

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, 2022

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.)

**11270 W Park Place Ste 300**  
**Milwaukee, Wisconsin 53224**  
(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 2, 2022 was 22,886,793.

**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, 2022 (unaudited)	December 31, 2021 (unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,041	\$ 36,964
Accounts receivable, net	127,890	71,035
Inventories	131,518	104,019
Inventories - truck chassis floor plan	1,052	2,655
Refundable income taxes paid	—	1,222
Prepaid and other current assets	4,012	4,536
<b>Total current assets</b>	<b>270,513</b>	<b>220,431</b>
Property, plant, and equipment, net	66,171	66,787
Goodwill	113,134	113,134
Other intangible assets, net	136,849	142,109
Operating lease - right of use asset	16,152	18,462
Non-qualified benefit plan assets	8,726	10,347
Other long-term assets	1,939	1,206
<b>Total assets</b>	<b>\$ 613,484</b>	<b>\$ 572,476</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 18,092	\$ 27,375
Accrued expenses and other current liabilities	32,140	36,126
Floor plan obligations	1,052	2,655
Operating lease liability - current	4,416	4,623
Income taxes payable	3,848	—
Short term borrowings	58,000	—
Current portion of long-term debt	11,137	11,137
<b>Total current liabilities</b>	<b>128,685</b>	<b>81,916</b>
Retiree benefits and deferred compensation	15,750	17,170
Deferred income taxes	30,838	29,789
Long-term debt, less current portion	200,677	206,058
Operating lease liability - noncurrent	13,302	15,408
Other long-term liabilities	4,577	7,525
Stockholders' equity:		
Common Stock, par value \$0.01, 200,000,000 shares authorized, 22,886,793 and 22,980,951 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively	229	230
Additional paid-in capital	162,605	163,552
Retained earnings	52,184	51,881
Accumulated other comprehensive income (loss), net of tax	4,637	(1,053)
<b>Total stockholders' equity</b>	<b>219,655</b>	<b>214,610</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 613,484</b>	<b>\$ 572,476</b>

See the accompanying notes to condensed consolidated financial statements.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>	<u>June 30,</u> <u>2022</u>	<u>June 30,</u> <u>2021</u>
	(unaudited)		(unaudited)	
Net sales	\$ 187,561	\$ 157,530	\$ 290,162	\$ 260,872
Cost of sales	136,328	108,732	217,865	185,822
Gross profit	51,233	48,798	72,297	75,050
Selling, general, and administrative expense	23,024	21,982	44,397	41,881
Intangibles amortization	2,630	2,705	5,260	5,410
Income from operations	25,579	24,111	22,640	27,759
Interest expense, net	(2,473)	(4,372)	(4,586)	(7,347)
Loss on extinguishment of debt	—	(4,936)	—	(4,936)
Other income (expense), net	(16)	116	111	108
Income before taxes	23,090	14,919	18,165	15,584
Income tax expense	5,365	816	4,348	739
Net income	<u>\$ 17,725</u>	<u>\$ 14,103</u>	<u>\$ 13,817</u>	<u>\$ 14,845</u>
Weighted average number of common shares outstanding:				
Basic	22,907,414	22,973,391	22,944,769	22,927,658
Diluted	22,907,414	22,985,233	22,947,352	22,943,836
Earnings per common share:				
Basic	\$ 0.76	\$ 0.60	\$ 0.59	\$ 0.64
Diluted	\$ 0.75	\$ 0.60	\$ 0.58	\$ 0.63
Cash dividends declared and paid per share	\$ 0.29	\$ 0.29	\$ 0.58	\$ 0.57
Comprehensive income	\$ 19,177	\$ 15,021	\$ 19,507	\$ 16,269

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, 2022	June 30, 2021
	(unaudited)	
<b>Operating activities</b>		
Net income	\$ 13,817	\$ 14,845
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,393	10,213
Loss (gain) on disposal of fixed asset	130	(57)
Amortization of deferred financing costs and debt discount	244	646
Loss on extinguishment of debt	—	4,936
Stock-based compensation	5,053	6,020
Adjustments on derivatives not classified as hedges	(344)	(849)
Provision for losses on accounts receivable	50	347
Deferred income taxes	1,049	477
Non-cash lease expense	2,310	1,681
Changes in operating assets and liabilities:		
Accounts receivable	(56,905)	(9,279)
Inventories	(27,499)	(14,155)
Prepaid assets, refundable income taxes and other assets	2,634	(475)
Accounts payable	(8,350)	2,929
Accrued expenses and other current liabilities	(139)	(2,851)
Benefit obligations and other long-term liabilities	(647)	(1,287)
Net cash provided by (used in) operating activities	(58,204)	13,141
<b>Investing activities</b>		
Capital expenditures	(5,580)	(4,586)
Net cash used in investing activities	(5,580)	(4,586)
<b>Financing activities</b>		
Repurchase of common stock	(6,001)	—
Payments of financing costs	—	(1,281)
Dividends paid	(13,514)	(13,254)
Net revolver borrowings	58,000	—
Borrowings on long-term debt	—	224,438
Repayment of long-term debt	(5,624)	(244,313)
Net cash provided by (used in) financing activities	32,861	(34,410)
Change in cash and cash equivalents	(30,923)	(25,855)
Cash and cash equivalents at beginning of period	36,964	41,030
Cash and cash equivalents at end of period	\$ 6,041	\$ 15,175
<b>Non-cash operating and financing activities</b>		
Truck chassis inventory acquired through floorplan obligations	\$ 1,303	\$ 26,056

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 Income (Loss)	Total
	Shares	Dollars				
<b>Three Months Ended June 30, 2022</b>						
Balance at March 31, 2022	22,976,150	\$ 230	\$ 162,451	\$ 41,225	\$ 3,185	\$ 207,091
Net income	—	—	—	17,725	—	17,725
Dividends paid	—	—	—	(6,766)	—	(6,766)
Adjustment for postretirement benefit liability, net of tax of \$14	—	—	—	—	(41)	(41)
Adjustment for interest rate swap, net of tax of (\$525)	—	—	—	—	1,493	1,493
Repurchase of common stock	(89,357)	(1)	(2,999)	—	—	(3,000)
Stock based compensation	—	—	3,153	—	—	3,153
Balance at June 30, 2022	<u>22,886,793</u>	<u>\$ 229</u>	<u>\$ 162,605</u>	<u>\$ 52,184</u>	<u>\$ 4,637</u>	<u>\$ 219,655</u>
<b>Six Months Ended June 30, 2022</b>						
Balance at December 31, 2021	22,980,951	\$ 230	\$ 163,552	\$ 51,881	\$ (1,053)	\$ 214,610
Net income	—	—	—	13,817	—	13,817
Dividends paid	—	—	—	(13,514)	—	(13,514)
Adjustment for pension and postretirement benefit liability, net of tax of \$28	—	—	—	—	(82)	(82)
Adjustment for interest rate swap, net of tax of (\$2,028)	—	—	—	—	5,772	5,772
Shares withheld on restricted stock vesting	—	—	—	—	—	—
Repurchase of common stock	(171,088)	(2)	(5,999)	—	—	(6,001)
Stock based compensation	76,930	1	5,052	—	—	5,053
Balance at June 30, 2022	<u>22,886,793</u>	<u>\$ 229</u>	<u>\$ 162,605</u>	<u>\$ 52,184</u>	<u>\$ 4,637</u>	<u>\$ 219,655</u>
<b>Three Months Ended June 30, 2021</b>						
Balance at March 31, 2021	22,955,472	\$ 230	\$ 159,722	\$ 41,664	\$ (4,989)	\$ 196,627
Net income	—	—	—	14,103	—	14,103
Dividends paid	—	—	—	(6,464)	—	(6,464)
Adjustment for pension and postretirement benefit liability, net of tax of \$20	—	—	—	—	(58)	(58)
Adjustment for interest rate swap, net of tax of (\$340)	—	—	—	—	976	976
Stock based compensation	25,479	—	4,055	—	—	4,055
Balance at June 30, 2021	<u>22,980,951</u>	<u>\$ 230</u>	<u>\$ 163,777</u>	<u>\$ 49,303</u>	<u>\$ (4,071)</u>	<u>\$ 209,239</u>
<b>Six Months Ended June 30, 2021</b>						
Balance at December 31, 2020	22,857,457	\$ 229	\$ 157,758	\$ 47,712	\$ (5,495)	\$ 200,204
Net income	—	—	—	14,845	—	14,845
Dividends paid	—	—	—	(13,254)	—	(13,254)
Adjustment for pension and postretirement benefit liability, net of tax of \$40	—	—	—	—	(116)	(116)
Adjustment for interest rate swap, net of tax of (\$534)	—	—	—	—	1,540	1,540
Stock based compensation	123,494	1	6,019	—	—	6,020
Balance at June 30, 2021	<u>22,980,951</u>	<u>\$ 230</u>	<u>\$ 163,777</u>	<u>\$ 49,303</u>	<u>\$ (4,071)</u>	<u>\$ 209,239</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 2021 Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission on February 22, 2022.

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 15 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, 2022, the Condensed Consolidated Statements of Operations and Comprehensive Income and the Condensed Consolidated Statements of Shareholders' Equity for the three and six months ended June 30, 2022 and 2021, and the Condensed Cash Flows for the six months ended June 30, 2022 and 2021 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.

## 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. In the case of a single order containing multiple upfits, the transaction price may represent multiple performance obligations.

### 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 \$549 and \$168 for the three months ended June 30, 2022 and 2021, respectively. The adjustment increased revenue by \$85 and \$260 for the six months ended June 30, 2022 and 2021, 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.

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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, 2022</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 130,364	\$ 30,460	\$ 160,824
Government	-	13,998	13,998
Fleet	-	11,428	11,428
Other	-	1,311	1,311
<b>Total revenue</b>	<b>\$ 130,364</b>	<b>\$ 57,197</b>	<b>\$ 187,561</b>

<b>Three Months Ended June 30, 2021</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 104,638	\$ 32,384	\$ 137,022
Government	-	9,466	9,466
Fleet	-	9,295	9,295
Other	-	1,747	1,747
<b>Total revenue</b>	<b>\$ 104,638</b>	<b>\$ 52,892</b>	<b>\$ 157,530</b>

<b>Six Months Ended June 30, 2022</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 176,140	\$ 60,711	\$ 236,851
Government	-	26,008	26,008
Fleet	-	23,151	23,151
Other	-	4,152	4,152
<b>Total revenue</b>	<b>\$ 176,140</b>	<b>\$ 114,022</b>	<b>\$ 290,162</b>

<b>Six Months Ended June 30, 2021</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 146,619	\$ 66,032	\$ 212,651
Government	-	21,916	21,916
Fleet	-	20,640	20,640
Other	-	5,665	5,665
<b>Total revenue</b>	<b>\$ 146,619</b>	<b>\$ 114,253</b>	<b>\$ 260,872</b>

Revenue by timing of revenue recognition was as follows:

<b>Three Months Ended June 30, 2022</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Point in time	\$ 130,364	\$ 35,051	\$ 165,415
Over time	-	22,146	22,146
<b>Total revenue</b>	<b>\$ 130,364</b>	<b>\$ 57,197</b>	<b>\$ 187,561</b>

<b>Three Months Ended June 30, 2021</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Point in time	\$ 104,638	\$ 32,690	\$ 137,328
Over time	-	20,202	20,202
<b>Total revenue</b>	<b>\$ 104,638</b>	<b>\$ 52,892</b>	<b>\$ 157,530</b>

	Work Truck Attachments	Work Truck Solutions	Total Revenue
<b>Six Months Ended June 30, 2022</b>			
Point in time	\$ 176,140	\$ 69,534	\$ 245,674
Over time	-	44,488	44,488
Total revenue	<u>\$ 176,140</u>	<u>\$ 114,022</u>	<u>\$ 290,162</u>
<b>Six Months Ended June 30, 2021</b>			
Point in time	\$ 146,619	\$ 73,400	\$ 220,019
Over time	-	40,853	40,853
Total revenue	<u>\$ 146,619</u>	<u>\$ 114,253</u>	<u>\$ 260,872</u>

Contract Balances

The following table shows the changes in the Company's contract liabilities during the three and six months ended June 30, 2022 and 2021, respectively:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
<b>Three Months Ended June 30, 2022</b>				
Contract liabilities	\$ 2,616	\$ 5,928	\$ (4,214)	\$ 4,330
<b>Three Months Ended June 30, 2021</b>				
Contract liabilities	\$ 3,741	\$ 7,564	\$ (4,702)	\$ 6,603
<b>Six Months Ended June 30, 2022</b>				
Contract liabilities	\$ 2,454	\$ 8,637	\$ (6,761)	\$ 4,330
<b>Six Months Ended June 30, 2021</b>				
Contract liabilities	\$ 2,746	\$ 10,729	\$ (6,872)	\$ 6,603

The Company receives payments from customers based upon contractual billing schedules. Contract assets include amounts related to the contractual right to consideration for completed performance obligations. There were no contract assets as of June 30, 2022 or 2021. 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 \$712 and \$1,730 during the three months ended June 30, 2022 and 2021, respectively, which was included in contract liabilities at the beginning of each period. The Company recognized revenue of \$1,061 and \$2,145 during the six months ended June 30, 2022 and 2021, respectively, which was included in contract liabilities at the beginning of each period.

**3. Credit Losses**

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. As of June 30, 2022, the Company had an allowance for credit losses on its trade accounts receivable of \$1,634 and \$1,288 at its Work Truck Attachments and Work Truck Solutions segments, respectively. As of December 31, 2021, the Company had an allowance for credit losses on its trade accounts receivable of \$1,430 and \$1,540 at its Work Truck Attachments and Work Truck Solutions segments, respectively.

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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, 2022 and 2021:

	<b>Balance at December 31, 2021</b>	<b>Additions charged to earnings</b>	<b>Writeoffs</b>	<b>Changes to reserve, net</b>	<b>Balance at June 30, 2022</b>
<b>Six Months Ended June 30, 2022</b>					
Work Truck Attachments	\$ 1,430	\$ 200	\$ -	\$ 4	\$ 1,634
Work Truck Solutions	1,540	(150)	(105)	3	1,288
Total	\$ 2,970	\$ 50	\$ (105)	\$ 7	\$ 2,922
<b>Six Months Ended June 30, 2021</b>					
Work Truck Attachments	\$ 1,480	\$ 200	\$ -	\$ 2	\$ 1,682
Work Truck Solutions	1,449	147	(47)	-	1,549
Total	\$ 2,929	\$ 347	\$ (47)	\$ 2	\$ 3,231

#### 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, 2022	Fair Value at December 31, 2021
<b>Assets:</b>		
Non-qualified benefit plan assets (a)	\$ 8,726	\$ 10,347
Interest rate swaps (b)	1,716	-
<b>Total Assets</b>	<b>\$ 10,442</b>	<b>\$ 10,347</b>
<b>Liabilities:</b>		
Interest rate swaps (b)	\$ -	\$ 6,428
Long-term debt (c)	213,306	218,875
<b>Total Liabilities</b>	<b>\$ 213,306</b>	<b>\$ 225,303</b>

(a) Included in Non-qualified benefit plan 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 \$1,051 and \$665 at June 30, 2022 are included in Prepaid and other current assets and Other long-term assets, respectively. Interest rate swaps of \$3,479 and \$2,949 at December 31, 2021 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 based on rates for instruments with comparable maturities and credit quality (Level 2 inputs), and approximates its carrying value. Prior to the Company's most recent debt refinancing, the fair value of the Company's long-term debt, including current maturities, was estimated using discounted cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements, which was a Level 2 input. See Note 9 to the Unaudited Condensed Consolidated Financial Statements for additional information. 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.

**5. Inventories**

Inventories consist of the following:

	<u>June 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Finished goods	\$ 70,921	\$ 50,416
Work-in-process	14,081	8,916
Raw material and supplies	46,516	44,687
	<u>\$ 131,518</u>	<u>\$ 104,019</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. During the fourth quarter of 2021, a separate financing agreement was entered into that does not pass title of the truck chassis upon receipt of the inventory. As a result, most of the floor plan truck chassis previously recorded on the balance sheet fall under this new financing agreement, and only the trucks still covered under the previous floor plan financing agreement remain on the balance sheet. At June 30, 2022 and December 31, 2021, the Company had \$1,052 and \$2,655, respectively, of chassis inventory and \$1,052 and \$2,655 of 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, 2022</u>	<u>December 31, 2021</u>
Land	\$ 3,969	\$ 3,969
Land improvements	5,330	5,278
Leasehold improvements	5,423	5,405
Buildings	35,226	34,635
Machinery and equipment	69,729	68,939
Furniture and fixtures	22,878	22,275
Mobile equipment and other	4,863	4,737
Construction-in-process	5,921	4,235
Total property, plant and equipment	<u>153,339</u>	<u>149,473</u>
Less accumulated depreciation	(87,168)	(82,686)
Net property, plant and equipment	<u>\$ 66,171</u>	<u>\$ 66,787</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 14 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.

In the year ended December 31, 2021, it was determined that facility leases related to two locations in the Company's Work Truck Solutions segment were impaired. These two facilities are being significantly downsized as part of a restructuring plan, and so it was determined that the carrying value exceeded the fair value of the facilities. As a result, an impairment of \$1,211 was recorded in the year ended December 31, 2021, and is recorded under Impairment charges in the Company's Consolidated Statements of Income (Loss), with an offset being a reduction to the Operating lease - right of use asset on the Company's Consolidated Balance Sheets. Going forward, the remaining balance of the right of use asset for the impaired leases is being amortized on a straight-line basis. The lease liability for the impaired leases continues to be amortized over the life of the lease.

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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, were as follows:

	<b>Three Months Ended June 30, 2022</b>	<b>Six Months Ended June 30, 2022</b>	<b>Three Months Ended June 30, 2021</b>	<b>Six Months Ended June 30, 2021</b>
Operating lease expense	\$ 1,383	\$ 2,782	\$ 1,411	\$ 2,782
Short term lease cost	\$ 89	\$ 189	\$ 43	\$ 158
Total lease cost	\$ 1,472	\$ 2,971	\$ 1,454	\$ 2,940

*Cash Flow*

Supplemental cash flow information related to leases is as follows:

	<b>Six Months Ended June 30, 2022</b>	<b>Six Months Ended June 30, 2021</b>
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 2,870	\$ 2,747
Non-cash lease expense - right-of-use assets	\$ 2,310	\$ 1,681
Right-of-use assets obtained in exchange for operating lease obligations	\$ 133	\$ 360

*Balance Sheet*

Supplemental balance sheet information related to leases is as follows:

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
<b>Operating Leases</b>		
Operating lease right-of-use assets	\$ 16,152	\$ 18,462
Other current liabilities	4,416	4,623
Operating lease liabilities	13,302	15,408
Total operating lease liabilities	<u>\$ 17,718</u>	<u>\$ 20,031</u>
<b>Weighted Average Remaining Lease Term</b>		
Operating leases (in months)	59	62
<b>Weighted Average Discount Rate</b>		
Operating leases	4.74%	4.79%

### Lease Maturities

Maturities of leases were as follows:

Year ending December 31,	Operating Leases
2022 (excluding the six months ended June 30, 2022)	\$ 2,607
2023	4,929
2024	4,058
2025	3,256
2026	2,118
Thereafter	2,694
<b>Total Lease Payments</b>	<b>19,662</b>
Less: imputed interest	(1,944)
<b>Total</b>	<b>\$ 17,718</b>

### 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
June 30, 2022			
Indefinite-lived intangibles:			
Trademark and tradenames	\$ 77,600	\$ -	\$ 77,600
Amortizable intangibles:			
Dealer network	80,000	73,000	7,000
Customer relationships	80,920	34,951	45,969
Patents	21,136	16,367	4,769
Noncompete agreements	8,640	8,640	-
Trademarks	5,459	3,948	1,511
Amortizable intangibles, net	196,155	136,906	59,249
<b>Total</b>	<b>\$ 273,755</b>	<b>\$ 136,906</b>	<b>\$ 136,849</b>
December 31, 2021			
Indefinite-lived intangibles:			
Trademark and tradenames	\$ 77,600	\$ -	\$ 77,600
Amortizable intangibles:			
Dealer network	80,000	71,000	9,000
Customer relationships	80,920	32,366	48,554
Patents	21,136	15,739	5,397
Noncompete agreements	8,640	8,640	-
Trademarks	5,459	3,901	1,558
Amortizable intangibles, net	196,155	131,646	64,509
<b>Total</b>	<b>\$ 273,755</b>	<b>\$ 131,646</b>	<b>\$ 142,109</b>

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Amortization expense for intangible assets was \$2,630 and \$2,705 for the three months ended June 30, 2022 and 2021, respectively. Amortization expense for intangible assets was \$5,260 and \$5,410 for the six months ended June 30, 2022 and 2021, respectively. Estimated amortization expense for the remainder of 2022 and each of the succeeding five years is as follows:

2022	\$	5,260
2023		10,520
2024		7,520
2025		6,075
2026		5,450
2027		5,450

## 9. Long-Term Debt

Long-term debt is summarized below:

	June 30, 2022	December 31, 2021
Term Loan, net of debt discount of \$444 and \$499 at June 30, 2022 and December 31, 2021, respectively	\$ 213,306	\$ 218,875
Less current maturities	11,137	11,137
Long-term debt before deferred financing costs	202,169	207,738
Deferred financing costs, net	1,492	1,680
Long-term debt, net	\$ 200,677	\$ 206,058

On June 9, 2021, the Company entered into a Credit Agreement (the "Credit Agreement") with a group of banks and financial institutions. The Credit Agreement provides for a senior secured term loan in the amount of \$225,000 and a senior secured revolving credit facility in the amount of \$100,000, of which \$10,000 will be available in the form of letters of credit and \$15,000 will be available for the issuance of short-term swingline loans. The Credit Agreement also allows the Company to request increases to the revolving commitments and/or incremental term loans in an aggregate amount not in excess of \$175,000, subject to specified terms and conditions. The final maturity date of the Credit Agreement is June 9, 2026. The Company applied the proceeds of the senior secured term loan facility under the Credit Agreement to refinance its existing senior secured term loan and revolving credit facilities and for the payment of transaction consideration and expenses in connection with the Credit Agreement.

The Company will be required to pay a fee for unused amounts under the senior secured revolving facility in an amount ranging from 0.150% to 0.300% of the average daily unused portion of the senior secured revolving credit facility, depending on the Company's Leverage Ratio (as defined in the Credit Agreement). The Credit Agreement provides that the senior secured term loan facility will bear interest at (i) the London Interbank Offered Rate for the applicable interest period multiplied by the Statutory Reserve Rate (as defined in the Credit Agreement) plus (ii) a margin ranging from 1.375% to 2.00%, depending on the Company's Leverage Ratio. The Credit Agreement provides that the Company has the option to select whether the senior secured revolving credit facility borrowings will bear interest at either (i)(a) the London Interbank Offered Rate for the applicable interest period multiplied by the Statutory Reserve Rate (as defined in the Credit Agreement) plus (b) a margin ranging from 1.375% to 2.00%, depending on the Company's Leverage Ratio, or (ii) a margin ranging from 0.375% to 1.00% per annum, depending on the Company's Leverage Ratio, plus the greatest of (which if the following would be less than 1.00%, such rate shall be deemed to be 1.00%) (a) the Prime Rate (as defined in the Credit Agreement) in effect on such day, (b) the NYFRB Rate (as defined in the Credit Agreement) plus 0.50% and (c) the London Interbank Offered Rate for a one month interest period multiplied by the Statutory Reserve Rate plus 1%. If the London Interbank Offered Rate for the applicable interest period is less than zero, such rate shall be deemed to be zero for purposes of calculating the foregoing interest rates in the Credit Agreement.

The Credit Agreement was issued at a \$563 discount which is being amortized over the term of the term loan. Additionally, deferred financing costs of \$1,409 are being amortized over the term of the loan. The Company's entrance into the Credit Agreement and subsequent settlement of its prior credit agreements is accounted for as an extinguishment of the Company's prior debt under ASC 470-50, which resulted in the write off of unamortized capitalized deferred financing costs of \$972 as well as the write off of unamortized debt discount of \$3,964, resulting in a loss on extinguishment of debt of \$4,936 in the Consolidated Statement Operations and Comprehensive Income for the three and six months ended June 30, 2021.

At June 30, 2022, the Company had outstanding borrowings under its term loan of \$213,306, \$58,000 in outstanding borrowings on its revolving credit facility, and remaining borrowing availability of \$41,050. At December 31, 2021, the Company had outstanding borrowings under its term loan of \$218,875, no outstanding borrowings on its revolving credit facility, and remaining borrowing availability of \$99,050.

The Credit Agreement includes customary representations, warranties and negative and affirmative covenants, as well as customary events of default and certain cross default provisions that could result in acceleration of the Credit Agreement. In addition, the Credit Agreement requires the Company to have a Leverage Ratio of not more than 3.50 to 1.00 as of the last day of any fiscal quarter commencing with the fiscal quarter ending June 30, 2021, and to have a Consolidated Interest Coverage Ratio (as defined in the Credit Agreement) of not less than 3.00 to 1.00 as of the last day of any fiscal quarter commencing with the fiscal quarter ending June 30, 2021. As of June 30, 2022, the Company was in compliance with the respective covenants.

In accordance with the Company's prior credit agreements, the Company was required to make additional principal prepayments over the above scheduled payments under certain conditions. This included, 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 was 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 was 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. The Company made a voluntary payment of \$20,000 on its debt on March 31, 2021.

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. 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 dedesignated on March 19, 2020, and the remaining losses included in Accumulated other comprehensive income (loss) on the Condensed Consolidated Balance Sheets would be amortized into interest expense on a straight-line basis through the life of the swap. The amount amortized from Accumulated other comprehensive income (loss) into earnings during the three months ended June 30, 2022 and 2021 was (\$291) and \$402, respectively. The amount amortized from Accumulated other comprehensive income (loss) into earnings during the six months ended June 30, 2022 and 2021 was (\$582) and \$1,150, respectively. A mark-to-market adjustment of \$119 and \$204 was recorded as Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Income for the three months ended June 30, 2022 and 2021, respectively, related to the swap. A mark-to-market adjustment of \$238 and (\$1,998) was recorded as Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Income for the six months ended June 30, 2022 and 2021, respectively, related to the swap.

On June 9, 2021, in conjunction with entering into the Credit Agreement described above, the Company re-designated its swap. As a result, the swap will be recorded at fair value with changes recorded in Accumulated other comprehensive income (loss). The amortization from Accumulated other comprehensive income into earnings from the previous dedesignation has been adjusted as of June 9, 2021 to include the de-recognition of previously recognized mark-to-market gains and the amortization of the off-market component as of the re-designation date, and will continue to be recognized through the life of the swap. The amount expected to be amortized from Accumulated other comprehensive income (loss) into earnings in the next twelve months is \$687.

On May 19, 2022, the Company entered into an interest rate swap agreement to further reduce its exposure to interest rate volatility. The interest rate swap has a notional amount of \$125,000 effective for the period May 31, 2024 through June 9, 2026. 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 two global financial institutions. Under the interest rate swap agreement, the Company will either receive or make payments on a monthly basis based on the differential between 2.718% and SOFR. The interest rate swap is accounted for as a cash flow hedge.

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The interest rate swaps' positive fair value at June 30, 2022 was \$1,716, of which \$1,051 and \$665 are included in Prepaid and other current assets and Other long-term assets on the Condensed Consolidated Balance Sheet, respectively. The interest rate swaps' negative fair value at December 31, 2021 was \$6,428, of which \$3,479 and \$2,949 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:

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
Payroll and related costs	\$ 10,658	\$ 13,299
Employee benefits	9,345	8,933
Accrued warranty	3,784	3,645
Interest rate swaps	-	3,479
Other	8,353	6,770
	<u>\$ 32,140</u>	<u>\$ 36,126</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 \$6,518 at June 30, 2022, of which \$2,734 is included in Other long-term liabilities and \$3,784 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet. The warranty reserve was \$6,368 at December 31, 2021, of which \$2,723 is included in Other long-term liabilities and \$3,645 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet.

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

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Balance at the beginning of the period	\$ 5,451	\$ 4,677	\$ 6,368	\$ 5,812
Warranty provision	1,560	1,735	2,401	2,705
Claims paid/settlements	(493)	(989)	(2,251)	(3,094)
Balance at the end of the period	<u>\$ 6,518</u>	<u>\$ 5,423</u>	<u>\$ 6,518</u>	<u>\$ 5,423</u>

## 12. Earnings per Share

Basic earnings per share of common stock is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed by dividing net income by the weighted average number of common shares, using the two-class method. As the Company has granted RSUs that both participate in dividend equivalents and do not participate in dividend equivalents, the Company has calculated earnings per share pursuant to the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividends declared and participation rights in undistributed 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 per share is calculated by dividing net earnings 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 per share computation are excluded to the extent that they would be anti-dilutive.

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
<b>Basic earnings per common share</b>				
Net income	\$ 17,725	\$ 14,103	\$ 13,817	\$ 14,845
Less income allocated to participating securities	345	224	260	255
Net income allocated to common shareholders	\$ 17,380	\$ 13,879	\$ 13,557	\$ 14,590
Weighted average common shares outstanding	<u>22,907,414</u>	<u>22,973,391</u>	<u>22,944,769</u>	<u>22,927,658</u>
	<u>\$ 0.76</u>	<u>\$ 0.60</u>	<u>\$ 0.59</u>	<u>\$ 0.64</u>
<b>Earnings per common share assuming dilution</b>				
Net income	\$ 17,725	\$ 14,103	\$ 13,817	\$ 14,845
Less income allocated to participating securities	345	224	260	255
Net income allocated to common shareholders	\$ 17,380	\$ 13,879	\$ 13,557	\$ 14,590
Weighted average common shares outstanding	22,907,414	22,973,391	22,944,769	22,927,658
Incremental shares applicable to non-participating RSUs	-	11,842	2,583	16,178
Weighted average common shares assuming dilution	<u>22,907,414</u>	<u>22,985,233</u>	<u>22,947,352</u>	<u>22,943,836</u>
	<u>\$ 0.75</u>	<u>\$ 0.60</u>	<u>\$ 0.58</u>	<u>\$ 0.63</u>

### **13. 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 material terms of the performance goals under the 2010 Plan, as amended and restated, were approved by stockholders at the Company's 2014 annual meeting of stockholders and the plan's term was extended further by the stockholders at the Company's 2020 annual meeting of stockholders. 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 invested 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 \$2,801 and \$3,286 in the three months ended June 30, 2022 and 2021, respectively, and \$3,724 and \$4,145 in the six months ended June 30, 2022 and 2021, respectively, in additional expense for employees who meet the thresholds of the retirement provision. In 2013, the Company's Nominating and Governance Committee of its Board of Directors 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 grants performance share units as performance-based awards under the 2010 Plan 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. 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 \$37.57. The Company recognized \$2,052 and \$2,463 of compensation expense related to the awards in the three months ended June 30, 2022 and 2021, respectively. The Company recognized \$2,711 and \$3,274 of compensation expense related to the awards in the six months ended June 30, 2022 and 2021, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of June 30, 2022 expected to be earned through the requisite service period was approximately \$2,708 and is expected to be recognized through 2025.

#### ***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, 2022 is as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair value</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>
Unvested at December 31, 2021	79,903	\$ 48.87	1.91
Granted	113,047	\$ 36.78	1.53
Vested	(77,535)	\$ 40.97	-
Cancelled and forfeited	(5,770)	\$ 48.62	-
Unvested at June 30, 2022	<u>109,645</u>	<u>\$ 42.00</u>	<u>2.20</u>
<b>Expected to vest in the future at June 30, 2022</b>	<u>107,070</u>	<u>\$ 42.00</u>	<u>2.20</u>

The Company recognized \$1,101 and \$1,592 of compensation expense related to the RSU awards in the three months ended June 30, 2022 and 2021, respectively. The Company recognized \$2,342 and \$2,746 of compensation expense related to the RSU awards in the six months ended June 30, 2022 and 2021, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of June 30, 2022, expected to be earned through the requisite service period was approximately \$1,963 and is expected to be recognized through 2025.

For 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, or as soon as reasonably practicable upon grant if such election is made by the non-employee director, 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.

#### 14. 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.

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

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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:

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
<b>Net sales</b>				
Work Truck Attachments	\$ 130,364	\$ 104,638	\$ 176,140	\$ 146,619
Work Truck Solutions	57,197	52,892	114,022	114,253
	<u>\$ 187,561</u>	<u>\$ 157,530</u>	<u>\$ 290,162</u>	<u>\$ 260,872</u>
<b>Adjusted EBITDA</b>				
Work Truck Attachments	\$ 33,589	\$ 32,177	\$ 36,633	\$ 40,416
Work Truck Solutions	513	1,314	2,105	3,733
	<u>\$ 34,102</u>	<u>\$ 33,491</u>	<u>\$ 38,738</u>	<u>\$ 44,149</u>
<b>Depreciation and amortization expense</b>				
Work Truck Attachments	\$ 3,201	\$ 2,997	\$ 6,390	\$ 5,798
Work Truck Solutions	2,003	2,203	4,003	4,415
	<u>\$ 5,204</u>	<u>\$ 5,200</u>	<u>\$ 10,393</u>	<u>\$ 10,213</u>
<b>Assets</b>				
Work Truck Attachments	\$ 421,310	\$ 379,541		
Work Truck Solutions	192,174	189,382		
	<u>\$ 613,484</u>	<u>\$ 568,923</u>		
<b>Capital Expenditures</b>				
Work Truck Attachments	\$ 2,928	\$ 1,884	\$ 4,066	\$ 3,981
Work Truck Solutions	363	484	581	777
	<u>\$ 3,291</u>	<u>\$ 2,368</u>	<u>\$ 4,647</u>	<u>\$ 4,758</u>
<b>Adjusted EBITDA</b>				
Work Truck Attachments	\$ 33,589	\$ 32,177	\$ 36,633	\$ 40,416
Work Truck Solutions	513	1,314	2,105	3,733
<b>Total Adjusted EBITDA</b>	<u>\$ 34,102</u>	<u>\$ 33,491</u>	<u>\$ 38,738</u>	<u>\$ 44,149</u>
Less items to reconcile Adjusted EBITDA to Income before taxes:				
Interest expense - net	2,473	4,372	4,586	7,347
Depreciation expense	2,574	2,495	5,133	4,803
Amortization	2,630	2,705	5,260	5,410
Stock based compensation	3,153	4,055	5,053	6,020
Loss on extinguishment of debt	-	4,936	-	4,936
COVID-19 (1)	12	15	32	55
Other charges (2)	170	(6)	509	(6)
Income before taxes	<u>\$ 23,090</u>	<u>\$ 14,919</u>	<u>\$ 18,165</u>	<u>\$ 15,584</u>

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

(2) Reflects unrelated legal, severance, restructuring and consulting fees for the periods presented.

**16. Income Taxes**

The Company's effective tax rate was 23.2% and 5.5% for the three months ended June 30, 2022 and 2021, respectively. The Company's effective tax rate was 23.9% and 4.7% for the six months ended June 30, 2022 and 2021, respectively. The effective tax rate for the three and six months ended June 30, 2022 was higher than the same periods in the prior year due to a discrete tax benefit of \$2,739 recorded in the three and six months ended June 30, 2021 related to favorable state income tax audit results.

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.

**17. Changes in Accumulated Other Comprehensive Income (Loss) by Component**

Changes to accumulated other comprehensive income (loss) by component for the six months ended June 30, 2022 are as follows:

	<b>Unrealized Net Gain (Loss) on Interest Rate Swap</b>	<b>Retiree Health Benefit Obligation</b>	<b>Total</b>
Balance at December 31, 2021	\$ (3,524)	\$ 2,471	\$ (1,053)
Other comprehensive gain before reclassifications	4,443	—	4,443
Amounts reclassified from accumulated other comprehensive income (loss): (1)	1,329	(82)	1,247
Balance at June 30, 2022	<u>\$ 2,248</u>	<u>\$ 2,389</u>	<u>\$ 4,637</u>
<b>(1) Amounts reclassified from accumulated other comprehensive income (loss):</b>			
<b>Amortization of Other Postretirement Benefit items:</b>			
Actuarial gains	\$ (110)		
Tax expense	28		
Reclassification net of tax	<u>\$ (82)</u>		
Realized losses on interest rate swaps reclassified to interest expense	\$ 1,796		
Tax benefit	(467)		
Reclassification net of tax	<u>\$ 1,329</u>		

Changes to accumulated other comprehensive income (loss) by component for the six months ended June 30, 2021, are as follows:

	<b>Unrealized Net Loss on Interest Rate Swap</b>	<b>Retiree Health Benefit Obligation</b>	<b>Total</b>
Balance at December 31, 2020	\$ (7,608)	\$ 2,113	\$ (5,495)
Other comprehensive loss before reclassifications	(21)	—	(21)
Amounts reclassified from accumulated other comprehensive income (loss): (1)	1,560	(115)	1,445
Balance at June 30, 2021	<u>\$ (6,069)</u>	<u>\$ 1,998</u>	<u>\$ (4,071)</u>
(1) Amounts reclassified from accumulated other comprehensive income (loss):			
Amortization of Other Postretirement Benefit items:			
Actuarial gains	\$ (156)		
Tax expense	41		
Reclassification net of tax	<u>\$ (115)</u>		
Realized losses on interest rate swaps reclassified to interest expense	\$ 2,108		
Tax benefit	(548)		
Reclassification net of tax	<u>\$ 1,560</u>		

## **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 or inflationary conditions, 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, including policy or regulatory changes related to climate change; (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 or our ability to execute repurchases under our stock repurchase program; (xvii) our inability to compete effectively against competition; (xviii) our inability to successfully execute our acquisition strategy; and (xix) 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 and Other Market Pressures*

As a result of the COVID-19 pandemic, including the market volatility, labor shortages, inflationary pressures, especially around the price of steel, and other economic implications associated with the pandemic and the economic and regulatory measures enacted to contain its spread, our results of operations were impacted in the three and six months ended June 30, 2022 and 2021, 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 and related market conditions and pressures 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, 2022. In addition, results may continue to be impacted in future quarters due to supply chain constraints and inflation stemming from the pandemic and other market pressures, including the conflict in Ukraine, including constraints around chassis and other component parts, inflation in materials and freight, and labor availability.

In consideration of the COVID-19 pandemic and other market pressures, including the conflict in Ukraine, 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 foreseeable future. We are taking appropriate steps to mitigate the effects of the pandemic and other market pressures where possible. Throughout 2021, due to supply chain constraints around chassis and other component parts, we implemented temporary rolling shutdowns of certain facilities within our Work Truck Solutions Segment. 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.

In the year ended December 31, 2021, we determined that facility leases related to two locations in our Work Truck Solutions segment were impaired. These two facilities are being significantly downsized as part of a restructuring plan, and so it was determined that the carrying value exceeded the fair value of the facilities. As a result, we recorded an impairment of \$1.2 million in the year ended December 31, 2021 under Impairment charges in the Company's Consolidated Statements of Income (Loss), offset with a reduction to the Operating lease - right of use asset on our Consolidated Balance Sheets. Going forward, we are amortizing the remaining balance of the right of use asset for the impaired leases on a straight-line basis. We continue to amortize the lease liability for the impaired leases over the life of the lease.

### *Overview*

The following table sets forth, for the three and six months ended June 30, 2022 and 2021, 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, 2022 and 2021 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, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	(unaudited) (in thousands)		(unaudited) (in thousands)	
Net sales	\$ 187,561	\$ 157,530	\$ 290,162	\$ 260,872
Cost of sales	136,328	108,732	217,865	185,822
Gross profit	51,233	48,798	72,297	75,050
Selling, general, and administrative expense	23,024	21,982	44,397	41,881
Intangibles amortization	2,630	2,705	5,260	5,410
Income from operations	25,579	24,111	22,640	27,759
Interest expense, net	(2,473)	(4,372)	(4,586)	(7,347)
Loss on extinguishment of debt	-	(4,936)	-	(4,936)
Other income (expense), net	(16)	116	111	108
Income before taxes	23,090	14,919	18,165	15,584
Income tax expense	5,365	816	4,348	739
Net income	<u>\$ 17,725</u>	<u>\$ 14,103</u>	<u>\$ 13,817</u>	<u>\$ 14,845</u>

The following table sets forth for the three and six months ended June 30, 2022 and 2021, the percentage of certain items in our Condensed Consolidated Statements of Operations and Comprehensive Income, relative to net sales:

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	(unaudited)		(unaudited)	
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	72.7%	69.0%	75.1%	71.2%
Gross profit	27.3%	31.0%	24.9%	28.8%
Selling, general, and administrative expense	12.3%	14.0%	15.3%	16.1%
Intangibles amortization	1.4%	1.7%	1.8%	2.1%
Income from operations	13.6%	15.3%	7.8%	10.6%
Interest expense, net	(1.3)%	(2.8)%	(1.6)%	(2.8)%
Loss on extinguishment of debt	-%	(3.1)%	-%	(1.9)%
Other income (expense), net	-%	0.1%	-%	0.1%
Income before taxes	12.3%	9.5%	6.2%	6.0%
Income tax expense	2.8%	0.5%	1.4%	0.3%
Net income	<u>9.5%</u>	<u>9.0%</u>	<u>4.8%</u>	<u>5.7%</u>

#### Net Sales

Net sales were \$187.6 million for the three months ended June 30, 2022 compared to \$157.5 million in the three months ended June 30, 2021, an increase of \$30.1, or 19.1%. Net sales were \$290.2 million for the six months ended June 30, 2022 compared to \$260.9 million in the six months ended June 30, 2021, an increase of \$29.3 million, or 11.2%. The increase in sales for the three and six months ended June 30, 2022 compared to the same periods in 2021 is a result of pricing actions in both segments, as well as strong preseason order demand in our Work Truck Attachments segment leading to increased volumes. See below for a discussion of net sales for each of our segments.

	<b>Three Months Ended June 30, 2022</b>	<b>Three Months Ended June 30, 2021</b>	<b>Six Months Ended June 30, 2022</b>	<b>Six Months Ended June 30, 2021</b>
<b>Net sales</b>				
Work Truck Attachments	\$ 130,364	\$ 104,638	\$ 176,140	\$ 146,619
Work Truck Solutions	57,197	52,892	114,022	114,253
	<u>\$ 187,561</u>	<u>\$ 157,530</u>	<u>\$ 290,162</u>	<u>\$ 260,872</u>

Net sales at our Work Truck Attachments segment were \$130.4 million for the three months ended June 30, 2022 compared to \$104.6 million in the three months ended June 30, 2021, an increase of \$25.8 million. Net sales at our Work Truck Attachments segment were \$176.1 million for the six months ended June 30, 2022 compared to \$146.6 million in the six months ended June 30, 2021, an increase of \$29.5 million. The increase in the three and six months ended June 30, 2022 was primarily due to pricing actions, as well as strong preseason order demand leading to increased volumes. This increased preseason order volume was despite snowfall in this most recent snow season ended March 2022 being approximately 12% below the ten-year average, compared to the prior snow season ended March 2021 which was approximately 7% below the ten-year average.

Net sales at our Work Truck Solutions segment were \$57.2 million for the three months ended June 30, 2022 compared to \$52.9 million in the three months ended June 30, 2021, an increase of \$4.3 million. Net sales at our Work Truck Solutions segment were \$114.0 million for the six months ended June 30, 2022 compared to \$114.3 million in the six months ended June 30, 2021, a decrease of \$0.3 million. The increase in sales for the three months ended June 30, 2022 compared to the same period in 2021 was a result of price increase realization, as well as improved municipal volumes related to more stable and predictable Class 7-8 chassis supply. The decrease in sales for the six months ended June 30, 2022 compared to the same period in 2021 was a result of chassis and component shortages leading to lower production and deliveries. Somewhat offsetting this decrease was an increase in sales for the six months ended June 30, 2022 compared to the same periods in the prior year related to price increase realization.

#### *Cost of Sales*

Cost of sales was \$136.3 million for the three months ended June 30, 2022 compared to \$108.7 million for the three months ended June 30, 2021, an increase of \$27.6 million or 25.4%. Cost of sales was \$217.9 million for the six months ended June 30, 2022 compared to \$185.8 million for the six months ended June 30, 2021, an increase of \$32.1 million or 17.3%. The increase in cost of sales for the three and six months ended June 30, 2022 compared to the same period in the prior year was driven by the higher volumes, as well as material, labor and freight inflation. Cost of sales as a percentage of sales were 72.7% and 75.1% for the three and six months ended June 30, 2022, respectively, compared to 69.0% and 71.2% for the three and six months ended June 30, 2021, respectively. The increase in cost of sales as a percentage of sales for the periods presented is due to inflation.

#### *Gross Profit*

Gross profit was \$51.2 million for the three months ended June 30, 2022 compared to \$48.8 million for the three months ended June 30, 2021, an increase of \$2.4 million, or 4.9%. Gross profit was \$72.3 million for the six months ended June 30, 2022 compared to \$75.1 million for the six months ended June 30, 2021, a decrease of \$2.8 million, or 3.7%. 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 31.0% for the three months ended June 30, 2021 to 27.3% for the corresponding period in 2022. As a percentage of net sales, gross profit decreased from 28.8% for the six months ended June 30, 2021 to 24.9% for the corresponding period in 2022. 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 \$25.7 million for the three months ended June 30, 2022 compared to \$24.7 million for the three months ended June 30, 2021, an increase of \$1.0 million, or 4.0%. Selling, general and administrative expenses, including intangibles amortization, were \$49.7 million for the six months ended June 30, 2022 compared to \$47.3 million for the six months ended June 30, 2021, an increase of \$2.4 million, or 5.1%. The increase in the three and six months ended June 30, 2022 is related to increased salaries and benefits, advertising and promotions, as well as other discretionary spending as spending was reduced in 2021 as a result of the COVID-19 pandemic.

### *Interest Expense*

Interest expense was \$2.5 million for the three months ended June 30, 2022, a decrease compared to the \$4.4 million incurred in the same period in the prior year. Interest expense was \$4.6 million for the six months ended June 30, 2022, a decrease compared to the \$7.3 million incurred in the same period in the prior year. The decrease in interest expense for the three months ended June 30, 2022 was due to lower interest on our term loan of \$1.3 million in the three months ended June 30, 2022, due to the decrease in principal balance from the June 9, 2021 refinancing. In addition, the decrease in the three months ended June 30, 2022 was due to having a \$0.2 million gain in non-cash mark-to-market and amortization adjustments on an interest rate swap not accounted for as a hedge, compared to a \$0.6 million loss in the three months ended June 30, 2021. Somewhat offsetting this decrease is an increase in interest expense on our revolving line of credit of \$0.2 million in the three months ended June 30, 2022 due to having higher revolver borrowings in 2022. The decrease in interest expense for the six months ended June 30, 2022 was due to lower interest on our term loan of \$3.4 million in the six months ended June 30, 2022, due to the decrease in principal balance from the June 9, 2021 refinancing. Somewhat offsetting the decrease in the six months ended June 30, 2022 was a \$0.3 million gain in non-cash mark-to-market and amortization adjustments on an interest rate swap not accounted for as a hedge in the six months ended June 30, 2022, compared to a \$0.8 million gain in the six months ended June 30, 2021. Also somewhat offsetting this decrease is an increase in interest expense on our revolving line of credit of \$0.2 million in the six months ended June 30, 2022 due to having higher revolver borrowings in 2022. See Note 9 to the Unaudited Condensed Consolidated Financial Statements for additional information.

### *Loss on Extinguishment of Debt*

Loss on extinguishment of debt was \$4.9 million in the three and six months ended June 30, 2021. The loss on extinguishment of debt related to fees incurred in conjunction with the Company's June 9, 2021 refinancing of its Credit Agreement. The previous debt was considered extinguished, as all lenders on our previous term loan exited their positions in conjunction with changing from a Term Loan B to a Term Loan A arrangement.

### *Income Taxes*

The Company's effective tax rate was 23.2% and 5.5% for the three months ended June 30, 2022 and June 30, 2021, respectively. The Company's effective tax rate was 23.9% and 4.7% for the six months ended June 30, 2022 and June 30, 2021, respectively. The effective tax rate for the three and six months ended June 30, 2022 was higher than the same periods in the prior year due to a discrete tax benefit of \$2.7 million recorded in the three and six months ended June 30, 2021 related to favorable state income tax audit results.

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*

Net income for the three months ended June 30, 2022 was \$17.7 million, compared to net income of \$14.1 million for the corresponding period in 2021, an increase of \$3.6 million. Net income for the six months ended June 30, 2022 was \$13.8 million, compared to net income of \$14.8 million for the corresponding period in 2021, a decrease of \$1.0 million. The change in net income for the three and six months ended June 30, 2022 was driven by the factors described above under "— Net Sales," "— Cost of Sales," "— Selling, General and Administrative Expense," and "— Income Taxes." As a percentage of net sales, net income was 9.5% for the three months ended June 30, 2022 compared to 9.0% for the three months ended June 30, 2021. As a percentage of net sales, net income was 4.8% for the six months ended June 30, 2022 compared to 5.7% for the six months ended June 30, 2021.

### **Discussion of Critical Accounting Policies and Estimates**

There have been no material changes to our critical accounting policies and estimates 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 and Estimates."

### **Liquidity and Capital Resources**

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

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

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

On February 16, 2022, the Company’s Board of Directors authorized the purchase of up to \$50 million in shares of common stock at market value. This authorization does not have an expiration date. Repurchases under the program may be made in the open market, in privately negotiated transactions or otherwise, with the amount and timing of repurchases depending on market conditions and corporate needs. The Company may also, from time to time, enter into Rule 10b5-1 trading plans to facilitate repurchases of its shares under this authorization. This program does not obligate the Company to acquire any particular amount of shares and the program may be extended, modified, suspended or discontinued at any time at the Company’s discretion.

As of June 30, 2022, we had \$47.1 million of total liquidity, comprised of \$6.0 million in cash and cash equivalents and \$41.1 million of borrowing availability under our revolving credit facility, compared with total liquidity as of December 31, 2021 of approximately \$136.1 million, comprised of approximately \$37.0 million in cash and cash equivalents and borrowing availability of approximately \$99.1 million under our revolving credit facility. The change in our total liquidity from December 31, 2021 is primarily due to the seasonality of our business. 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. 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 primary uses of cash we describe above for the foreseeable future. From time to time, we may seek additional funding through the issuance of debt or equity securities to provide additional liquidity to fund acquisitions aligned with our strategic priorities and for other general corporate purposes.

The following table shows our cash and cash equivalents and inventories in thousands at June 30, 2022, December 31, 2021 and June 30, 2021.

	<b>As of</b>		
	<b>June 30, 2022</b>	<b>December 31, 2021</b>	<b>June 30, 2021</b>
Cash and cash equivalents	\$ 6,041	\$ 36,964	\$ 15,175
Inventories	131,518	104,019	93,947

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We had cash and cash equivalents of \$6.0 million at June 30, 2022 compared to cash and cash equivalents of \$37.0 million and \$15.2 million at December 31, 2021 and June 30, 2021, respectively. The table below sets forth a summary of the significant sources and uses of cash for the periods presented in thousands.

<b>Cash Flows (in thousands)</b>	<b>Six Months Ended</b>		<b>Change</b>	<b>% Change</b>
	<b>June 30, 2022</b>	<b>June 30, 2021</b>		
Net cash provided by (used in) operating activities	\$ (58,204)	\$ 13,141	\$ (71,345)	(542.9)%
Net cash used in investing activities	(5,580)	(4,586)	(994)	21.7%
Net cash provided by (used in) financing activities	32,861	(34,410)	67,271	(195.5)%
Change in cash	<u>\$ (30,923)</u>	<u>\$ (25,855)</u>	<u>\$ (5,068)</u>	<u>19.6%</u>

Net cash provided by operating activities decreased \$71.3 million from the six months ended June 30, 2021 to the six months ended June 30, 2022. The decrease in cash provided by operating activities was due to a \$5.5 million decrease in net income adjusted for reconciling items as a result of the lower net income in the three months ended June 30, 2022 from less favorable operating results, as well as unfavorable changes in working capital of \$65.8 million. The largest unfavorable changes in working capital were an increase in accounts receivable attributable to the increase in sales compared to the prior year, as well as an increase in inventory due to the pulling forward of purchases in anticipation of inflationary price increases and supply chain disruptions, as well as higher material costs due to inflation. In addition, there was an unfavorable change in working capital related to accounts payable related to the timing of supplier payments.

Net cash used in investing activities increased \$1.0 million for the six months ended June 30, 2022 when compared to the corresponding period in 2021 due to a similar level of capital expenditures.

Net cash provided by financing activities increased \$67.3 million for the three months ended June 30, 2022 as compared to the corresponding period in 2021. The increase in cash provided was primarily a result of having a voluntary \$20.0 million prepayment on our debt in the six months ended June 30, 2021 and no corresponding payment in 2022. Additionally, the increase in cash provided was related to having \$58.0 million in revolver borrowings outstanding at June 30, 2022 compared to \$0.0 million in revolver borrowings outstanding at June 30, 2021. See Note 9 to the Unaudited Condensed Consolidated Financial Statements for additional information. Somewhat offsetting this increase in cash provided is an increase related to \$6.0 million in stock repurchases executed in the six months ended June 30, 2022 and no repurchases in the same period in the prior year.

#### *Free Cash Flow*

Free cash flow for the three months ended June 30, 2022 was (\$35.6) million compared to (\$13.4) million in the corresponding period in 2021, a decrease of \$22.2 million. Free cash flow for the six months ended June 30, 2022 was (\$63.8) million compared to \$8.6 million in the corresponding period in 2021, a decrease of \$72.4 million. The decreases in free cash flow for the three and six months ended June 30, 2022 is primarily a result of lower cash provided by operating activities of \$71.3 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 and earnings 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.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2022</b>	<b>June 30, 2021</b>	<b>June 30, 2022</b>	<b>June 30, 2021</b>
	(In Thousands)		(In Thousands)	
Net cash provided by (used in) operating activities	\$ (32,211)	\$ (11,008)	\$ (58,204)	\$ 13,141
Acquisition of property and equipment	(3,382)	(2,409)	(5,580)	(4,586)
Free cash flow	<u>\$ (35,593)</u>	<u>\$ (13,417)</u>	<u>\$ (63,784)</u>	<u>\$ 8,555</u>

Adjusted EBITDA represents net income before interest, taxes, depreciation and amortization, as further adjusted for certain charges consisting of unrelated legal and consulting fees, severance, restructuring charges, stock-based compensation, certain non-cash purchase accounting expenses, impairment charges, expenses related to debt modifications, loss on extinguishment of debt, 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.

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The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to Adjusted EBITDA as well as the resulting calculation of Adjusted EBITDA for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	(in thousands)		(in thousands)	
<b>Net income</b>	\$ 17,725	\$ 14,103	\$ 13,817	\$ 14,845
Interest expense, net	2,473	4,372	4,586	7,347
Income tax expense	5,365	816	4,348	739
Depreciation expense	2,574	2,495	5,133	4,803
Amortization	2,630	2,705	5,260	5,410
<b>EBITDA</b>	<b>30,767</b>	<b>24,491</b>	<b>33,144</b>	<b>33,144</b>
Stock-based compensation expense	3,153	4,055	5,053	6,020
Loss on extinguishment of debt	-	4,936	-	4,936
COVID-19 (1)	12	15	32	55
Other charges (2)	170	(6)	509	(6)
<b>Adjusted EBITDA</b>	<b>\$ 34,102</b>	<b>\$ 33,491</b>	<b>\$ 38,738</b>	<b>\$ 44,149</b>

- (1) Reflects incremental costs incurred related to the COVID-19 pandemic for the periods presented. 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.
- (2) Reflects unrelated legal, severance, restructuring, and consulting fees for the periods presented.

The following table presents Adjusted EBITDA by segment for the three and six months ended June 30, 2022 and 2021.

	Three Months	Three Months	Six Months	Six Months
	Ended	Ended	Ended	Ended
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
<b>Adjusted EBITDA</b>				
Work Truck Attachments	\$ 33,589	\$ 32,177	\$ 36,633	\$ 40,416
Work Truck Solutions	513	1,314	2,105	3,733
	<b>\$ 34,102</b>	<b>\$ 33,491</b>	<b>\$ 38,738</b>	<b>\$ 44,149</b>

Adjusted EBITDA at our Work Truck Attachments segment was \$33.6 million for the three months ended June 30, 2022 compared to \$32.2 million in the three months ended June 30, 2021, an increase of \$1.4 million. Adjusted EBITDA at our Work Truck Attachments segment was \$36.6 million for the six months ended June 30, 2022 compared to \$40.4 million in the six months ended June 30, 2021, a decrease of \$3.8 million. The change in the three months ended June 30, 2022 from the corresponding period in 2021 was due to pricing actions and an increase in volumes related to strong preseason order demand, somewhat offset by material, labor and freight inflation. The change in the six months ended June 30, 2022 from the corresponding period in 2021 is primarily due to material, labor and freight inflation, somewhat offset by pricing actions and higher volumes.

Adjusted EBITDA at our Work Truck Solutions segment was \$0.5 million for the three months ended June 30, 2022 compared to \$1.3 million in the three months ended June 30, 2021, a decrease of \$0.8 million. Adjusted EBITDA at our Work Truck Attachments segment was \$2.1 million for the six months ended June 30, 2022 compared to \$3.7 million in the six months ended June 30, 2021, a decrease of \$1.6 million. The change in the three and six months ended June 30, 2022 is primarily due to lower volumes as a result of chassis and component shortages affecting production and deliveries, as well as inflationary pressures.

Adjusted Net Income and Adjusted Earnings Per Share (calculated on a diluted basis) represents net income and earnings per share (as defined by GAAP), excluding the impact of stock based compensation, severance, restructuring charges, certain non-cash purchase accounting adjustments, impairment charges, expenses related to debt modifications, loss on extinguishment of debt, certain charges related to unrelated legal fees and consulting fees, incremental costs incurred related to the COVID-19 pandemic, and 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 and Adjusted Earnings 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 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.

The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to Adjusted net income as well as a reconciliation of diluted earnings per share, the most comparable GAAP financial measure, to Adjusted diluted earnings per share for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Net income (GAAP)	\$ 17,725	\$ 14,103	\$ 13,817	\$ 14,845
Adjustments:				
- Stock-based compensation	3,153	4,055	5,053	6,020
- Loss on extinguishment of debt	-	4,936	-	4,936
- COVID-19 (1)	12	15	32	55
- Purchase accounting (2)	-	-	-	-
- Adjustments on derivative not classified as hedge (2)	(172)	605	(344)	(849)
- Other charges (3)	170	(6)	509	(6)
Tax effect on adjustments	(791)	(2,401)	(1,312)	(2,539)
Adjusted net income (non-GAAP)	<u>\$ 20,097</u>	<u>\$ 21,307</u>	<u>\$ 17,755</u>	<u>\$ 22,462</u>
Weighted average common shares outstanding assuming dilution	22,907,414	22,985,233	22,947,352	22,943,836
Adjusted earnings per common share - dilutive	\$ 0.85	\$ 0.91	\$ 0.75	\$ 0.95
GAAP diluted earnings per share	\$ 0.75	\$ 0.60	\$ 0.58	\$ 0.63
Adjustments net of income taxes:				
- Stock-based compensation	0.10	0.14	0.17	0.19
- Loss on extinguishment of debt	-	0.16	-	0.16
- COVID-19 (1)	-	-	-	-
- Adjustments on derivative not classified as hedge (2)	(0.01)	0.01	(0.01)	(0.03)
- Other charges (3)	0.01	-	0.01	-
Adjusted diluted earnings per share (non-GAAP)	<u>0.85</u>	<u>0.91</u>	<u>0.75</u>	<u>0.95</u>

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

(2) Reflects mark-to-market and amortization adjustments on an interest rate swap not classified as a hedge for the periods presented.

(3) Reflects unrelated legal, severance, restructuring, and consulting fees for the periods presented.

## **Future Obligations and Commitments**

There have been no material changes to our future obligations and commitments in the three months ended June 30, 2022.

## **Impact of Inflation**

Inflation in materials and labor had a material impact on our profitability in the three and six months ended June 30, 2022 and we expect ongoing inflationary pressures may also impact our profitability in the remainder of 2022. While we anticipate being able to fully cover this inflation by raising prices, there may be a timing difference of when we incur the increased costs and when we realize the higher prices in our backlog. In 2021 and in previous years, including in 2019, as a result of inflationary pressures due to tariffs, we experienced significant increases in steel costs, but were able or expect to be able to mitigate the effects of these increases through both temporary and permanent steel surcharges; we expect, but cannot be certain, that we will be able to do the same going forward.

## **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. Other than the broad effects of the COVID-19 pandemic and its negative impact on the global economy and major financial markets, 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, 2022, we had outstanding borrowings under our term loan of \$213.3 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, 2022 by \$0.1 million, \$0.2 million, and \$0.2 million, respectively.

The Company is party to interest rate swap agreements to reduce its exposure to interest rate volatility. On June 9, 2021, in conjunction with entering into the Credit Agreement described above, the Company re-designated its swap. As a result, the swap will be recorded at fair value with changes recorded in Accumulated other comprehensive income (loss). The amortization from Accumulated other comprehensive income into earnings from the previous redesignation has been adjusted as of June 9, 2021 to include the de-recognition of previously recognized mark-to-market gains and the amortization of the off-market component as of the re-designation date, and will continue to be recognized through the life of the swap. On May 19, 2022, the Company entered into an interest rate swap agreement to further reduce its exposure to interest rate volatility. The interest rate swap has a notional amount of \$125,000 effective for the period May 31, 2024 through June 9, 2026. 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 two global financial institutions. Under the interest rate swap agreement, the Company will either receive or make payments on a monthly basis based on the differential between 2.718% and SOFR. The interest rate swap is accounted for as a cash flow hedge. See Note 9 to the Unaudited Condensed Consolidated Financial Statements for additional details on our interest rate swap agreements.

As of June 30, 2022, we had \$58.0 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, 2022 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 11.6% for the three months ended June 30, 2022 compared to 10.0% for the three months ended June 30, 2021. Our steel purchases as a percentage of revenue were 15.8% for the six months ended June 30, 2022 compared to 11.1% for the six months ended June 30, 2021. Steel costs increased in 2022 when compared to 2021 and are near historical levels due to the worldwide raw material shortage stemming from the COVID-19 pandemic and the conflict in Ukraine. 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, there may be timing differences between when we realize the price increases and incur the increased costs, and 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.

## **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, 2021.

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

During the three months ended June 30, 2022, we did not sell any securities that were not registered under the Securities Act of 1933, as amended.

**Issuer Purchases of Equity Securities**

On February 16, 2022, our Board of Directors authorized the purchase of up to \$50.0 million in shares of common stock at market value (the “2022 repurchase plan”). This authorization does not have an expiration date. Repurchases under the program may be made in the open market, in privately negotiated transactions or otherwise, with the amount and timing of repurchases depending on market conditions and corporate needs. We may also, from time to time, enter into Rule 10b5-1 trading plans to facilitate repurchases of its shares under this authorization. This program does not obligate us to acquire any particular amount of shares and the program may be extended, modified, suspended or discontinued at any time at the Company’s discretion. Shares repurchased under the 2022 repurchase program were retired.

Total share repurchases under the 2022 repurchase plan for the three months ended June 30, 2022 are as follows:

Period	Total number of shares purchased	Average price paid per share	Number of shares purchased as part of the publicly announced program	Approximate dollar value of shares still available to be purchased under the program (000's)
4/1/2022 - 4/21/2022	89,357	\$ 33.57	89,357	\$ 44,000
4/22/2022 - 6/30/2022	-	\$ -	-	44,000
Total	<u>89,357</u>	<u>\$ 33.57</u>	<u>89,357</u>	<u>\$ 44,000</u>

**Dividend Payment Restrictions**

Our senior credit facilities include certain restrictions on our ability to pay dividends. The senior credit facilities also restrict our 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**

None.

**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>
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, 2022, filed on August 2, 2022, formatted in inline XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (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 2, 2022

**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 2, 2022

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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
  - (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/ Sarah Lauber  
Sarah Lauber  
*Chief Financial Officer*

Dated: August 2, 2022

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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, 2022 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 2, 2022

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

Dated: August 2, 2022

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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