderson in the six months ended June 30, 2020 and 2019, respectively.
- (3) Reflects mark-to-market and amortization adjustments on an interest rate swap not classified as a hedge for the periods presented.
- (4) Reflects one time, unrelated legal, severance and consulting fees for the periods presented.

## Contractual Obligations

There have been no material changes to our contractual obligations in the three months ended June 30, 2020, other than those described below. Due to material changes to contractual obligations related to long term debt resulting from the refinancing of our Term Loan Credit Agreement and Revolving Credit Agreement, as discussed in Note 9, we have updated our contractual obligations related to our long term debt and related interest.

(Dollars in thousands)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt (1)	\$ 270,381	\$ 1,972	\$ 3,944	\$ 3,944	\$ 260,521
Interest on long-term debt (2)	76,310	6,531	25,831	25,309	18,639
Total contracted cash obligations related to long term debt	<u>\$ 346,691</u>	<u>\$ 8,503</u>	<u>\$ 29,775</u>	<u>\$ 29,253</u>	<u>\$ 279,160</u>

- (1) Long-term debt obligation is presented net of discount of \$4.6 million at June 30, 2020
- (2) Assumes all debt will remain outstanding until maturity. Interest payments were calculated using interest rates in effect as of June 30, 2020.

## 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

While our Work Truck Solutions segment has limited seasonality and 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 commercial 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 commercial 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 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 interest rate swaps. 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 June 30, 2020, we had outstanding borrowings under our term loan of \$270.4 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 June 30, 2020 by \$0.2 million, \$0.2 million and \$0.3 million, respectively.

The Company is party to an interest rate swap agreement to reduce its exposure to interest rate volatility. During the first quarter of 2020, the swap was determined to be ineffective. As a result, the swap was redesignated on March 19, 2020, and the remaining losses currently included in Accumulated other comprehensive loss on the Condensed Consolidated Balance Sheets will be amortized into interest expense on a straight line basis through the life of the swap. Ongoing mark-to-market adjustments are recorded through earnings. See Note 9 to our Unaudited Condensed Consolidated Financial Statements for additional details on our interest rate swap agreement.

As of June 30, 2020, we had \$0.0 million in outstanding borrowings under our revolving credit facility. A hypothetical interest rate change of 1%, 1.5% and 2% on our revolving credit facility would have changed interest incurred for the three months ended June 30, 2020 by \$0.1 million, \$0.1 million and \$0.1 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 7.0% and 10.6% for the three and six months ended June 30, 2020 compared to 8.5% and 11.1% for the three and six months ended June 30, 2019. 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, other than those identified below.

Effective January 1, 2020, we adopted ASU 2016-13, “Financial Instruments – Credit Losses.” As a result, we have implemented changes to our controls related to credit losses. These controls were designed to provide reasonable assurance of the fair presentation of our financial statements and related disclosures.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

In the ordinary course of business, we are engaged in various litigation matters 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, 2019, other than those discussed below.

#### ***The recent COVID-19 pandemic could have an adverse effect on our business, financial condition, results of operations and cash flows***

As a result of the COVID-19 pandemic, and the market volatility and other economic implications associated with it, our business, financial condition, results of operations and cash flows have been adversely impacted in the three and six months ended June 30, 2020, and may be significantly impacted in future quarters. It may be more difficult to collect from customers as a result of customer bankruptcy or other hardships. Supply chains may be disrupted which could raise prices and impact our ability to obtain inventory timely. During the three months ended June 30, 2020, we faced supply chain disruptions and additional difficulty obtaining chassis and other inventory, and supply chains may continue to be disrupted which could adversely affect our results.

The COVID-19 pandemic has impacted, and will likely continue to impact, our office locations and our manufacturing and servicing facilities, as well as those of our third party vendors, including the effects of facility closures, reductions in operating hours and other social distancing efforts. For example, we enacted temporary shutdown of certain of our facilities in the first and second quarters to protect the health and safety of our employees, customers, partners and the surrounding communities. We slowly ramped up production during the second quarter, and are currently at full production levels. Although our operations are generally viewed as essential services in the geographies in which we operate, we can give no assurance that our operations will continue to be classified as essential in each of the jurisdictions in which we operate.

We may have challenges in short-term liquidity which could impact our ability to fund working capital needs. If our access to capital were to become significantly constrained or if costs of capital increased significantly due the impact of COVID-19, including volatility in the capital markets, a reduction in our credit ratings or other factors, results of operations and cash flows could be adversely affected.

We are not able to predict the full impact of the crisis on our future financial results as the situation remains unpredictable. The extent to which the COVID-19 pandemic impacts our financial condition will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19, the longevity of COVID-19, the impact of COVID-19 on economic activity, and the actions to contain its impacts on public health and the global economy. The impact of COVID-19 may also exacerbate other risks discussed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, any of which could have a material effect on our financial condition, results of operations and cash flows.

We have taken steps to promote the health and well-being of our workforce, including temporarily shutting down facilities and providing necessary safety equipment to employees who are working. We will continue to monitor the situation as it unfolds and will make adjustments as deemed necessary.

*If economic conditions in the United States further deteriorate, or if spending by governmental agencies is limited or reduced, our results of operations, financial condition and ability to generate cash flow may be adversely affected.*

Historically, demand for snow and ice control equipment for light and heavy duty trucks as well as upfitted vehicles has been influenced by general economic conditions in the United States, as well as local economic conditions in the snow-belt regions in North America.

The global outbreak of COVID-19 has severely restricted the level of economic activity in North America. In response to this outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations. These measures have and are expected to continue to have significant adverse impacts on domestic and foreign economies of uncertain severity and duration. It is likely that the current outbreak and continued spread of COVID-19 may cause a further economic slowdown, and it is possible that it could cause a global recession.

Weakened economic conditions and limited or reduced government spending (including as a result of the COVID-19 pandemic) may cause both our Work Truck Attachments and Work Truck Solutions end-users to delay purchases of replacement snow and ice control equipment and upfit vehicles and instead repair their existing equipment and vehicles, leading to a decrease in our sales of new equipment and upfitted vehicles. Weakened economic conditions and limited or reduced governmental spending may also cause our end-users to delay their purchases of new light and heavy duty trucks. Because our end-users tend to purchase new snow and ice control equipment concurrent with their purchase of new light or heavy duty trucks, their delay in purchasing new light or heavy duty trucks can also result in the deferral of their purchases of new snow and ice control equipment. The deferral of new equipment purchases during periods of weak economic conditions or limited or reduced government spending may negatively affect our results of operations, financial condition and ability to generate cash flow.

Weakened economic conditions or limited or reduced government spending may also cause both our Work Truck Attachments and Work Truck Solutions end-users to consider price more carefully in selecting new snow and ice control equipment and upfit vehicles, respectively. Historically, considerations of quality and service have outweighed considerations of price, but in a weak economy, or an environment of constrained government spending, price may become a more important factor. Any refocus away from quality in favor of cheaper equipment could cause end-users to shift away from our products to less expensive competitor products, or to shift away from our more profitable products to our less profitable products, which in turn would adversely affect our results of operations and our ability to generate cash flow.

See the section titled “–Results of Operations” above for further discussion on the impact the COVID-19 pandemic has had on our results of operations for the three and six months ended June 30, 2020.

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

### **Unregistered Sales of Equity Securities**

During the three months ended June 30, 2020, the Company did not sell any securities that were not registered under the Securities Act of 1933, as amended.

### **Purchase of Equity Securities**

During the three months ended June 30, 2020, the Company did not purchase any of its equity securities.

### **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 9 to the Unaudited Consolidated Financial Statements.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

On July 30, 2020, the Company entered into employment agreements with two of its executive officers: Keith Hagelin, President – Commercial Snow and Ice, and Jonathon Sievert, President – Work Truck Solutions. The forms of employment agreement are consistent with the forms of employment agreement between the Company and other executive officers of the Company.

Mr. Hagelin's employment agreement codifies various compensatory arrangements already in place between Mr. Hagelin and the Company, and also provides him with additional rights to receive compensation at the time of certain scenarios related to termination of his employment with the Company. Pursuant to Mr. Hagelin's employment agreement, he will receive a base salary of \$350,000 per year, subject to increase, and will remain eligible to receive an annual performance bonus upon the achievement of certain performance targets approved by the Compensation Committee of the Company's Board of Directors pursuant to the Company's annual incentive plan. Mr. Hagelin will also remain eligible to participate in the Company's long-term equity program for executive officers. Mr. Hagelin is also subject to certain customary non-competition and other covenants in connection with his employment. The employment agreement between Mr. Hagelin and the Company, effective July 30, 2020, supersedes in its entirety the letter agreement between Mr. Hagelin and the Company dated June 14, 2010.

Mr. Sievert's employment agreement also codifies various compensatory arrangements already in place between Mr. Sievert and the Company, and also provides him with additional rights to receive compensation at the time of certain scenarios related to termination of his employment with the Company. Pursuant to Mr. Sievert's employment agreement, he will receive a base salary of \$312,145 per year, subject to increase, and will remain eligible to receive an annual performance bonus upon the achievement of certain performance targets approved by the Compensation Committee of the Company's Board of Directors pursuant to the Company's annual incentive plan. Mr. Sievert will also remain eligible to participate in the Company's long-term equity program for executive officers. Mr. Sievert is also subject to certain customary non-competition and other covenants in connection with his employment.

The foregoing summary of the terms of the employment agreements between each of Mr. Hagelin and Mr. Sievert with the Company is qualified in its entirety by the terms of their respective employment agreements, which are filed herewith as Exhibit 10.3 and Exhibit 10.4, respectively, and incorporated herein by reference.

**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>
10.1	<a href="#">Third Amended and Restated Credit and Guaranty Agreement, dated as of June 8, 2020, among Douglas Dynamics, L.L.C., 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 borrowers, Douglas Dynamics, Inc., as guarantor, the banks and financial institutions listed therein, as lenders, J.P. Morgan Securities LLC and CIBC Bank USA, as joint bookrunners and joint lead arrangers, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, and CIBC Bank USA, as syndication agent [Incorporated by reference to Exhibit 10.1 to Douglas Dynamics, Inc.'s Current Report on Form 8-K filed June 11, 2020 (File No. 001-34728)].</a>
10.2	<a href="#">Amendment and Restatement Agreement, dated as of June 8, 2020, 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, the banks and financial institutions listed therein, as lenders, and JPMorgan Chase Bank, N.A., as collateral agent and administrative agent [Incorporated by reference to Exhibit 10.2 to Douglas Dynamics, Inc.'s Current Report on Form 8-K filed June 11, 2020 (File No. 001-34728)]</a>
10.3*	<a href="#">Employment Agreement between Keith Hagelin and Douglas Dynamics, LLC, effective July 30, 2020.</a>
10.4*	<a href="#">Employment Agreement between Jonathon Sievert and Douglas Dynamics, LLC, effective July 30, 2020.</a>
31.1*	<a href="#">Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1*	<a href="#">Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101*	The following financial statements from the quarterly report on Form 10-Q of Douglas Dynamics, Inc. for the quarter ended June 30, 2020, filed on August 4, 2020, formatted in inline XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss); (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Shareholders' Equity; and (v) the Notes to the Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).

\* 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: August 4, 2020

## EMPLOYMENT AGREEMENT

This Employment Agreement (“Agreement”) is entered into as of July 30, 2020 (the “Effective Date”) by and between Keith Hagelin, an individual (“Executive”), and Douglas Dynamics, L.L.C., a Delaware limited liability company (the “Company”).

1. Employment by the Company.

(a) Full Time and Best Efforts. Subject to the terms set forth herein, the Company agrees to employ Executive as its Group President – Work Truck Attachments and in such other executive capacities as may be requested from time to time by the Company’s Board of Directors (the “Board”) or a duly authorized committee thereof, and Executive hereby accepts such employment. Executive shall render such other services for each of the Company and corporations that control, are controlled by or are under common control with the Company, as the case may be, and to successor entities and assignees of the Company, as the case may be (the “Affiliates”) as the Company may from time to time reasonably request and shall be consistent with the duties Executive is to perform for the Company and with Executive’s experience. During the term of his employment with the Company, Executive will devote his full business time and use his best efforts to advance the business and welfare of the Company, and will not engage in any other employment or business activities for any direct or indirect remuneration that would be directly harmful or detrimental to, or that may compete with, the business and affairs of the Company, or that would interfere with his duties hereunder.

(b) Duties. Executive shall serve in an executive capacity and shall perform such duties as are customarily associated with his position, consistent with the Bylaws of the Company, and as reasonably required by the CEO and the Board.

(c) Company Policies. The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, including but not limited to those relating to protection of confidential information and assignment of inventions, except that when the terms of this Agreement differ from or are in conflict with the Company’s general employment policies or practices, this Agreement shall control.

2. Compensation and Benefits.

(a) Base Salary. Executive shall receive for services to be rendered hereunder a salary at the rate of \$350,000.00 per year, payable in biweekly payments of \$13,461.54 and subject to payroll deductions as may be necessary or customary in respect of the Company’s salaried employees (the “Base Salary”). The Base Salary will be reviewed by and shall be subject to increase (but not decrease) at the sole discretion of the Board each year during the term of this Agreement.

(b) Participation in Benefit Plans; Vacation. During the term hereof, Executive shall be entitled to participate in any group insurance, hospitalization, medical, dental, health, accident, disability, 401(k) retirement savings plan or similar plan or program of the Company now existing or established hereafter to the extent that he is eligible under the general provisions thereof. The Company may, in its sole discretion and from time to time, amend, eliminate or establish additional benefit programs as it deems appropriate. Executive shall also participate in all fringe benefits, including without limitation annual vacation time, offered by the Company to any of its executives at such Executive’s level. Notwithstanding anything otherwise provided under this Agreement, nothing contained herein shall obligate the Company or its Affiliates to continue or maintain any particular benefit plan or program on an ongoing basis.

3. Bonus.

(a) Annual Incentive Plan. Executive shall be eligible to participate in the Company’s Annual Incentive Plan, through which the Company awards performance-based cash bonuses on an annual calendar year basis provided the Company achieves performance targets established by the Company’s management and approved by the Compensation Committee of the Board for such calendar year. Executive shall be eligible to participate at a target bonus level as determined by the Compensation Committee of the Board from time to time, which shall be no less than 75% of his Base Salary. Executive’s participation in such plan shall be governed by the terms and conditions of the plan as then in effect.

(b) If Executive resigns before the last day of a calendar year (other than for a Material Breach (as hereinafter defined)) or is discharged by the Company for Cause before the last day of such calendar year, Executive will not be entitled to receive a performance-based bonus pursuant to Section 3(a) for such calendar year. If Executive’s employment terminates prior to the last day of a calendar year for any other reason, Executive shall be entitled to receive a pro rata part of the performance-based bonus for such calendar year pursuant to Section 3(a) only if the Board, in its sole and absolute discretion, elects to pay a pro rata part of the performance-based bonus to Executive.

(c) Stock Incentive Plan. Executive shall be eligible to participate in the Company’s 2010 Stock Plan (or any successor plan thereto), through which the Company grants equity awards to its key employees, pursuant to the separate terms and conditions of the 2010 Stock Plan (or any successor plan thereto). Executive shall be eligible to participate in the Company’s 2010 Stock Plan (or any successor plan thereto) at a target level, as determined by the Compensation Committee of the Board, which shall

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be no less than 100% of Executive's Base Salary. Any grants made to the Executive under the 2010 Stock Plan (or any successor plan thereto) shall be subject to the terms and conditions of such plan and any applicable award agreements.

4. Reasonable Business Expenses and Support. Executive shall be reimbursed for documented and reasonable business expenses in connection with the performance of his duties hereunder, including appropriate professional fees and dues. Executive shall be furnished reasonable office space, assistance, including an administrative assistant and facilities.

5. Termination of Employment. The date on which Executive's employment by the Company ceases, under any of the following circumstances, shall be defined herein as the "Termination Date."

(a) Termination for Cause.

(i) Termination; Payment of Accrued Salary and Vacation. The Board may terminate Executive's employment with the Company at any time for Cause, immediately upon notice to Executive of the circumstances leading to such termination for Cause. In the event that Executive's employment is terminated for Cause, Executive shall receive payment for all accrued salary and vacation time through the Termination Date, less requisite withholdings for tax and social security purposes, which in this event shall be the date upon which notice of termination is given. The Company shall have no further obligation to pay severance of any kind whether under this Agreement or otherwise.

(ii) Definition of Cause. "Cause" means the occurrence or existence of any of the following with respect to Executive, as determined in good faith by a majority of the disinterested directors of the Board: (a) a material breach by Executive of any of his material obligations hereunder which remains uncured after the lapse of 30 days following the date that the Company has given Executive written notice thereof; (b) a material breach by the Executive of his duty not to engage in any transaction that represents, directly or indirectly, self-dealing with the Company or any of its Affiliates which has not been approved by a majority of the disinterested directors of the Board, if in any such case such material breach remains uncured after the lapse of 30 days following the date that the Company has given the Executive written notice thereof; (c) the repeated material breach by the Executive of any material duty referred to in clause (a) or (b) above as to which at least two (2) written notices have been given pursuant to such clause (a) or (b); (d) any act of misappropriation, embezzlement, intentional fraud or similar conduct involving the Company or any of its Affiliates; (e) the conviction or the plea of *nolo contendere* or the equivalent in respect of a felony involving moral turpitude; (f) intentional infliction of any damage of a material nature to any property of the Company or its Affiliates; or (g) the repeated non-prescription abuse of any controlled substance or the repeated abuse of alcohol or any other non-controlled substance which, in any case described in this clause, the Board reasonably determines renders the Executive unfit to serve in his capacity as an officer or employee of the Company or its Affiliates.

(b) Termination by Executive.

(i) Executive shall have the right, at his election, to terminate his employment with the Company by written notice to the Company to that effect if (A) the Company shall have failed to perform a material condition or covenant of this Agreement ("Material Breach"); *provided, however*, that termination for Material Breach will not be effective until Executive shall have given written notice specifying the claimed breach and, provided such breach is curable, the Company fails to correct the claimed breach within thirty (30) days after the receipt of the applicable notice (but within ten (10) days if the failure to perform is a failure to pay monies when due under the terms of this Agreement), or (B) the Company repeatedly commits a Material Breach as to which at least two (2) written notices have been given pursuant to this Section 5(b)(i). If the Executive terminates his employment with the Company pursuant to this Section 5(b)(i), then the Executive shall be entitled to receive the benefits provided in Section 5(d)(i) hereof.

(ii) Executive shall have the right, at his election, to terminate his employment with the Company for reason other than a Material Breach by sixty (60) days' prior written notice to that effect. In the event of termination by Executive pursuant to this Section 5(b)(ii), the Company shall have no termination payment requirements except that Executive shall receive the accrued portion of any salary and vacation hereunder through the Termination Date, less requisite withholdings for tax and social security purposes.

(c) Termination Upon Disability. The Company may terminate Executive's employment in the event Executive suffers a disability that renders Executive unable to perform the essential functions of his position, even with reasonable accommodation, for sixty (60) consecutive days or for ninety (90) days within any one hundred eighty (180) day period. After the Termination Date, which in this event shall be the date upon which notice of termination is given, no further compensation will be payable under this Agreement except that Executive shall receive the accrued portion of any salary and vacation hereunder through the Termination Date, less requisite withholdings for tax and social security purposes.

(d) Termination by Company Without Cause; Termination by Executive Pursuant to Section 5(b)(i). The Company may terminate Executive's employment at any time for other than Cause or disability, pursuant to the following termination payment requirements and upon not less than sixty (60) days' prior written notice to that effect.

(i) Termination Payments. In the event that Executive's employment is terminated by the Company without Cause or by Executive pursuant to Section 5(b)(i) hereof, the Company shall pay Executive as severance an amount equal to twelve (12) months of his then Base Salary. Such remuneration shall be paid, less requisite withholdings for tax and social security purposes, (A) in the case of Base Salary, over such term in monthly pro rata payments commencing as of the Termination Date and (B) in the case of the accrued portion of any vacation, promptly after such Termination Date in conformity with applicable law.

(ii) The Company shall not be obligated to pay any termination payments under Sections 5(d)(i) above if Executive breaches in any material way the provisions of the Confidentiality Agreement (as defined below).

(e) Benefits Upon Termination. All benefits provided under Section 2(b) shall be extended, at Executive's election and cost (such cost to Executive to be in the same amount as the cost for providing such benefits to existing employees), to the extent permitted by the Company's insurance policies and benefit plans, for one year after Executive's Termination Date, except (i) as required by law (e.g., COBRA health insurance continuation election) or (ii) in the event of a termination described in Section 5(a).

(f) Termination Upon Death. If Executive dies prior to the expiration of the term of this Agreement, the Company shall (i) continue coverage of Executive's dependents (if any) under all benefit plans or programs of the type listed above in Section 2(b) herein for a period of six (6) months and (ii) pay to Executive's estate the accrued portion of any salary and vacation through the Termination Date, less requisite withholdings for tax and social security purposes.

(g) Termination Upon Retirement. Executive shall provide notice to the Company of his retirement prior to the term of this Agreement not less than one hundred twenty (120) days prior to the effective date of Executive's retirement as set forth in such notice (the "Retirement Notice"). In the event that Executive's employment is terminated by Executive's retirement prior to the term of this Agreement, the Termination Date shall be the effective date of Executive's retirement as set forth in the Retirement Notice. After the Termination Date, no further compensation will be payable under this Agreement except that Executive shall receive the accrued portion of any salary and vacation hereunder through the Termination Date, less requisite withholdings for tax and social security purposes.

(h) Duty to Mitigate; Termination of Severance Benefits. Executive agrees that upon any termination pursuant to either of Section 5(b) or 5(d) hereof, Executive shall have a duty to mitigate his damages hereunder. The Company and Executive further agree that if, at any time following such a termination but prior to the expiration of the period during which monthly severance benefits are to be paid by the Company with respect to such termination, Executive secures employment, such monthly severance benefits shall not be reduced by the amount of monthly compensation Executive is to receive from such new employment as long as Executive does not breach in any material way the provisions of the Confidentiality Agreement; *provided, however*, that if Executive breaches in any material way the provisions of the Confidentiality Agreement, the Company shall not be obligated to pay any such severance benefits in accordance with Section 5(d)(ii) above.

6. Confidentiality and Noncompetition Agreement. Executive and the Company hereby acknowledge that, as of the date hereof, Executive and the Company have entered into a separate Confidentiality and Noncompetition Agreement governing matters related to confidential information, noncompetition, nonsolicitation of employees and assignment of inventions, among others, in connection with Executive's employment with the Company (the "Confidentiality Agreement"). Executive and the Company hereby ratify the terms of the Confidentiality Agreement and hereby agree that, notwithstanding the execution of this Agreement or the provisions of Section 7(c), the Confidentiality Agreement shall remain in full force and effect in accordance with the terms and conditions set forth therein.

7. Miscellaneous.

(a) Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of two days following personal delivery (including personal delivery facsimile), or the fourth day after mailing by reputable overnight courier or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

To the Company:

Douglas Dynamics, L.L.C.  
7777 North 73rd Street  
Milwaukee, Wisconsin 53223  
Attention: Chief Executive Officer  
Facsimile: (414) 354-5939

With a copy to:

Foley & Lardner LLP  
777 East Wisconsin Avenue  
Milwaukee, Wisconsin 53202  
Attention: Jay O. Rothman  
Facsimile: (414) 297-4900

To Executive:

Keith Hagelin  
29 Wellington Drive  
Rockport, ME 04856  
Facsimile: ( ) -

or to such other address or to the attention of such other person as the recipient party will have specified by prior written notice to the sending party.

(b) Severability. Any provision of this Agreement which is deemed invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction and subject to this paragraph be ineffective to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal, or unenforceable in any other jurisdiction. If any covenant should be deemed invalid, illegal or unenforceable because its scope is considered excessive, such covenant shall be modified so that the scope of the covenant is reduced only to the minimum extent necessary to render the modified covenant valid, legal and enforceable.

(c) Entire Agreement. This document, together with the Confidentiality Agreement, constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between the parties related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between the parties, written or oral.

(d) Counterparts. This Agreement may be executed on separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same agreement.

(e) Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive, the Company, and their respective successors and assigns, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the prior written consent of the Company.

(f) Amendments. No amendments or other modifications to this Agreement may be made except by a writing signed by all parties. No amendment or waiver of this Agreement requires the consent of any individual, partnership, corporation or other entity not a party to this Agreement. Nothing in this Agreement, express or implied, is intended to confer upon any third person any rights or remedies under or by reason of this Agreement.

(g) Choice of Law. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law.

(h) Survivorship. The provisions of this Agreement necessary to carry out the intention of the parties as expressed herein shall survive the termination or expiration of this Agreement.

(i) Waiver. Except as provided herein, the waiver by either party of the other party's prompt and complete performance, or breach or violation, of any provision of this Agreement shall not operate nor be construed as a waiver of any subsequent breach or violation, and the failure by any party hereto to exercise any right or remedy which it may possess hereunder

shall not operate nor be construed as a bar to the exercise of such right or remedy by such party upon the occurrence of any subsequent breach or violation.

(j) Captions. The captions of this Agreement are for convenience and reference only and in no way define, describe, extend or limit the scope or intent of this Agreement or the intent of any provision hereof.

(k) Construction. The parties acknowledge that this Agreement is the result of arm's-length negotiations between sophisticated parties each afforded representation by legal counsel. Each and every provision of this Agreement shall be construed as though both parties participated equally in the drafting of the same, and any rule of construction that a document shall be construed against the drafting party shall not be applicable to this Agreement.

8. Arbitration.

(a) Any disputes or claims arising out of or concerning the Executive's employment or termination by the Company, whether arising under theories of liability or damages based upon contract, tort or statute, shall be determined exclusively by arbitration before a single arbitrator in accordance with the employment arbitration rules of the American Arbitration Association ("AAA"), except as modified by this Agreement. The arbitrator's decision shall be final and binding on all parties. Judgment upon the award rendered by the arbitrator may be entered in any court of competent jurisdiction. In recognition of the fact that resolution of any disputes or claims in the courts is rarely timely or cost effective for either party, the Company and Executive enter this mutual agreement to arbitrate in order to gain the benefits of a speedy, impartial and cost-effective dispute resolution procedure.

(b) Any arbitration shall be held in the Executive's place of employment with the Company. The arbitrator shall be an attorney with substantial experience in employment matters, selected by the parties alternately striking names from a list of five such persons provided by the AAA office located nearest to the place of employment, following a request by the party seeking arbitration for a list of five such attorneys with substantial professional experience in employment matters. If either party fails to strike names from the list, the arbitrator shall be selected from the list by the other party.

(c) Each party shall have the right to take the depositions of a maximum of three individuals, as deemed appropriate by such party. Each party shall also have the right to propound requests for production of documents to any party and the right to subpoena documents and witnesses for the arbitration. Additional discovery may be made only where the arbitrator selected so orders upon a showing of substantial need. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure.

(d) The Company and Executive agree that they will attempt, and they intend that they and the arbitrator should use their best efforts in that attempt, to conclude the arbitration proceeding and have a final decision from the arbitrator within one hundred twenty (120) days from the date of selection of the arbitrator; *provided, however*, that the arbitrator shall be entitled to extend such 120-day period for a total of two one hundred twenty (120) day periods. The arbitrator shall immediately deliver a written award with respect to the dispute to each of the parties, who shall promptly act in accordance therewith.

(e) The Company shall pay the fees and expenses of the arbitrator. Each party shall pay its own attorney fees and costs including, without limitation, fees and costs of any experts. However, attorney fees and costs incurred by the party that prevails in any such arbitration commenced pursuant to this Section 8 or any judicial action or proceeding seeking to enforce the agreement to arbitrate disputes as set forth in this Section 8 or seeking to enforce any order or award of any arbitration commenced pursuant to this Section 8 may be assessed against the party or parties that do not prevail in such arbitration in such manner as the arbitrator or the court in such judicial action, as the case may be, may determine to be appropriate under the circumstances. Any controversy over whether a dispute is an arbitrable dispute or as to the interpretation or enforceability of this paragraph with respect to such arbitration shall be determined by the arbitrator.

(f) In a contractual claim under this Agreement, the arbitrator shall have no authority to add, delete or modify any term of this Agreement.

(g) In the event that more than one dispute is submitted to arbitration by the Company or Executive pursuant to any agreement between the Company and Executive, including under this Agreement, and one or more additional agreements to which the Company and Executive are parties, all such matters shall be consolidated into a single arbitration proceeding so as to avoid, to the extent possible, more than one simultaneous arbitration proceeding between the Company and Executive.

9. 409A Compliance.

(a) The parties agree that this Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations and guidance promulgated thereunder ("Section 409A") or an exemption from Section 409A. The Company

shall undertake to administer, interpret, and construe this Agreement in a manner that does not result in the imposition on Executive of any additional tax, penalty, or interest under Section 409A, *provided, however*, that Executive understands and agrees that the Company shall not be held liable or responsible for any taxes, penalties, interests or other expenses incurred by Executive on account of non-compliance with Section 409A.

(b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service." If Executive is deemed on the date of termination to be a "specified employee" within the meaning of that term under Section 409A(a)(2)(B) of the Code, then with regard to any payment or the provision of any benefit that is considered deferred compensation under Section 409A payable on account of a "separation from service," and that is not exempt from Section 409A as involuntary separation pay or a short-term deferral (or otherwise), such payment or benefit shall be made or provided at the date which is the earlier of (i) the expiration of the six (6)-month period measured from the date of such "separation from service" of Executive or (ii) the date of Executive's death (the "Delay Period"). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this Subsection 9(b) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to Executive in a lump sum without interest, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

(c) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A, all such payments shall be made on or before the last day of calendar year following the calendar year in which the expense occurred.

*[Signature page follows]*

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date set forth above.

/s/ Keith Hagelin

By: Keith Hagelin  
Date: July 30, 2020  
DOUGLAS DYNAMICS, L.L.C.

/s/ Robert McCormick

By: Robert McCormick  
Its: President and Chief Executive Officer  
Date: July 30, 2020

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## EMPLOYMENT AGREEMENT

This Employment Agreement (“Agreement”) is entered into as of July 30, 2020 (the “Effective Date”) by and between Jon Sievert, an individual (“Executive”), and Douglas Dynamics, L.L.C., a Delaware limited liability company (the “Company”).

1. Employment by the Company.

(a) Full Time and Best Efforts. Subject to the terms set forth herein, the Company agrees to employ Executive as its Group President – Work Truck Solutions and in such other executive capacities as may be requested from time to time by the Company’s Board of Directors (the “Board”) or a duly authorized committee thereof, and Executive hereby accepts such employment. Executive shall render such other services for each of the Company and corporations that control, are controlled by or are under common control with the Company, as the case may be, and to successor entities and assignees of the Company, as the case may be (the “Affiliates”) as the Company may from time to time reasonably request and shall be consistent with the duties Executive is to perform for the Company and with Executive’s experience. During the term of his employment with the Company, Executive will devote his full business time and use his best efforts to advance the business and welfare of the Company, and will not engage in any other employment or business activities for any direct or indirect remuneration that would be directly harmful or detrimental to, or that may compete with, the business and affairs of the Company, or that would interfere with his duties hereunder.

(b) Duties. Executive shall serve in an executive capacity and shall perform such duties as are customarily associated with his position, consistent with the Bylaws of the Company, and as reasonably required by the CEO and the Board.

(c) Company Policies. The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, including but not limited to those relating to protection of confidential information and assignment of inventions, except that when the terms of this Agreement differ from or are in conflict with the Company’s general employment policies or practices, this Agreement shall control.

2. Compensation and Benefits.

(a) Base Salary. Executive shall receive for services to be rendered hereunder a salary at the rate of \$312,425.00 per year, payable in biweekly payments of \$12,016.35 and subject to payroll deductions as may be necessary or customary in respect of the Company’s salaried employees (the “Base Salary”). The Base Salary will be reviewed by and shall be subject to increase (but not decrease) at the sole discretion of the Board each year during the term of this Agreement.

(b) Participation in Benefit Plans; Vacation. During the term hereof, Executive shall be entitled to participate in any group insurance, hospitalization, medical, dental, health, accident, disability, 401(k) retirement savings plan or similar plan or program of the Company now existing or established hereafter to the extent that he is eligible under the general provisions thereof. The Company may, in its sole discretion and from time to time, amend, eliminate or establish additional benefit programs as it deems appropriate. Executive shall also participate in all fringe benefits, including without limitation annual vacation time, offered by the Company to any of its executives at such Executive’s level. Notwithstanding anything otherwise provided under this Agreement, nothing contained herein shall obligate the Company or its Affiliates to continue or maintain any particular benefit plan or program on an ongoing basis.

3. Bonus.

(a) Annual Incentive Plan. Executive shall be eligible to participate in the Company’s Annual Incentive Plan, through which the Company awards performance-based cash bonuses on an annual calendar year basis provided the Company achieves performance targets established by the Company’s management and approved by the Compensation Committee of the Board for such calendar year. Executive shall be eligible to participate at a target bonus level as determined by the Compensation Committee of the Board from time to time, which shall be no less than 75% of his Base Salary. Executive’s participation in such plan shall be governed by the terms and conditions of the plan as then in effect.

(b) If Executive resigns before the last day of a calendar year (other than for a Material Breach (as hereinafter defined)) or is discharged by the Company for Cause before the last day of such calendar year, Executive will not be entitled to receive a performance-based bonus pursuant to Section 3(a) for such calendar year. If Executive’s employment terminates prior to the last day of a calendar year for any other reason, Executive shall be entitled to receive a pro rata part of the performance-based bonus for such calendar year pursuant to Section 3(a) only if the Board, in its sole and absolute discretion, elects to pay a pro rata part of the performance-based bonus to Executive.

(c) Stock Incentive Plan. Executive shall be eligible to participate in the Company’s 2010 Stock Plan (or any successor plan thereto), through which the Company grants equity awards to its key employees, pursuant to the separate terms and conditions of the 2010 Stock Plan (or any successor plan thereto). Executive shall be eligible to participate in the Company’s 2010 Stock Plan (or any successor plan thereto) at a target level, as determined by the Compensation Committee of the Board, which shall

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be no less than 100% of Executive's Base Salary. Any grants made to the Executive under the 2010 Stock Plan (or any successor plan thereto) shall be subject to the terms and conditions of such plan and any applicable award agreements.

4. Reasonable Business Expenses and Support. Executive shall be reimbursed for documented and reasonable business expenses in connection with the performance of his duties hereunder, including appropriate professional fees and dues. Executive shall be furnished reasonable office space, assistance, including an administrative assistant and facilities.

5. Termination of Employment. The date on which Executive's employment by the Company ceases, under any of the following circumstances, shall be defined herein as the "Termination Date."

(a) Termination for Cause.

(i) Termination; Payment of Accrued Salary and Vacation. The Board may terminate Executive's employment with the Company at any time for Cause, immediately upon notice to Executive of the circumstances leading to such termination for Cause. In the event that Executive's employment is terminated for Cause, Executive shall receive payment for all accrued salary and vacation time through the Termination Date, less requisite withholdings for tax and social security purposes, which in this event shall be the date upon which notice of termination is given. The Company shall have no further obligation to pay severance of any kind whether under this Agreement or otherwise.

(ii) Definition of Cause. "Cause" means the occurrence or existence of any of the following with respect to Executive, as determined in good faith by a majority of the disinterested directors of the Board: (a) a material breach by Executive of any of his material obligations hereunder which remains uncured after the lapse of 30 days following the date that the Company has given Executive written notice thereof; (b) a material breach by the Executive of his duty not to engage in any transaction that represents, directly or indirectly, self-dealing with the Company or any of its Affiliates which has not been approved by a majority of the disinterested directors of the Board, if in any such case such material breach remains uncured after the lapse of 30 days following the date that the Company has given the Executive written notice thereof; (c) the repeated material breach by the Executive of any material duty referred to in clause (a) or (b) above as to which at least two (2) written notices have been given pursuant to such clause (a) or (b); (d) any act of misappropriation, embezzlement, intentional fraud or similar conduct involving the Company or any of its Affiliates; (e) the conviction or the plea of *nolo contendere* or the equivalent in respect of a felony involving moral turpitude; (f) intentional infliction of any damage of a material nature to any property of the Company or its Affiliates; or (g) the repeated non-prescription abuse of any controlled substance or the repeated abuse of alcohol or any other non-controlled substance which, in any case described in this clause, the Board reasonably determines renders the Executive unfit to serve in his capacity as an officer or employee of the Company or its Affiliates.

(b) Termination by Executive.

(i) Executive shall have the right, at his election, to terminate his employment with the Company by written notice to the Company to that effect if (A) the Company shall have failed to perform a material condition or covenant of this Agreement ("Material Breach"); *provided, however*, that termination for Material Breach will not be effective until Executive shall have given written notice specifying the claimed breach and, provided such breach is curable, the Company fails to correct the claimed breach within thirty (30) days after the receipt of the applicable notice (but within ten (10) days if the failure to perform is a failure to pay monies when due under the terms of this Agreement), or (B) the Company repeatedly commits a Material Breach as to which at least two (2) written notices have been given pursuant to this Section 5(b)(i). If the Executive terminates his employment with the Company pursuant to this Section 5(b)(i), then the Executive shall be entitled to receive the benefits provided in Section 5(d)(i) hereof.

(ii) Executive shall have the right, at his election, to terminate his employment with the Company for reason other than a Material Breach by sixty (60) days' prior written notice to that effect. In the event of termination by Executive pursuant to this Section 5(b)(ii), the Company shall have no termination payment requirements except that Executive shall receive the accrued portion of any salary and vacation hereunder through the Termination Date, less requisite withholdings for tax and social security purposes.

(c) Termination Upon Disability. The Company may terminate Executive's employment in the event Executive suffers a disability that renders Executive unable to perform the essential functions of his position, even with reasonable accommodation, for sixty (60) consecutive days or for ninety (90) days within any one hundred eighty (180) day period. After the Termination Date, which in this event shall be the date upon which notice of termination is given, no further compensation will be payable under this Agreement except that Executive shall receive the accrued portion of any salary and vacation hereunder through the Termination Date, less requisite withholdings for tax and social security purposes.

(d) Termination by Company Without Cause; Termination by Executive Pursuant to Section 5(b)(i). The Company may terminate Executive's employment at any time for other than Cause or disability, pursuant to the following termination payment requirements and upon not less than sixty (60) days' prior written notice to that effect.

(i) Termination Payments. In the event that Executive's employment is terminated by the Company without Cause or by Executive pursuant to Section 5(b)(i) hereof, the Company shall pay Executive as severance an amount equal to twelve (12) months of his then Base Salary. Such remuneration shall be paid, less requisite withholdings for tax and social security purposes, (A) in the case of Base Salary, over such term in monthly pro rata payments commencing as of the Termination Date and (B) in the case of the accrued portion of any vacation, promptly after such Termination Date in conformity with applicable law.

(ii) The Company shall not be obligated to pay any termination payments under Sections 5(d)(i) above if Executive breaches in any material way the provisions of the Confidentiality Agreement (as defined below).

(e) Benefits Upon Termination. All benefits provided under Section 2(b) shall be extended, at Executive's election and cost (such cost to Executive to be in the same amount as the cost for providing such benefits to existing employees), to the extent permitted by the Company's insurance policies and benefit plans, for one year after Executive's Termination Date, except (i) as required by law (e.g., COBRA health insurance continuation election) or (ii) in the event of a termination described in Section 5(a).

(f) Termination Upon Death. If Executive dies prior to the expiration of the term of this Agreement, the Company shall (i) continue coverage of Executive's dependents (if any) under all benefit plans or programs of the type listed above in Section 2(b) herein for a period of six (6) months and (ii) pay to Executive's estate the accrued portion of any salary and vacation through the Termination Date, less requisite withholdings for tax and social security purposes.

(g) Termination Upon Retirement. Executive shall provide notice to the Company of his retirement prior to the term of this Agreement not less than one hundred twenty (120) days prior to the effective date of Executive's retirement as set forth in such notice (the "Retirement Notice"). In the event that Executive's employment is terminated by Executive's retirement prior to the term of this Agreement, the Termination Date shall be the effective date of Executive's retirement as set forth in the Retirement Notice. After the Termination Date, no further compensation will be payable under this Agreement except that Executive shall receive the accrued portion of any salary and vacation hereunder through the Termination Date, less requisite withholdings for tax and social security purposes.

(h) Duty to Mitigate; Termination of Severance Benefits. Executive agrees that upon any termination pursuant to either of Section 5(b) or 5(d) hereof, Executive shall have a duty to mitigate his damages hereunder. The Company and Executive further agree that if, at any time following such a termination but prior to the expiration of the period during which monthly severance benefits are to be paid by the Company with respect to such termination, Executive secures employment, such monthly severance benefits shall not be reduced by the amount of monthly compensation Executive is to receive from such new employment as long as Executive does not breach in any material way the provisions of the Confidentiality Agreement; *provided, however*, that if Executive breaches in any material way the provisions of the Confidentiality Agreement, the Company shall not be obligated to pay any such severance benefits in accordance with Section 5(d)(ii) above.

6. Confidentiality and Noncompetition Agreement. Executive and the Company hereby acknowledge that, as of the date hereof, Executive and the Company have entered into a separate Confidentiality and Noncompetition Agreement governing matters related to confidential information, noncompetition, nonsolicitation of employees and assignment of inventions, among others, in connection with Executive's employment with the Company (the "Confidentiality Agreement"). Executive and the Company hereby ratify the terms of the Confidentiality Agreement and hereby agree that, notwithstanding the execution of this Agreement or the provisions of Section 7(c), the Confidentiality Agreement shall remain in full force and effect in accordance with the terms and conditions set forth therein.

7. Miscellaneous.

(a) Notices. Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of two days following personal delivery (including personal delivery facsimile), or the fourth day after mailing by reputable overnight courier or registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

To the Company:

Douglas Dynamics, L.L.C.  
7777 North 73rd Street  
Milwaukee, Wisconsin 53223  
Attention: Chief Executive Officer  
Facsimile: (414) 354-5939

With a copy to:

Foley & Lardner LLP  
777 East Wisconsin Avenue  
Milwaukee, Wisconsin 53202  
Attention: Jay O. Rothman  
Facsimile: (414) 297-4900

To Executive:

Jon Sievert  
1785 West Wedgewood Dr  
Elm Grove, WI 53122  
Facsimile: ( ) -

or to such other address or to the attention of such other person as the recipient party will have specified by prior written notice to the sending party.

(b) Severability. Any provision of this Agreement which is deemed invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction and subject to this paragraph be ineffective to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal, or unenforceable in any other jurisdiction. If any covenant should be deemed invalid, illegal or unenforceable because its scope is considered excessive, such covenant shall be modified so that the scope of the covenant is reduced only to the minimum extent necessary to render the modified covenant valid, legal and enforceable.

(c) Entire Agreement. This document, together with the Confidentiality Agreement, constitutes the final, complete, and exclusive embodiment of the entire agreement and understanding between the parties related to the subject matter hereof and supersedes and preempts any prior or contemporaneous understandings, agreements, or representations by or between the parties, written or oral.

(d) Counterparts. This Agreement may be executed on separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same agreement.

(e) Successors and Assigns. This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive, the Company, and their respective successors and assigns, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the prior written consent of the Company.

(f) Amendments. No amendments or other modifications to this Agreement may be made except by a writing signed by all parties. No amendment or waiver of this Agreement requires the consent of any individual, partnership, corporation or other entity not a party to this Agreement. Nothing in this Agreement, express or implied, is intended to confer upon any third person any rights or remedies under or by reason of this Agreement.

(g) Choice of Law. All questions concerning the construction, validity and interpretation of this Agreement will be governed by the laws of the State of Delaware without giving effect to principles of conflicts of law.

(h) Survivorship. The provisions of this Agreement necessary to carry out the intention of the parties as expressed herein shall survive the termination or expiration of this Agreement.

(i) Waiver. Except as provided herein, the waiver by either party of the other party's prompt and complete performance, or breach or violation, of any provision of this Agreement shall not operate nor be construed as a waiver of any subsequent breach or violation, and the failure by any party hereto to exercise any right or remedy which it may possess hereunder shall not operate nor be construed as a bar to the exercise of such right or remedy by such party upon the occurrence of any subsequent breach or violation.

(j) Captions. The captions of this Agreement are for convenience and reference only and in no way define, describe, extend or limit the scope or intent of this Agreement or the intent of any provision hereof.

(k) Construction. The parties acknowledge that this Agreement is the result of arm's-length negotiations between sophisticated parties each afforded representation by legal counsel. Each and every provision of this Agreement shall be construed as though both parties participated equally in the drafting of the same, and any rule of construction that a document shall be construed against the drafting party shall not be applicable to this Agreement.

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(a) Any disputes or claims arising out of or concerning the Executive's employment or termination by the Company, whether arising under theories of liability or damages based upon contract, tort or statute, shall be determined exclusively by arbitration before a single arbitrator in accordance with the employment arbitration rules of the American Arbitration Association ("AAA"), except as modified by this Agreement. The arbitrator's decision shall be final and binding on all parties. Judgment upon the award rendered by the arbitrator may be entered in any court of competent jurisdiction. In recognition of the fact that resolution of any disputes or claims in the courts is rarely timely or cost effective for either party, the Company and Executive enter this mutual agreement to arbitrate in order to gain the benefits of a speedy, impartial and cost-effective dispute resolution procedure.

(b) Any arbitration shall be held in the Executive's place of employment with the Company. The arbitrator shall be an attorney with substantial experience in employment matters, selected by the parties alternately striking names from a list of five such persons provided by the AAA office located nearest to the place of employment, following a request by the party seeking arbitration for a list of five such attorneys with substantial professional experience in employment matters. If either party fails to strike names from the list, the arbitrator shall be selected from the list by the other party.

(c) Each party shall have the right to take the depositions of a maximum of three individuals, as deemed appropriate by such party. Each party shall also have the right to propound requests for production of documents to any party and the right to subpoena documents and witnesses for the arbitration. Additional discovery may be made only where the arbitrator selected so orders upon a showing of substantial need. The arbitrator shall have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and shall apply the standards governing such motions under the Federal Rules of Civil Procedure.

(d) The Company and Executive agree that they will attempt, and they intend that they and the arbitrator should use their best efforts in that attempt, to conclude the arbitration proceeding and have a final decision from the arbitrator within one hundred twenty (120) days from the date of selection of the arbitrator; *provided, however*, that the arbitrator shall be entitled to extend such 120-day period for a total of two one hundred twenty (120) day periods. The arbitrator shall immediately deliver a written award with respect to the dispute to each of the parties, who shall promptly act in accordance therewith.

(e) The Company shall pay the fees and expenses of the arbitrator. Each party shall pay its own attorney fees and costs including, without limitation, fees and costs of any experts. However, attorney fees and costs incurred by the party that prevails in any such arbitration commenced pursuant to this Section 8 or any judicial action or proceeding seeking to enforce the agreement to arbitrate disputes as set forth in this Section 8 or seeking to enforce any order or award of any arbitration commenced pursuant to this Section 8 may be assessed against the party or parties that do not prevail in such arbitration in such manner as the arbitrator or the court in such judicial action, as the case may be, may determine to be appropriate under the circumstances. Any controversy over whether a dispute is an arbitrable dispute or as to the interpretation or enforceability of this paragraph with respect to such arbitration shall be determined by the arbitrator.

(f) In a contractual claim under this Agreement, the arbitrator shall have no authority to add, delete or modify any term of this Agreement.

(g) In the event that more than one dispute is submitted to arbitration by the Company or Executive pursuant to any agreement between the Company and Executive, including under this Agreement, and one or more additional agreements to which the Company and Executive are parties, all such matters shall be consolidated into a single arbitration proceeding so as to avoid, to the extent possible, more than one simultaneous arbitration proceeding between the Company and Executive.

9. 409A Compliance.

(a) The parties agree that this Agreement is intended to comply with the requirements of Section 409A of the Code and the regulations and guidance promulgated thereunder ("Section 409A") or an exemption from Section 409A. The Company shall undertake to administer, interpret, and construe this Agreement in a manner that does not result in the imposition on Executive of any additional tax, penalty, or interest under Section 409A, *provided, however*, that Executive understands and agrees that the Company shall not be held liable or responsible for any taxes, penalties, interests or other expenses incurred by Executive on account of non-compliance with Section 409A.

(b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment" or like terms shall mean "separation from service." If Executive is deemed on the date of termination to be a "specified employee" within the meaning of that term under Section 409A(a)(2)(B) of the Code, then with regard to any payment or the provision of any benefit that is considered deferred compensation under Section 409A payable on account of a "separation from service," and that is not exempt from Section 409A as involuntary separation pay or a short-term deferral (or otherwise), such payment or benefit shall be made or provided at the date which

is the earlier of (i) the expiration of the six (6)-month period measured from the date of such “separation from service” of Executive or (ii) the date of Executive’s death (the “Delay Period”). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this Subsection 9(b) (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to Executive in a lump sum without interest, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

(c) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A, all such payments shall be made on or before the last day of calendar year following the calendar year in which the expense occurred.

*[Signature page follows]*

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date set forth above.

/s/ Jon Sievert

By: Jon Sievert  
Date: July 30, 2020  
DOUGLAS DYNAMICS, L.L.C.

/s/ Robert McCormick

By: Robert McCormick  
Its: President and Chief Executive Officer  
Date: July 30, 2020

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**Section 302 Certification**

I, Robert McCormick, 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/ Robert McCormick

Robert McCormick

*President and Chief Executive Officer*

Dated: August 4, 2020

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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: August 4, 2020

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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 June 30, 2020 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/ Robert McCormick

Robert McCormick

*President and Chief Executive Officer*

Dated: August 4, 2020

By: /s/ Sarah Lauber

Sarah Lauber

*Chief Financial Officer*

Dated: August 4, 2020

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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