

**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 September 30, 2023

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 October 31, 2023 was 22,983,965.

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)

	September 30, 2023 (unaudited)	December 31, 2022 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,088	\$ 20,670
Accounts receivable, net	165,302	86,765
Inventories	147,246	136,501
Inventories - truck chassis floor plan	4,459	1,211
Prepaid and other current assets	9,034	7,774
Total current assets	337,129	252,921
Property, plant, and equipment, net	67,306	68,660
Goodwill	113,134	113,134
Other intangible assets, net	123,699	131,589
Operating lease - right of use asset	17,145	17,432
Non-qualified benefit plan assets	9,148	8,874
Other long-term assets	4,384	4,281
Total assets	<u>\$ 671,945</u>	<u>\$ 596,891</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 41,596	\$ 49,252
Accrued expenses and other current liabilities	29,009	30,484
Floor plan obligations	4,459	1,211
Operating lease liability - current	5,149	4,862
Income taxes payable	3,980	3,485
Short term borrowings	101,000	—
Current portion of long-term debt	2,544	11,137
Total current liabilities	187,737	100,431
Retiree benefits and deferred compensation	14,462	14,650
Deferred income taxes	27,660	29,837
Long-term debt, less current portion	185,562	195,299
Operating lease liability - noncurrent	13,261	14,025
Other long-term liabilities	6,331	5,547
Stockholders' equity:		
Common Stock, par value \$0.01, 200,000,000 shares authorized, 22,983,965 and 22,886,793 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	230	229
Additional paid-in capital	168,516	164,281
Retained earnings	59,421	63,464
Accumulated other comprehensive income, net of tax	8,765	9,128
Total stockholders' equity	236,932	237,102
Total liabilities and stockholders' equity	<u>\$ 671,945</u>	<u>\$ 596,891</u>

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>Nine Months Ended</u>	
	<u>September 30,</u> <u>2023</u>	<u>September 30,</u> <u>2022</u>	<u>September 30,</u> <u>2023</u>	<u>September 30,</u> <u>2022</u>
	(unaudited)		(unaudited)	
Net sales	\$ 144,121	\$ 166,100	\$ 433,933	\$ 456,262
Cost of sales	111,992	124,831	329,166	342,696
Gross profit	32,129	41,269	104,767	113,566
Selling, general, and administrative expense	17,998	19,181	64,612	63,578
Intangibles amortization	2,630	2,630	7,890	7,890
Income from operations	11,501	19,458	32,265	42,098
Interest expense, net	(4,607)	(3,266)	(11,207)	(7,852)
Other income (expense), net	35	(17)	(19)	94
Income before taxes	6,929	16,175	21,039	34,340
Income tax expense	1,137	2,895	4,393	7,243
Net income	<u>\$ 5,792</u>	<u>\$ 13,280</u>	<u>\$ 16,646</u>	<u>\$ 27,097</u>
Weighted average number of common shares outstanding:				
Basic	22,983,965	22,886,793	22,955,388	22,925,231
Diluted	22,983,965	22,886,793	22,955,388	22,926,943
Earnings per common share:				
Basic	\$ 0.25	\$ 0.57	\$ 0.71	\$ 1.16
Diluted	\$ 0.24	\$ 0.56	\$ 0.69	\$ 1.14
Cash dividends declared and paid per share	\$ 0.30	\$ 0.29	\$ 0.89	\$ 0.87
Comprehensive income	\$ 5,651	\$ 17,032	\$ 16,283	\$ 36,539

See the accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30, 2023	September 30, 2022
	(unaudited)	
Operating activities		
Net income	\$ 16,646	\$ 27,097
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	16,180	15,626
Loss (gain) on disposal of fixed asset	(45)	130
Amortization of deferred financing costs and debt discount	440	367
Stock-based compensation	4,236	5,563
Adjustments on derivatives not classified as hedges	(516)	(516)
Provision (credit) for losses on accounts receivable	329	(175)
Deferred income taxes	(2,177)	890
Non-cash lease expense	287	1,481
Changes in operating assets and liabilities:		
Accounts receivable	(78,866)	(94,056)
Inventories	(10,745)	(29,781)
Prepaid assets, refundable income taxes and other assets	(1,403)	(3,732)
Accounts payable	(6,826)	(365)
Accrued expenses and other current liabilities	(979)	(888)
Benefit obligations and other long-term liabilities	(709)	3,873
Net cash used in operating activities	(64,148)	(74,486)
Investing activities		
Capital expenditures	(7,723)	(8,924)
Net cash used in investing activities	(7,723)	(8,924)
Financing activities		
Repurchase of common stock	-	(6,001)
Proceeds from life insurance policy loans	750	-
Payments of financing costs	(334)	-
Dividends paid	(20,689)	(20,273)
Net revolver borrowings	101,000	84,000
Repayment of long-term debt	(18,438)	(8,437)
Net cash provided by financing activities	62,289	49,289
Change in cash and cash equivalents	(9,582)	(34,121)
Cash and cash equivalents at beginning of period	20,670	36,964
Cash and cash equivalents at end of period	\$ 11,088	\$ 2,843
Non-cash operating and financing activities		
Truck chassis inventory acquired through floorplan obligations	\$ 7,245	\$ 2,215

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	Total
	Shares	Dollars				
Three Months Ended September 30, 2023						
Balance at June 30, 2023	22,983,965	\$ 230	\$ 168,516	\$ 60,508	\$ 8,906	\$ 238,160
Net income	—	—	—	5,792	—	5,792
Dividends paid	—	—	—	(6,879)	—	(6,879)
Adjustment for postretirement benefit liability, net of tax of \$19	—	—	—	—	(53)	(53)
Adjustment for interest rate swap, net of tax of \$31	—	—	—	—	(88)	(88)
Stock based compensation	—	—	—	—	—	—
Balance at September 30, 2023	<u>22,983,965</u>	<u>\$ 230</u>	<u>\$ 168,516</u>	<u>\$ 59,421</u>	<u>\$ 8,765</u>	<u>\$ 236,932</u>
Nine Months Ended September 30, 2023						
Balance at December 31, 2022	22,886,793	\$ 229	\$ 164,281	\$ 63,464	\$ 9,128	\$ 237,102
Net income	—	—	—	16,646	—	16,646
Dividends paid	—	—	—	(20,689)	—	(20,689)
Adjustment for pension and postretirement benefit liability, net of tax of \$57	—	—	—	—	(159)	(159)
Adjustment for interest rate swap, net of tax of \$74	—	—	—	—	(204)	(204)
Stock based compensation	97,172	1	4,235	—	—	4,236
Balance at September 30, 2023	<u>22,983,965</u>	<u>\$ 230</u>	<u>\$ 168,516</u>	<u>\$ 59,421</u>	<u>\$ 8,765</u>	<u>\$ 236,932</u>
Three Months Ended September 30, 2022						
Balance at June 30, 2022	22,886,793	\$ 229	\$ 162,605	\$ 52,184	\$ 4,637	\$ 219,655
Net income	—	—	—	13,280	—	13,280
Dividends paid	—	—	—	(6,759)	—	(6,759)
Adjustment for pension and postretirement benefit liability, net of tax of \$14	—	—	—	—	(41)	(41)
Adjustment for interest rate swap, net of tax of (\$1,333)	—	—	—	—	3,793	3,793
Stock based compensation	—	—	510	—	—	510
Balance at September 30, 2022	<u>22,886,793</u>	<u>\$ 229</u>	<u>\$ 163,115</u>	<u>\$ 58,705</u>	<u>\$ 8,389</u>	<u>\$ 230,438</u>
Nine Months Ended September 30, 2022						
Balance at December 31, 2021	22,980,951	\$ 230	\$ 163,552	\$ 51,881	\$ (1,053)	\$ 214,610
Net income	—	—	—	27,097	—	27,097
Dividends paid	—	—	—	(20,273)	—	(20,273)
Adjustment for pension and postretirement benefit liability, net of tax of \$42	—	—	—	—	(123)	(123)
Adjustment for interest rate swap, net of tax of (\$3,361)	—	—	—	—	9,565	9,565
Repurchase of common stock	(171,088)	(2)	(5,999)	—	—	(6,001)
Stock based compensation	76,930	1	5,562	—	—	5,563
Balance at September 30, 2022	<u>22,886,793</u>	<u>\$ 229</u>	<u>\$ 163,115</u>	<u>\$ 58,705</u>	<u>\$ 8,389</u>	<u>\$ 230,438</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 2022 Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission on February 21, 2023.

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, as well as our vertically integrated products. 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 September 30, 2023, the Condensed Consolidated Statements of Operations and Comprehensive Income and the Condensed Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2023 and 2022, and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and 2022, 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 increased revenue by \$709 and \$898 for the three months ended September 30, 2023 and 2022, respectively. The adjustment increased revenue by \$1,337 and \$983 for the nine months ended September 30, 2023 and 2022, 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:

Three Months Ended September 30, 2023	Work Truck Attachments	Work Truck Solutions	Total Revenue
Independent dealer	\$ 75,879	\$ 36,593	\$ 112,472
Government	-	13,711	13,711
Fleet	-	15,777	15,777
Other	-	2,161	2,161
Total revenue	\$ 75,879	\$ 68,242	\$ 144,121

Three Months Ended September 30, 2022	Work Truck Attachments	Work Truck Solutions	Total Revenue
Independent dealer	\$ 108,235	\$ 30,090	\$ 138,325
Government	-	13,925	13,925
Fleet	-	11,638	11,638
Other	-	2,212	2,212
Total revenue	\$ 108,235	\$ 57,865	\$ 166,100

Nine Months Ended September 30, 2023	Work Truck Attachments	Work Truck Solutions	Total Revenue
Independent dealer	\$ 236,346	\$ 101,822	\$ 338,168
Government	-	48,256	48,256
Fleet	-	41,431	41,431
Other	-	6,078	6,078
Total revenue	\$ 236,346	\$ 197,587	\$ 433,933

Nine Months Ended September 30, 2022	Work Truck Attachments	Work Truck Solutions	Total Revenue
Independent dealer	\$ 284,375	\$ 90,801	\$ 375,176
Government	-	39,933	39,933
Fleet	-	34,789	34,789
Other	-	6,364	6,364
Total revenue	\$ 284,375	\$ 171,887	\$ 456,262

Revenue by timing of revenue recognition was as follows:

Three Months Ended September 30, 2023	Work Truck Attachments	Work Truck Solutions	Total Revenue
Point in time	\$ 75,879	\$ 43,921	\$ 119,800
Over time	-	24,321	24,321
Total revenue	\$ 75,879	\$ 68,242	\$ 144,121

Three Months Ended September 30, 2022	Work Truck Attachments	Work Truck Solutions	Total Revenue
Point in time	\$ 108,235	\$ 36,515	\$ 144,750
Over time	-	21,350	21,350
Total revenue	\$ 108,235	\$ 57,865	\$ 166,100

	Work Truck Attachments	Work Truck Solutions	Total Revenue
Nine Months Ended September 30, 2023			
Point in time	\$ 236,346	\$ 128,287	\$ 364,633
Over time	-	69,300	69,300
Total revenue	<u>\$ 236,346</u>	<u>\$ 197,587</u>	<u>\$ 433,933</u>
Nine Months Ended September 30, 2022			
Point in time	\$ 284,375	\$ 106,049	\$ 390,424
Over time	-	65,838	65,838
Total revenue	<u>\$ 284,375</u>	<u>\$ 171,887</u>	<u>\$ 456,262</u>

Contract Balances

The following table shows the changes in the Company's contract liabilities during the three and nine months ended September 30, 2023 and 2022, respectively:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Three Months Ended September 30, 2023				
Contract liabilities	\$ 7,929	\$ 3,988	\$ (8,012)	\$ 3,905
Three Months Ended September 30, 2022				
Contract liabilities	\$ 4,330	\$ 7,252	\$ (4,633)	\$ 6,949
Nine Months Ended September 30, 2023				
Contract liabilities	\$ 4,531	\$ 17,238	\$ (17,864)	\$ 3,905
Nine Months Ended September 30, 2022				
Contract liabilities	\$ 2,454	\$ 15,889	\$ (11,394)	\$ 6,949

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 September 30, 2023 or 2022. 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 \$1,594 and \$630 during the three months ended September 30, 2023 and 2022, respectively, which was included in contract liabilities at the beginning of each period. The Company recognized revenue of \$4,531 and \$1,691 during the nine months ended September 30, 2023 and 2022, 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 September 30, 2023, the Company had an allowance for credit losses on its trade accounts receivable of \$1,300 and \$362 at its Work Truck Attachments and Work Truck Solutions segments, respectively. As of December 31, 2022, the Company had an allowance for credit losses on its trade accounts receivable of \$1,000 and \$366 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 nine months ended September 30, 2023 and 2022:

	Balance at December 31, 2022	Additions (reductions) charged to earnings	Writeoffs	Changes to reserve, net	Balance at September 30, 2023
Nine Months Ended September 30, 2023					
Work Truck Attachments	\$ 1,000	\$ 300	\$ -	\$ -	\$ 1,300
Work Truck Solutions	366	29	-	(33)	362
Total	\$ 1,366	\$ 329	\$ -	\$ (33)	\$ 1,662

	Balance at December 31, 2021	Additions (reductions) charged to earnings	Writeoffs	Changes to reserve, net	Balance at September 30, 2022
Nine Months Ended September 30, 2022					
Work Truck Attachments	\$ 1,430	\$ 300	\$ -	\$ 3	\$ 1,733
Work Truck Solutions	1,540	(475)	(109)	(13)	943
Total	\$ 2,970	\$ (175)	\$ (109)	\$ (10)	\$ 2,676

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 September 30, 2023	Fair Value at December 31, 2022
Assets:		
Non-qualified benefit plan assets (a)	\$ 9,148	\$ 8,874
Interest rate swaps (b)	\$ 7,272	7,039
Total Assets	\$ 16,420	\$ 15,913
Liabilities:		
Long-term debt (c)	\$ 189,385	\$ 207,737
Total Liabilities	\$ 189,385	\$ 207,737

(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. The Company had outstanding loans of \$750 against these Non-qualified benefit plan assets as of September 30, 2023 included in Other long-term liabilities on the Condensed Consolidated Balance Sheets.

(b) Valuation models are calibrated to initial trade price. Subsequent valuations are based on observable inputs to the valuation model (e.g. interest rates and credit spreads). Model inputs are changed only when corroborated by market data. A credit risk adjustment is made on each swap using observable market credit spreads. Thus, inputs used to determine fair value of the interest rate swap are Level 2 inputs. Interest rate swaps of \$4,376 and \$2,896 at September 30, 2023 are included in Prepaid and other current assets and Other long-term assets, respectively. Interest rate swaps of \$4,120 and \$2,919 at December 31, 2022 are included in Prepaid and other current assets and Other long-term assets, 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. 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>September 30, 2023</u>	<u>December 31, 2022</u>
Finished goods	\$ 77,467	\$ 67,006
Work-in-process	17,342	19,037
Raw material and supplies	52,437	50,458
	<u>\$ 147,246</u>	<u>\$ 136,501</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 upfitting 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 September 30, 2023 and December 31, 2022, the Company had \$4,459 and \$1,211, respectively, of chassis inventory and \$4,459 and \$1,211 of related floor plan financing obligation, respectively. The Company recognizes revenue associated with upfitting and service installations net of the truck chassis.

6. Property, plant and equipment

Property, plant and equipment are summarized as follows:

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Land	\$ 3,969	\$ 3,969
Land improvements	5,431	5,431
Leasehold improvements	6,489	5,844
Buildings	36,446	35,858
Machinery and equipment	75,379	75,190
Furniture and fixtures	25,751	24,605
Mobile equipment and other	5,134	4,927
Construction-in-process	6,853	5,272
Total property, plant and equipment	<u>165,452</u>	<u>161,096</u>
Less accumulated depreciation	(98,146)	(92,436)
Net property, plant and equipment	<u>\$ 67,306</u>	<u>\$ 68,660</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 13 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.

[Table of Contents](#)*Lease Expense*

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

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Operating lease expense	\$ 1,545	\$ 4,354	\$ 1,376	\$ 4,158
Short term lease cost	\$ 48	\$ 316	\$ 85	\$ 274
Total lease cost	\$ 1,593	\$ 4,670	\$ 1,461	\$ 4,432

Cash Flow

Supplemental cash flow information related to leases is as follows:

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 4,597	\$ 4,301
Non-cash lease expense - right-of-use assets	\$ 3,735	\$ 3,566
Right-of-use assets obtained in exchange for operating lease obligations	\$ 3,411	\$ 2,126

Balance Sheet

Supplemental balance sheet information related to leases is as follows:

	September 30, 2023	December 31, 2022
Operating Leases		
Operating lease right-of-use assets	\$ 17,145	\$ 17,432
Other current liabilities	5,149	4,862
Operating lease liabilities	13,261	14,025
Total operating lease liabilities	<u>\$ 18,410</u>	<u>\$ 18,887</u>
Weighted Average Remaining Lease Term		
Operating leases (in months)	54	59
Weighted Average Discount Rate		
Operating leases	5.09%	4.69%

Lease Maturities

Maturities of leases were as follows:

Year ending December 31,	Operating Leases
2023 (excluding the nine months ended September 30, 2023)	\$ 1,572
2024	5,684
2025	4,862
2026	3,498
2027	2,152
Thereafter	2,690
Total Lease Payments	20,458
Less: imputed interest	(2,048)
Total	\$ 18,410

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
September 30, 2023			
Indefinite-lived intangibles:			
Trademark and tradenames	\$ 77,600	\$ -	\$ 77,600
Amortizable intangibles:			
Dealer network	80,000	78,000	2,000
Customer relationships	80,920	41,415	39,505
Patents	21,136	17,935	3,201
Noncompete agreements	8,640	8,640	-
Trademarks	5,459	4,066	1,393
Amortizable intangibles, net	196,155	150,056	46,099
Total	\$ 273,755	\$ 150,056	\$ 123,699

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
December 31, 2022			
Indefinite-lived intangibles:			
Trademark and tradenames	\$ 77,600	\$ -	\$ 77,600
Amortizable intangibles:			
Dealer network	80,000	75,000	5,000
Customer relationships	80,920	37,537	43,383
Patents	21,136	16,994	4,142
Noncompete agreements	8,640	8,640	-
Trademarks	5,459	3,995	1,464
Amortizable intangibles, net	196,155	142,166	53,989
Total	\$ 273,755	\$ 142,166	\$ 131,589

Amortization expense for intangible assets was \$2,630 and \$2,630 for the three months ended September 30, 2023 and 2022, respectively. Amortization expense for intangible assets was \$7,890 and \$7,890 for the nine months ended September 30, 2023 and 2022, respectively. Estimated amortization expense for the remainder of 2023 and each of the succeeding five years is as follows:

2023	\$	2,630
2024		7,520
2025		6,075
2026		5,450
2027		5,450
2028		5,450

9. Long-Term Debt

Long-term debt is summarized below:

	September 30, 2023	December 31, 2022
Term Loan, net of debt discount of \$303 and \$387 at September 30, 2023 and December 31, 2022, respectively	\$ 189,385	\$ 207,737
Less current maturities	2,544	11,137
Long-term debt before deferred financing costs	186,841	196,600
Deferred financing costs, net	1,279	1,301
Long-term debt, net	\$ 185,562	\$ 195,299

On January 5, 2023, the Company entered into that certain Amendment No. 1 to Credit Agreement and Revolving Credit Commitment Increase Supplement ("Amendment No. 1") by and among the Company, the Borrowers, the financial institutions listed in Amendment No. 1 as lenders, and JPMorgan Chase Bank, N.A., as administrative agent, which amended the Credit Agreement, dated as of June 9, 2021 (as amended by Amendment No. 1, the "Credit Agreement"), and pursuant to which, among other things, (i) the Revolving Loan Borrowers exercised a portion of the Revolving Commitment Increase Option (as defined below) and increased the revolving commitment under the Credit Agreement by \$50,000 for a total of \$150,000 in the aggregate and (ii) the London Interbank Offered Rate pricing option under the Credit Agreement was replaced with a Term SOFR Rate pricing option. Deferred financing costs of \$334 are being amortized over the term of the loan. On July 11, 2023, the Company entered into Amendment No. 2 to the Credit Agreement, which allows the Company to take out loans of up to \$1,000 against its corporate-owned life insurance policies as included in Non-qualified benefit plan assets on the Condensed Consolidated Balance Sheets. Pursuant to Amendment No. 2, the Company had outstanding loans of \$750 against its corporate-owned life insurance policies as of September 30, 2023 included in Other long-term liabilities on the Condensed Consolidated Balance Sheets.

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 Douglas Dynamics, L.L.C.'s ("DDI LLC") 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 Term SOFR Rate for the applicable interest period plus (ii) a margin ranging from 1.375% to 2.00%, depending on the DDI LLC's Leverage Ratio. The Credit Agreement provides that the Revolving Loan Borrowers have the option to select whether the senior secured revolving credit facility borrowings will bear interest at either (i)(a) the Term SOFR Rate for the applicable interest period plus (b) 0.10% plus (c) a margin ranging from 1.375% to 2.00%, depending on DDI LLC's Leverage Ratio, or (ii) a margin ranging from 0.375% to 1.00% per annum, depending on DDI LLC'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 Term SOFR Rate for a one month interest plus 0.10% (the "Adjusted Term SOFR Rate"). If the Adjusted Term SOFR 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.

Following Amendment No. 1, 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 \$150,000, 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 (the "Revolving Commitment Increase Option"), 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 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 year ended December 31, 2021.

At September 30, 2023, the Company had outstanding borrowings under its term loan of \$189,385, \$101,000 in outstanding borrowings on its revolving credit facility, and remaining borrowing availability of \$48,450. At December 31, 2022, the Company had outstanding borrowings under its term loan of \$207,737, no outstanding borrowings on its revolving credit facility, and remaining borrowing availability of \$99,450. During the three and nine months ended September 30, 2023 the Company made a voluntary pre-payment of \$10,000 of debt amortization principal payments under the Company's Credit Agreement.

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 September 30, 2023, the Company was in compliance with the respective covenants.

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 2.424% and SOFR. The interest rate swap was previously accounted for as a cash flow hedge. During the first quarter of 2020, the swap was determined to be ineffective. As a result, the swap was redesignated on March 19, 2020, and the remaining losses 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 September 30, 2023 and 2022 was (\$291) and (\$291), respectively. The amount amortized from Accumulated other comprehensive income (loss) into earnings during the nine months ended September 30, 2023 and 2022 was (\$873) and (\$873), respectively. A mark-to-market adjustment of \$119 and \$119 was recorded as Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Income for the three months ended September 30, 2023 and 2022, respectively, related to the swap. A mark-to-market adjustment of \$357 and \$357 was recorded as Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Income for the nine months ended September 30, 2023 and 2022, 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 (loss) 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. The amount expected to be amortized from Accumulated other comprehensive income (loss) into earnings in the next twelve months is \$458.

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.

The interest rate swaps' positive fair value at September 30, 2023 was \$7,272, of which \$4,376 and \$2,896 are included in Prepaid and other current assets and Other long-term assets on the Condensed Consolidated Balance Sheet, respectively. The interest rate swaps' positive fair value at December 31, 2022 was \$7,039, of which \$4,120 and \$2,919 are included in Prepaid and other current assets and Other long-term assets on the Condensed Consolidated Balance Sheet, respectively.

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are summarized as follows:

	September 30, 2023	December 31, 2022
Payroll and related costs	\$ 8,051	\$ 10,805
Employee benefits	8,180	8,863
Accrued warranty	4,724	4,558
Other	8,054	6,258
	<u>\$ 29,009</u>	<u>\$ 30,484</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 \$8,161 at September 30, 2023, of which \$3,437 is included in Other long-term liabilities and \$4,724 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet. The warranty reserve was \$7,876 at December 31, 2022, of which \$3,318 is included in Other long-term liabilities and \$4,558 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Balance at the beginning of the period	\$ 7,844	\$ 6,518	\$ 7,876	\$ 6,368
Warranty provision	897	1,321	2,904	3,722
Claims paid/settlements	(580)	(406)	(2,619)	(2,657)
Balance at the end of the period	<u>\$ 8,161</u>	<u>\$ 7,433</u>	<u>\$ 8,161</u>	<u>\$ 7,433</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 may grant 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		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Basic earnings per common share				
Net income	\$ 5,792	\$ 13,280	\$ 16,646	\$ 27,097
Less income allocated to participating securities	128	259	368	517
Net income allocated to common shareholders	\$ 5,664	\$ 13,021	\$ 16,278	\$ 26,580
Weighted average common shares outstanding	<u>22,983,965</u>	<u>22,886,793</u>	<u>22,955,388</u>	<u>22,925,231</u>
	<u>\$ 0.25</u>	<u>\$ 0.57</u>	<u>\$ 0.71</u>	<u>\$ 1.16</u>
Earnings per common share assuming dilution				
Net income	\$ 5,792	\$ 13,280	\$ 16,646	\$ 27,097
Less income allocated to participating securities	128	259	368	517
Net income allocated to common shareholders	\$ 5,664	\$ 13,021	\$ 16,278	\$ 26,580
Weighted average common shares outstanding	22,983,965	22,886,793	22,955,388	22,925,231
Incremental shares applicable to non-participating RSUs	-	-	-	1,712
Weighted average common shares assuming dilution	<u>22,983,965</u>	<u>22,886,793</u>	<u>22,955,388</u>	<u>22,926,943</u>
	<u>\$ 0.24</u>	<u>\$ 0.56</u>	<u>\$ 0.69</u>	<u>\$ 1.14</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 unvested equity awards upon retirement. The retirement provision also stipulates that the employee remain employed by the Company for six months after the first day of the fiscal year of the grant. As the retirement provision does not qualify as a substantive service condition, the Company incurred \$3,249 and \$3,724 in the nine months ended September 30, 2023 and 2022, 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 \$37.36. The Company recognized (\$361) and \$234 of compensation expense related to the awards in the three months ended September 30, 2023 and 2022, respectively. The Company recognized \$1,183 and \$2,945 of compensation expense related to the awards in the nine months ended September 30, 2023 and 2022, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of September 30, 2023 expected to be earned through the requisite service period was approximately \$2,371 and is expected to be recognized through 2026.

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 potential 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 nine months ended September 30, 2023 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, 2022	111,264	\$ 41.89	1.76
Granted	120,834	\$ 39.37	1.74
Vested	(79,592)	\$ 44.47	-
Cancelled and forfeited	(3,805)	\$ 39.43	-
Unvested at September 30, 2023	<u>148,701</u>	<u>\$ 38.52</u>	<u>1.86</u>
Expected to vest in the future at September 30, 2023	<u>144,512</u>	<u>\$ 38.52</u>	<u>1.86</u>

The Company recognized \$361 and \$276 of compensation expense related to the RSU awards in the three months ended September 30, 2023 and 2022, respectively. The Company recognized \$3,053 and \$2,618 of compensation expense related to the RSU awards in the nine months ended September 30, 2023 and 2022, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of September 30, 2023, expected to be earned through the requisite service period was approximately \$2,154 and is expected to be recognized through 2026.

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, as well as our vertically integrated products. 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 September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Net sales				
Work Truck Attachments	\$ 75,879	\$ 108,235	\$ 236,346	\$ 284,375
Work Truck Solutions	68,242	57,865	197,587	171,887
	<u>\$ 144,121</u>	<u>\$ 166,100</u>	<u>\$ 433,933</u>	<u>\$ 456,262</u>
Adjusted EBITDA				
Work Truck Attachments	\$ 12,328	\$ 22,929	\$ 44,393	\$ 59,562
Work Truck Solutions	4,985	2,202	8,807	4,307
	<u>\$ 17,313</u>	<u>\$ 25,131</u>	<u>\$ 53,200</u>	<u>\$ 63,869</u>
Depreciation and amortization expense				
Work Truck Attachments	\$ 3,298	\$ 3,228	\$ 10,039	\$ 9,618
Work Truck Solutions	2,083	2,005	6,141	6,008
	<u>\$ 5,381</u>	<u>\$ 5,233</u>	<u>\$ 16,180</u>	<u>\$ 15,626</u>
Assets				
Work Truck Attachments	\$ 459,138	\$ 454,739		
Work Truck Solutions	212,807	200,048		
	<u>\$ 671,945</u>	<u>\$ 654,787</u>		
Capital Expenditures				
Work Truck Attachments	\$ 1,320	\$ 2,741	\$ 4,185	\$ 6,807
Work Truck Solutions	1,335	630	2,707	1,211
	<u>\$ 2,655</u>	<u>\$ 3,371</u>	<u>\$ 6,892</u>	<u>\$ 8,018</u>
Adjusted EBITDA				
Work Truck Attachments	\$ 12,328	\$ 22,929	\$ 44,393	\$ 59,562
Work Truck Solutions	4,985	2,202	8,807	4,307
Total Adjusted EBITDA	<u>\$ 17,313</u>	<u>\$ 25,131</u>	<u>\$ 53,200</u>	<u>\$ 63,869</u>
Less items to reconcile Adjusted EBITDA to Income before taxes:				
Interest expense - net	4,607	3,266	11,207	7,852
Depreciation expense	2,751	2,603	8,290	7,736
Amortization	2,630	2,630	7,890	7,890
Stock based compensation	-	510	4,236	5,563
Other charges (1)	396	(53)	538	488
Income before taxes	<u>\$ 6,929</u>	<u>\$ 16,175</u>	<u>\$ 21,039</u>	<u>\$ 34,340</u>

(1) Reflects unrelated legal, severance, restructuring, and consulting fees, and, in 2022, incremental costs incurred related to the COVID-19 pandemic for the periods presented.

16. Income Taxes

The Company's effective tax rate was 16.4% and 17.9% for the three months ended September 30, 2023 and 2022, respectively. The Company's effective tax rate was 20.9% and 21.1% for the nine months ended September 30, 2023 and 2022, respectively. The effective tax rate for the three and nine months ended September 30, 2023 was impacted by a tax benefit related to the purchase of investment tax credits included in the Company's estimated annual effective tax rate. The effective tax rate for the three and nine months ended September 30, 2022 was impacted by a discrete tax benefit of \$916 related to state income tax rate changes.

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 by component for the nine months ended September 30, 2023 are as follows:

	Unrealized Net Gain (Loss) on Interest Rate Swap	Retiree Health Benefit Obligation	Total
Balance at December 31, 2022	\$ 6,115	\$ 3,013	\$ 9,128
Other comprehensive gain before reclassifications	2,238	—	2,238
Amounts reclassified from accumulated other comprehensive income (loss): (1)	(2,441)	(160)	(2,601)
Balance at September 30, 2023	<u>\$ 5,912</u>	<u>\$ 2,853</u>	<u>\$ 8,765</u>
(1) Amounts reclassified from accumulated other comprehensive income (loss):			
Amortization of Other Postretirement Benefit items:			
Actuarial gains	\$ (216)		
Tax expense	56		
Reclassification net of tax	<u>\$ (160)</u>		
Realized gains on interest rate swaps reclassified to interest expense	\$ (3,298)		
Tax expense	857		
Reclassification net of tax	<u>\$ (2,441)</u>		

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

	Unrealized Net Gain (Loss) on Interest Rate Swap	Retiree Health Benefit Obligation	Total
Balance at December 31, 2021	\$ (3,524)	\$ 2,471	\$ (1,053)
Other comprehensive gain before reclassifications	8,138	—	8,138
Amounts reclassified from accumulated other comprehensive income (loss): (1)	1,427	(123)	1,304
Balance at September 30, 2022	<u>\$ 6,041</u>	<u>\$ 2,348</u>	<u>\$ 8,389</u>
(1) Amounts reclassified from accumulated other comprehensive income (loss):			
Amortization of Other Postretirement Benefit items:			
Actuarial gains	\$ (165)		
Tax expense	42		
Reclassification net of tax	<u>\$ (123)</u>		
Realized losses on interest rate swaps reclassified to interest expense	\$ 1,928		
Tax benefit	(501)		
Reclassification net of tax	<u>\$ 1,427</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, labor strikes, global political instability, adverse developments affecting the banking and financial services industries, 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 assets of Dejana, which we acquired in 2016 and unexpected costs or liabilities related to such acquisition, 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, as well as our vertically integrated products. 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.

Market Pressures and COVID-19

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 nine months ended September 30, 2023 and 2022, 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 and market pressures have had and are likely to continue to have a material impact on our results of operations for the year ended December 31, 2023. In addition, results have been and 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, constraints around chassis and other component parts, including as a result of labor strikes, 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.

Overview

The following table sets forth, for the three and nine months ended September 30, 2023 and 2022, the consolidated statements of operations of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the table below and throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations," consolidated statements of operations data for the three and nine months ended September 30, 2023 and 2022 have been derived from our unaudited consolidated financial statements. The information contained in the table below should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q.

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2023	2022	2023	2022
	(unaudited)		(unaudited)	
	(in thousands)		(in thousands)	
Net sales	\$ 144,121	\$ 166,100	\$ 433,933	\$ 456,262
Cost of sales	111,992	124,831	329,166	342,696
Gross profit	32,129	41,269	104,767	113,566
Selling, general, and administrative expense	17,998	19,181	64,612	63,578
Intangibles amortization	2,630	2,630	7,890	7,890
Income from operations	11,501	19,458	32,265	42,098
Interest expense, net	(4,607)	(3,266)	(11,207)	(7,852)
Other income (expense), net	35	(17)	(19)	94
Income before taxes	6,929	16,175	21,039	34,340
Income tax expense	1,137	2,895	4,393	7,243
Net income	\$ 5,792	\$ 13,280	\$ 16,646	\$ 27,097

The following table sets forth for the three and nine months ended September 30, 2023 and 2022, the percentage of certain items in our Condensed Consolidated Statements of Operations and Comprehensive Income, relative to net sales:

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2023	2022	2023	2022
	(unaudited)		(unaudited)	
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	77.7%	75.2%	75.9%	75.1%
Gross profit	22.3%	24.8%	24.1%	24.9%
Selling, general, and administrative expense	12.5%	11.5%	14.9%	14.0%
Intangibles amortization	1.8%	1.6%	1.8%	1.7%
Income from operations	8.0%	11.7%	7.4%	9.2%
Interest expense, net	(3.2)%	(2.0)%	(2.6)%	(1.7)%
Other income (expense), net	-%	-%	-%	-%
Income before taxes	4.8%	9.7%	4.8%	7.5%
Income tax expense	0.8%	1.7%	1.0%	1.6%
Net income	4.0%	8.0%	3.8%	5.9%

Net Sales

Net sales were \$144.1 million for the three months ended September 30, 2023 compared to \$166.1 million in the three months ended September 30, 2022, a decrease of \$22.0, or 13.2%. Net sales were \$433.9 million for the nine months ended September 30, 2023 compared to \$456.3 million in the nine months ended September 30, 2022, a decrease of \$22.4 million, or 4.9%. The decrease in sales for the three and nine months ended September 30, 2023 compared to the same periods in 2022 is a result of lower volumes at our Work Truck Attachments segment. See below for a discussion of net sales for each of our segments.

	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net sales				
Work Truck Attachments	\$ 75,879	\$ 108,235	\$ 236,346	\$ 284,375
Work Truck Solutions	68,242	57,865	197,587	171,887
	<u>\$ 144,121</u>	<u>\$ 166,100</u>	<u>\$ 433,933</u>	<u>\$ 456,262</u>

Net sales at our Work Truck Attachments segment were \$75.9 million for the three months ended September 30, 2023 compared to \$108.2 million in the three months ended September 30, 2022, a decrease of \$32.3 million. Net sales at our Work Truck Attachments segment were \$236.3 million for the nine months ended September 30, 2023 compared to \$284.4 million in the nine months ended September 30, 2022, a decrease of \$48.1 million. The decrease in sales in the three months ended September 30, 2023 was due to a decrease in preseason orders shipped during the quarter compared to the prior year, as well as lower customer reorder activity, somewhat offset by pricing actions implemented to offset inflation. The decrease in sales in the nine months ended September 30, 2023 was primarily due to low snowfall in our core markets leading to lower volumes in 2023, somewhat offset by pricing actions implemented to offset inflation. The most recent snow season ended March 2023 was approximately 14% below the 10-year average. In particular, many large metropolitan areas on the East Coast saw the lowest snowfall levels in decades for the season, which significantly impacted volumes for the segment in 2023.

Net sales at our Work Truck Solutions segment were \$68.2 million for the three months ended September 30, 2023 compared to \$57.9 million in the three months ended September 30, 2022, an increase of \$10.3 million. Net sales at our Work Truck Solutions segment were \$197.6 million for the nine months ended September 30, 2023 compared to \$171.9 million in the nine months ended September 30, 2022, an increase of \$25.7 million. The increase in sales for the three months ended September 30, 2023 compared to the same period in 2022 was a result of higher volumes on improved chassis availability, as well as price increase realization. The increase in sales for the nine months ended September 30, 2023 compared to the same period in 2022 was a result of higher volumes on improved chassis availability, higher sales of Company purchased chassis, which are typically sold at cost, as well as price increase realization.

Cost of Sales

Cost of sales was \$112.0 million for the three months ended September 30, 2023 compared to \$124.8 million for the three months ended September 30, 2022, a decrease of \$12.8 million or 10.3%. Cost of sales was \$329.2 million for the nine months ended September 30, 2023 compared to \$342.7 million for the nine months ended September 30, 2022, a decrease of \$13.5 million or 3.9%. The decrease in cost of sales for the three and nine months ended September 30, 2023 compared to the same periods in the prior year was driven by the lower volumes. Cost of sales as a percentage of sales were 77.7% and 75.9% for the three and nine months ended September 30, 2023, respectively, compared to 75.2% and 75.1% for the three and nine months ended September 30, 2022, respectively. The increase in cost of sales as a percentage of sales for the three months ended September 30, 2023 was due to the lower volumes and product mix. Cost of sales as a percentage of sales was relatively flat for the nine months ended September 30, 2023.

Gross Profit

Gross profit was \$32.1 million for the three months ended September 30, 2023 compared to \$41.3 million for the three months ended September 30, 2022, a decrease of \$9.2 million, or 22.3%. Gross profit was \$104.8 million for the nine months ended September 30, 2023 compared to \$113.6 million for the nine months ended September 30, 2022, a decrease of \$8.8 million, or 7.7%. 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 24.8% for the three months ended September 30, 2022 to 22.3% for the corresponding period in 2023. As a percentage of net sales, gross profit decreased from 24.9% for the nine months ended September 30, 2022 to 24.1% for the corresponding period in 2023. 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 \$20.6 million for the three months ended September 30, 2023 compared to \$21.8 million for the three months ended September 30, 2022, a decrease of \$1.2 million, or 5.5%. Selling, general and administrative expenses, including intangibles amortization, were \$72.5 million for the nine months ended September 30, 2023 compared to \$71.5 million for the nine months ended September 30, 2022, an increase of \$1.0 million, or 1.4%. The decrease in the three months ended September 30, 2023 is related to lower incentive-based compensation of \$1.4 million and lower stock-based compensation of \$0.5 million resulting from the decrease in operating performance, somewhat offset by increased employee compensation and benefits of \$1.0 million as a result of inflation and increased healthcare claims. The increase in the nine months ended September 30, 2023 is related to increased employee compensation and benefits of \$2.7 million as a result of inflation and increased healthcare claims, and an increase in bad debt expense of \$0.5 million compared to the prior year related to the release of previously recorded reserves in the prior year. This increase was somewhat offset by lower incentive-based compensation of \$1.3 million and stock-based compensation of \$1.3 million resulting from the decrease in operating performance.

Interest Expense

Interest expense was \$4.6 million for the three months ended September 30, 2023, an increase compared to the \$3.3 million incurred in the same period in the prior year. The increase in interest expense for the three months ended September 30, 2023 was due to higher interest on our revolver of \$1.0 million in the three months ended September 30, 2023, due to having higher revolver borrowings during the quarter compared to the prior year. Interest expense was \$11.2 million for the nine months ended September 30, 2023, an increase compared to the \$7.9 million incurred in the same period in the prior year. The increase in interest expense for the nine months ended September 30, 2023 was due to higher interest on our revolver of \$2.3 million in the nine months ended September 30, 2023, due to having higher revolver borrowings compared to the prior year. In addition, the increase in the nine months ended September 30, 2023 was due to higher interest on our term loan of \$0.6 million related to higher interest rates. See Note 9 to the Unaudited Condensed Consolidated Financial Statements for additional information. The remaining increase in the nine months ended September 30, 2023 relates to an increase in interest on our floor plan agreement of \$0.3 million, see Note 5 to the Unaudited Condensed Consolidated Financial Statements for additional information regarding the floor plan agreement.

Income Taxes

The Company's effective tax rate was 16.4% and 17.9% for the three months ended September 30, 2023 and September 30, 2022, respectively. The Company's effective tax rate was 20.9% and 21.1% for the nine months ended September 30, 2023 and September 30, 2022, respectively. The effective tax rate for the three and nine months ended September 30, 2023 was impacted by a tax benefit related to the purchase of investment tax credits and is included in the annual effective tax rate. The effective tax rate for the three and nine months ended September 30, 2022 was impacted by a discrete tax benefit of \$0.9 million related to state income tax rate changes.

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 September 30, 2023 was \$5.8 million, compared to \$13.3 million for the corresponding period in 2022, a decrease of \$7.5 million. Net income for the nine months ended September 30, 2023 was \$16.6 million, compared to \$27.1 million for the corresponding period in 2022, a decrease of \$10.5 million. The change in net income for the three and nine months ended September 30, 2023 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 4.0% for the three months ended September 30, 2023 compared to 8.0% for the three months ended September 30, 2022. As a percentage of net sales, net income was 3.8% for the nine months ended September 30, 2023 compared to 5.9% for the nine months ended September 30, 2022.

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, our Board of Directors authorized the purchase of up to \$50.0 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 September 30, 2023, we had \$59.6 million of total liquidity, comprised of \$11.1 million in cash and cash equivalents and \$48.5 million of borrowing availability under our revolving credit facility, compared with total liquidity as of December 31, 2022 of approximately \$120.2 million, comprised of approximately \$20.7 million in cash and cash equivalents and borrowing availability of approximately \$99.5 million under our revolving credit facility. The change in our total liquidity from December 31, 2022 is primarily due to the seasonality of our business, as well as an increase of \$50.0 million in the borrowing capacity of our revolving credit facility as a result of the January 5, 2023 amendment; see Note 9 to the Unaudited Condensed Consolidated Financial Statements for additional information. 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, net accounts receivable and inventories in thousands at September 30, 2023, December 31, 2022 and September 30, 2022.

	As of		
	September 30, 2023	December 31, 2022	September 30, 2022
Cash and cash equivalents	\$ 11,088	\$ 20,670	\$ 2,843
Accounts receivable, net	165,302	86,765	165,266
Inventories	147,246	136,501	133,799

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We had cash and cash equivalents of \$11.1 million at September 30, 2023 compared to cash and cash equivalents of \$20.7 million and \$2.8 million at December 31, 2022 and September 30, 2022, respectively. The table below sets forth a summary of the significant sources and uses of cash for the periods presented in thousands.

Cash Flows (in thousands)	Nine Months Ended		Change	% Change
	September 30, 2023	September 30, 2022		
Net cash used in operating activities	\$ (64,148)	\$ (74,486)	\$ 10,338	(13.9)%
Net cash used in investing activities	(7,723)	(8,924)	1,201	(13.5)%
Net cash provided by financing activities	62,289	49,289	13,000	26.4%
Change in cash	\$ (9,582)	\$ (34,121)	\$ 24,539	(71.9)%

Net cash used in operating activities decreased \$10.3 million from the nine months ended September 30, 2022 to the nine months ended September 30, 2023. The decrease in cash used in operating activities was due to a \$15.1 million decrease in net income adjusted for reconciling items, offset by favorable changes in working capital of \$25.4 million. The largest favorable changes in working capital were a decrease in cash used for inventory related to a larger increase in inventory in the prior year from pulling forward purchases in anticipation of inflationary price increases and supply chain disruptions, and higher material costs due to inflation, as well as a decrease in accounts receivable attributable to the decrease in sales compared to the prior year.

Net cash used in investing activities decreased \$1.2 million for the nine months ended September 30, 2023 compared to the corresponding period in 2022 due to a lower level of capital expenditures.

Net cash provided by financing activities increased \$13.0 million for the nine months ended September 30, 2023 as compared to the corresponding period in 2022. The increase in cash provided was related to having \$101.0 million in revolver borrowings outstanding at September 30, 2023 compared to \$84.0 million in revolver borrowings outstanding at September 30, 2022. See Note 9 to the Unaudited Condensed Consolidated Financial Statements for additional information. In addition, the increase in cash provided by financing activities is related to executing no stock repurchases in the nine months ended September 30, 2023, compared to \$6.0 million in repurchases in the same period in the prior year. Somewhat offsetting the increase in cash provided is a \$10.0 million increase in the repayment of long-term debt related to a voluntary pre-payment of debt amortization principal payments, see Note 9 to the Unaudited Condensed Consolidated Financial Statements for additional information.

Free Cash Flow

Free cash flow for the three months ended September 30, 2023 was (\$0.4) million compared to (\$19.6) million in the corresponding period in 2022, an increase of \$19.2 million. Free cash flow for the nine months ended September 30, 2023 was (\$71.9) million compared to (\$83.4) million in the corresponding period in 2022, an increase of \$11.5 million. The increase in free cash flow for the nine months ended September 30, 2023 is primarily a result of lower cash used in operating activities of \$10.3 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.

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(In Thousands)		(In Thousands)	
Net cash provided by (used in) operating activities	\$ 2,079	\$ (16,282)	\$ (64,148)	\$ (74,486)
Acquisition of property and equipment	(2,433)	(3,344)	(7,723)	(8,924)
Free cash flow	<u>\$ (354)</u>	<u>\$ (19,626)</u>	<u>\$ (71,871)</u>	<u>\$ (83,410)</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, and incremental costs incurred in 2022 related to the COVID-19 pandemic. Such COVID-19 related costs included increased expenses directly related to the pandemic, and did not include either production related overhead inefficiencies or lost or deferred sales. We believe these costs were 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 provided by (used in) 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 nine months ended September 30, 2023 and 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Net income	\$ 5,792	\$ 13,280	\$ 16,646	\$ 27,097
Interest expense, net	4,607	3,266	11,207	7,852
Income tax expense	1,137	2,895	4,393	7,243
Depreciation expense	2,751	2,603	8,290	7,736
Amortization	2,630	2,630	7,890	7,890
EBITDA	16,917	24,674	48,426	57,818
Stock-based compensation expense	-	510	4,236	5,563
Other charges (1)	396	(53)	538	488
Adjusted EBITDA	\$ 17,313	\$ 25,131	\$ 53,200	\$ 63,869

(1) Reflects unrelated legal, severance, restructuring, and consulting fees, and, in 2022, incremental costs incurred related to the COVID-19 pandemic for the periods presented.

The following table presents Adjusted EBITDA by segment for the three and nine months ended September 30, 2023 and 2022.

	Three Months	Three Months	Nine Months	Nine Months
	Ended September 30, 2023	Ended September 30, 2022	Ended September 30, 2023	Ended September 30, 2022
Adjusted EBITDA				
Work Truck Attachments	\$ 12,328	\$ 22,929	\$ 44,393	\$ 59,562
Work Truck Solutions	4,985	2,202	8,807	4,307
	\$ 17,313	\$ 25,131	\$ 53,200	\$ 63,869

Adjusted EBITDA at our Work Truck Attachments segment was \$12.3 million for the three months ended September 30, 2023 compared to \$22.9 million in the three months ended September 30, 2022, a decrease of \$10.6 million. Adjusted EBITDA at our Work Truck Attachments segment was \$44.4 million for the nine months ended September 30, 2023 compared to \$59.6 million in the nine months ended September 30, 2022, a decrease of \$15.2 million. The change in the three and nine months ended September 30, 2023 from the corresponding periods in 2022 was due to low snowfall in our core markets leading to lower volumes. The most recent snow season ended March 2023 was approximately 14% below the 10-year average. In particular, many large metropolitan areas on the East Coast saw the lowest snowfall levels in decades for the season, which significantly impacted volumes for the segment in 2023.

Adjusted EBITDA at our Work Truck Solutions segment was \$5.0 million for the three months ended September 30, 2023 compared to \$2.2 million in the three months ended September 30, 2022, an increase of \$2.8 million. Adjusted EBITDA at our Work Truck Solutions segment was \$8.8 million for the nine months ended September 30, 2023 compared to \$4.3 million in the nine months ended September 30, 2022, an increase of \$4.5 million. The change in the three and nine months ended September 30, 2023 was due to improved volumes and price increase realization, as well as improved efficiencies.

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 charges related to unrelated legal fees and consulting fees, incremental costs incurred in 2022 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 included increased expenses directly related to the pandemic, and did not include either production related overhead inefficiencies or lost or deferred sales. We believe these costs were 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 nine months ended September 30, 2023 and 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Net income (GAAP)	\$ 5,792	\$ 13,280	\$ 16,646	\$ 27,097
Adjustments:				
- Stock-based compensation	-	510	4,236	5,563
- Adjustments on derivative not classified as hedge (1)	(172)	(172)	(516)	(516)
- Other charges (2)	396	(53)	538	488
Tax effect on adjustments	(56)	(72)	(1,064)	(1,384)
Adjusted net income (non-GAAP)	<u>\$ 5,960</u>	<u>\$ 13,493</u>	<u>\$ 19,840</u>	<u>\$ 31,248</u>
Weighted average common shares outstanding assuming dilution	22,983,965	22,886,793	22,955,388	22,926,943
Adjusted income per common share - dilutive	\$ 0.25	\$ 0.57	\$ 0.82	\$ 1.32
GAAP diluted earnings per share	\$ 0.24	\$ 0.56	\$ 0.69	\$ 1.14
Adjustments net of income taxes:				
- Stock-based compensation	-	0.02	0.13	0.18
- Adjustments on derivative not classified as hedge (1)	(0.01)	(0.01)	(0.02)	(0.02)
- Other charges (2)	0.02	-	0.02	0.02
Adjusted diluted earnings per share (non-GAAP)	<u>0.25</u>	<u>0.57</u>	<u>0.82</u>	<u>1.32</u>

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

(2) Reflects unrelated legal, severance, restructuring, and consulting fees, and, in 2022, incremental costs incurred related to the COVID-19 pandemic 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 September 30, 2023.

Impact of Inflation

Inflation in materials and labor had a material impact on our profitability in the nine months ended September 30, 2023 and, although we are starting to see such inflationary pressures ease, we expect ongoing inflationary pressures may also impact our profitability in the remainder of 2023. 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 2022 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 as 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 our annual capital expenditures are modest, they 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 recent macro-economic trends and their 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 September 30, 2023, we had outstanding borrowings under our term loan of \$189.4 million. A hypothetical interest rate change of 1%, 1.5% and 2% on our term loan would have changed interest incurred for the three months ended September 30, 2023 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 (loss) 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. 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 September 30, 2023, we had \$101.0 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 September 30, 2023 by \$0.2 million, \$0.3 million, and \$0.4 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 9.4% for the three months ended September 30, 2023 compared to 13.2% for the three months ended September 30, 2022. Our steel purchases as a percentage of revenue were 10.2% for the nine months ended September 30, 2023 compared to 14.8% for the nine months ended September 30, 2022. Steel costs increased significantly in 2022 and were 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, 2022.

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

During the three months ended September 30, 2023, 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 plan are retired.

Total share repurchases under the 2022 repurchase plan for the three months ended September 30, 2023 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)
7/1/2023 - 7/31/2023	-	\$ -	-	\$ 44,000
8/1/2023 - 8/31/2023	-	-	-	44,000
9/1/2023 - 9/30/2023	-	-	-	44,000
Total	-	\$ -	-	\$ 44,000

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 Condensed 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:

Exhibit Numbers	Description
31.1*	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial statements from the quarterly report on Form 10-Q of Douglas Dynamics, Inc. for the quarter ended September 30, 2023, filed on October 31, 2023, 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
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

Dated: October 31, 2023

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: October 31, 2023

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
Executive Vice President and Chief Financial Officer

Dated: October 31, 2023

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

In connection with the Quarterly Report of Douglas Dynamics, Inc., or the Company, on Form 10-Q for the fiscal quarter ended September 30, 2023 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: October 31, 2023

By: /s/ Sarah Lauber
Sarah Lauber
Executive Vice President and Chief Financial Officer

Dated: October 31, 2023

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.
