

**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, 2021

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 001-34728

**DOUGLAS DYNAMICS, INC.**

(Exact name of registrant as specified in its charter)

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

**13-4275891**  
(I.R.S. Employer  
Identification No.)

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

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

Number of shares of registrant's common shares outstanding as of November 2, 2021 was 22,980,951.

**DOUGLAS DYNAMICS, INC.**

**Table of Contents**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	3
<u>Item 1. Financial Statements</u>	3
<u>Unaudited Condensed Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2021 and 2020</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2020</u>	5
<u>Unaudited Condensed Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2021 and 2020</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4. Controls and Procedures</u>	44
<b><u>PART II. OTHER INFORMATION</u></b>	44
<u>Item 1. Legal Proceedings</u>	44
<u>Item 1A. Risk Factors</u>	45
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 3. Defaults Upon Senior Securities</u>	45
<u>Item 4. Mine Safety Disclosures</u>	45
<u>Item 5. Other Information</u>	45
<u>Item 6. Exhibits</u>	46
<u>Signatures</u>	47

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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, 2021 (unaudited)	December 31, 2020 (unaudited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,340	\$ 41,030
Accounts receivable, net	124,135	83,195
Inventories	100,134	79,482
Inventories - truck chassis floor plan	7,916	8,146
Refundable income taxes paid	2,552	-
Prepaid and other current assets	5,552	5,334
Total current assets	247,629	217,187
Property, plant, and equipment, net	64,612	64,320
Goodwill	113,134	113,134
Other intangible assets, net	144,739	152,791
Operating lease - right of use asset	19,080	21,441
Non-qualified benefit plan assets	9,837	9,041
Other long-term assets	1,203	1,288
Total assets	<u>\$ 600,234</u>	<u>\$ 579,202</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 16,861	\$ 16,284
Accrued expenses and other current liabilities	32,652	30,831
Floor plan obligations	7,916	7,885
Operating lease liability - current	4,623	4,326
Income taxes payable	-	5,214
Short term borrowings	37,000	-
Current portion of long-term debt	11,137	1,666
Total current liabilities	110,189	66,206
Retiree benefits and deferred compensation	17,245	15,804
Deferred income taxes	27,553	26,681
Long-term debt, less current portion	208,747	236,676
Operating lease liability - noncurrent	14,840	17,434
Other long-term liabilities	11,431	16,197
Stockholders' equity:		
Common Stock, par value \$0.01, 200,000,000 shares authorized, 22,980,951 and 22,857,457 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	230	229
Additional paid-in capital	163,782	157,758
Retained earnings	49,707	47,712
Accumulated other comprehensive loss, net of tax	(3,490)	(5,495)
Total stockholders' equity	210,229	200,204
Total liabilities and stockholders' equity	<u>\$ 600,234</u>	<u>\$ 579,202</u>

See the accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	(unaudited)		(unaudited)	
Net sales	\$ 127,636	\$ 133,761	\$ 388,508	\$ 321,994
Cost of sales	97,001	97,033	282,823	241,501
Gross profit	30,635	36,728	105,685	80,493
Selling, general, and administrative expense	17,607	16,428	59,488	47,435
Impairment charges	-	-	-	127,872
Intangibles amortization	2,642	2,737	8,052	8,214
Income (loss) from operations	10,386	17,563	38,145	(103,028)
Interest expense, net	(2,167)	(5,007)	(9,514)	(15,709)
Debt modification expense	-	(237)	-	(3,429)
Loss on extinguishment of debt	-	-	(4,936)	-
Other income (expense), net	15	145	123	(33)
Income (loss) before taxes	8,234	12,464	23,818	(122,199)
Income tax expense (benefit)	1,204	3,234	1,943	(17,484)
Net income (loss)	\$ 7,030	\$ 9,230	\$ 21,875	\$ (104,715)
Weighted average number of common shares outstanding:				
Basic	22,980,951	22,857,457	22,945,617	22,842,777
Diluted	22,992,793	22,878,002	22,960,334	22,842,777
Earnings (loss) per common share:				
Basic	\$ 0.30	\$ 0.40	\$ 0.94	\$ (4.60)
Diluted	\$ 0.30	\$ 0.39	\$ 0.92	\$ (4.60)
Cash dividends declared and paid per share	\$ 0.29	\$ 0.28	\$ 0.86	\$ 0.84
Comprehensive income (loss)	\$ 7,611	\$ 9,719	\$ 23,880	\$ (108,038)

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, 2021	September 30, 2020
	(unaudited)	
<b>Operating activities</b>		
Net income (loss)	\$ 21,875	\$ (104,715)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	15,235	14,704
Gain on sales of fixed asset	(165)	-
Amortization of deferred financing costs and debt discount	770	914
Debt modification expense	-	267
Loss on extinguishment of debt	4,936	-
Stock-based compensation	6,025	2,768
Adjustments on derivatives not classified as hedges	(1,020)	3,133
Provision for losses on accounts receivable	519	778
Deferred income taxes	872	(18,556)
Impairment charges	-	127,872
Non-cash lease expense	2,360	3,095
Earnout liability	-	(2,017)
Changes in operating assets and liabilities:		
Accounts receivable	(41,459)	(36,656)
Inventories	(20,391)	(16,057)
Prepaid assets, refundable income taxes and other assets	(3,545)	(3,542)
Accounts payable	538	3,205
Accrued expenses and other current liabilities	(3,433)	(962)
Benefit obligations and other long-term liabilities	(2,598)	(1,313)
Net cash used in operating activities	(19,481)	(27,082)
<b>Investing activities</b>		
Capital expenditures	(7,271)	(9,465)
Net cash used in investing activities	(7,271)	(9,465)
<b>Financing activities</b>		
Shares withheld on restricted stock vesting paid for employees' taxes	-	(72)
Payments of financing costs	(1,371)	(992)
Dividends paid	(19,880)	(19,411)
Net revolver borrowings	37,000	12,000
Borrowings on long-term debt	224,438	270,875
Repayment of long-term debt	(247,125)	(247,233)
Net cash provided by (used in) financing activities	(6,938)	15,167
Change in cash and cash equivalents	(33,690)	(21,380)
Cash and cash equivalents at beginning of period	41,030	35,665
Cash and cash equivalents at end of period	<u>\$ 7,340</u>	<u>\$ 14,285</u>
<b>Non-cash operating and financing activities</b>		
Truck chassis inventory acquired through floorplan obligations	<u>\$ 28,012</u>	<u>\$ 27,691</u>

See the accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Dollars				
<b>Three Months Ended September 30, 2021</b>						
Balance at June 30, 2021	22,980,951	\$ 230	\$ 163,777	\$ 49,303	\$ (4,071)	\$ 209,239
Net income	—	—	—	7,030	—	7,030
Dividends paid	—	—	—	(6,626)	—	(6,626)
Adjustment for postretirement benefit liability, net of tax of \$20	—	—	—	—	(58)	(58)
Adjustment for interest rate swap, net of tax of (\$221)	—	—	—	—	639	639
Stock based compensation	—	—	5	—	—	5
Balance at September 30, 2021	<u>22,980,951</u>	<u>\$ 230</u>	<u>\$ 163,782</u>	<u>\$ 49,707</u>	<u>\$ (3,490)</u>	<u>\$ 210,229</u>
<b>Nine Months Ended September 30, 2021</b>						
Balance at December 31, 2020	22,857,457	\$ 229	\$ 157,758	\$ 47,712	\$ (5,495)	\$ 200,204
Net income	—	—	—	21,875	—	21,875
Dividends paid	—	—	—	(19,880)	—	(19,880)
Adjustment for pension and postretirement benefit liability, net of tax of \$60	—	—	—	—	(174)	(174)
Adjustment for interest rate swap, net of tax of (\$755)	—	—	—	—	2,179	2,179
Stock based compensation	123,494	1	6,024	—	—	6,025
Balance at September 30, 2021	<u>22,980,951</u>	<u>\$ 230</u>	<u>\$ 163,782</u>	<u>\$ 49,707</u>	<u>\$ (3,490)</u>	<u>\$ 210,229</u>
<b>Three Months Ended September 30, 2020</b>						
Balance at June 30, 2020	22,857,457	\$ 229	\$ 157,497	\$ 33,320	\$ (6,626)	\$ 184,420
Net income	—	—	—	9,230	—	9,230
Dividends paid	—	—	—	(6,485)	—	(6,485)
Adjustment for pension and postretirement benefit liability, net of tax of \$20	—	—	—	—	(57)	(57)
Adjustment for interest rate swap, net of tax of (\$194)	—	—	—	—	546	546
Stock based compensation	—	—	199	—	—	199
Balance at September 30, 2020	<u>22,857,457</u>	<u>\$ 229</u>	<u>\$ 157,696</u>	<u>\$ 36,065</u>	<u>\$ (6,137)</u>	<u>\$ 187,853</u>
<b>Nine Months Ended September 30, 2020</b>						
Balance at December 31, 2019	22,795,412	\$ 228	\$ 155,001	\$ 160,748	\$ (2,814)	\$ 313,163
Net loss	—	—	—	(104,715)	—	(104,715)
Dividends paid	—	—	—	(19,411)	—	(19,411)
Impact due to adoption of ASC 2016-13 (credit losses), net of tax of \$193	—	—	—	(557)	—	(557)
Adjustment for pension and postretirement benefit liability, net of tax of \$60	—	—	—	—	(171)	(171)
Adjustment for interest rate swap, net of tax of \$1,101	—	—	—	—	(3,152)	(3,152)
Shares withheld on restricted stock vesting	—	—	(72)	—	—	(72)
Stock based compensation	62,045	1	2,767	—	—	2,768
Balance at September 30, 2020	<u>22,857,457</u>	<u>\$ 229</u>	<u>\$ 157,696</u>	<u>\$ 36,065</u>	<u>\$ (6,137)</u>	<u>\$ 187,853</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 2020 Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission on February 23, 2021.

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

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

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

See Note 15 to the Unaudited Condensed Consolidated Financial Statements for financial information regarding these segments.

***Interim Condensed Consolidated Financial Information***

The accompanying Condensed Consolidated Balance Sheet as of September 30, 2021, the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and the Condensed Consolidated Statements of Shareholders' Equity for the three and nine months ended September 30, 2021 and 2020, and the Condensed Cash Flows for the nine months ended September 30, 2021 and 2020 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 restock their inventory of Work Truck Attachments products during the second and third quarters in anticipation of the peak fourth quarter retail sales period by offering favorable pre-season pricing and payment deferral until the fourth quarter. Thus, the Company's Work Truck Attachments segment tends to generate its greatest volume of sales during the second and third quarters. By contrast, its revenue and operating results tend to be lowest during the first quarter, as management believes the end-users of Work Truck Attachments products prefer to wait until the beginning of a snow season to purchase new equipment and as the Company's distributors sell off Work Truck Attachments inventory and wait for the pre-season sales incentive period to re-stock inventory. Fourth quarter sales vary from year-to-year as they are primarily driven by the level, timing and location of snowfall during the quarter. This is because most of the Company's Work Truck Attachments fourth quarter sales and shipments consist of re-orders by distributors seeking to restock inventory to meet immediate customer needs caused by snowfall during the winter months. In addition, due to the factors noted above, Work Truck Attachments working capital needs are highest in the second and third quarters as its accounts receivable rise from pre-season sales. These working capital needs decline in the fourth quarter as the Company receives payments for its pre-season shipments.

As a result of the COVID-19 pandemic, including the market volatility and other economic implications associated with the pandemic and the economic and regulatory measures enacted to contain its spread, the Company's results of operations were significantly impacted in the nine months ended September 30, 2020. The Company preventatively and voluntarily closed its facilities on March 18, 2020. The Company returned to full production during the second quarter of 2020. The results of operations of the Company for any quarter during the pandemic 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. In addition, results in any given period in 2021 may be different than 2020 as a result of the depressed conditions in 2020 stemming from the pandemic.

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

### ***Goodwill***

The Company performs an annual impairment test for goodwill and more frequently if an event or circumstances indicate that an impairment loss has been incurred. Conditions that would trigger an impairment assessment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset. The amount of goodwill impairment is determined by the amount the carrying value of the reporting unit exceeds its fair value. The Company has determined it has three reporting units, and all significant decisions are made on a company-wide basis by the chief operating decision maker. The fair value of the reporting unit is estimated by using an income and market approach. The estimated fair value is compared with the aggregate carrying value. If the fair value is greater than the carrying amount, there is no impairment. If the carrying amount is greater than the fair value, an impairment loss is recognized equal to the difference. During the quarter ended June 30, 2020, the Company identified a triggering event as there had been a significant decline in the business climate and in results of operations as a result of uncertainty related to the COVID-19 pandemic and chassis availability. Given these indicators, the Company determined that there was a higher degree of uncertainty in achieving its financial projections. Therefore, the Company performed an impairment test as of June 30, 2020 for each of its reporting units. There were no triggering events identified during the quarter ended September 30, 2021.

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

## **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



[Table of Contents](#)

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

[Table of Contents](#)

terms. On upfit transactions, the Company is providing a significant service by assembling and integrating the individual products onto the customer's truck. Each individual product and installation activity is highly interdependent and highly interrelated, and therefore the Company considers the manufacture and upfit of a truck a single performance obligation. Any shipping and handling activities performed by the Company after the transfer of control to the Customer (e.g., when control transfers upon shipment) are considered fulfillment activities, and accordingly, the costs are accrued for when the related revenue is recognized.

*Fleet Upfit Sales* – The Company enters into contracts with certain fleet customers. Fleet agreements create enforceable rights without the issuance of a purchase order. Typically, these agreements outline the terms of sale, payment terms, standard pricing, and the rights of the customer and seller. Fleet sales are performed on both customer owned vehicles as well as non-customer owned vehicles. For non-customer owned vehicles, revenue is recognized at a point in time upon delivery of the truck to the customer. For customer-owned vehicles, per Topic 606, revenue is recognized over time based on a cost input method. The Company accumulates costs incurred on partially completed customer-owned upfits based on estimated margin and completion. The Company books an adjustment to account for revenue over time related to customer owned vehicles, which decreased revenue by \$92 and decreased revenue by \$216 for the three months ended September 30, 2021 and 2020, respectively. The adjustment increased revenue by \$168 and decreased revenue by \$406 for the nine months ended September 30, 2021 and 2020, respectively.

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

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

Disaggregation of Revenue

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

Revenue by customer type was as follows:

<b>Three Months Ended September 30, 2021</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 81,373	\$ 25,425	\$ 106,798
Government	-	10,942	10,942
Fleet	-	8,539	8,539
Other	-	1,357	1,357
Total revenue	\$ 81,373	\$ 46,263	\$ 127,636

<b>Three Months Ended September 30, 2020</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 76,903	\$ 24,768	\$ 101,671
Government	-	19,058	19,058
Fleet	-	11,277	11,277
Other	-	1,755	1,755
Total revenue	\$ 76,903	\$ 56,858	\$ 133,761

<b>Nine Months Ended September 30, 2021</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 227,992	\$ 91,457	\$ 319,449
Government	-	32,858	32,858
Fleet	-	29,179	29,179
Other	-	7,022	7,022
Total revenue	\$ 227,992	\$ 160,516	\$ 388,508

<b>Nine Months Ended September 30, 2020</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Independent dealer	\$ 169,853	\$ 78,646	\$ 248,499
Government	-	41,248	41,248
Fleet	-	27,639	27,639
Other	-	4,608	4,608
Total revenue	\$ 169,853	\$ 152,141	\$ 321,994

Revenue by timing of revenue recognition was as follows:

<b>Three Months Ended September 30, 2021</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Point in time	\$ 81,373	\$ 29,201	\$ 110,574
Over time	-	17,062	17,062
Total revenue	\$ 81,373	\$ 46,263	\$ 127,636

<b>Three Months Ended September 30, 2020</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Point in time	\$ 76,903	\$ 38,564	\$ 115,467
Over time	-	18,294	18,294
Total revenue	\$ 76,903	\$ 56,858	\$ 133,761

<b>Nine Months Ended September 30, 2021</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Point in time	\$ 227,992	\$ 102,601	\$ 330,593
Over time	-	57,915	57,915
Total revenue	\$ 227,992	\$ 160,516	\$ 388,508

<b>Nine Months Ended September 30, 2020</b>	<b>Work Truck Attachments</b>	<b>Work Truck Solutions</b>	<b>Total Revenue</b>
Point in time	\$ 169,853	\$ 98,659	\$ 268,512
Over time	-	53,482	53,482
Total revenue	\$ 169,853	\$ 152,141	\$ 321,994

Contract Balances

The following table shows the changes in the Company's contract liabilities during the three and nine months ended September 30, 2021 and 2020, respectively:

<b>Three Months Ended September 30, 2021</b>	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
Contract liabilities	\$ 6,603	\$ 4,660	\$ (7,767)	\$ 3,496

<b>Three Months Ended September 30, 2020</b>	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
Contract liabilities	\$ 6,316	\$ 3,500	\$ (5,620)	\$ 4,196

<b>Nine Months Ended September 30, 2021</b>	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
Contract liabilities	\$ 2,746	\$ 15,389	\$ (14,639)	\$ 3,496

<b>Nine Months Ended September 30, 2020</b>	<b>Balance at Beginning of Period</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
Contract liabilities	\$ 2,187	\$ 12,006	\$ (9,997)	\$ 4,196

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, 2021 or 2020. 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 \$601 and \$773 during the three months ended September 30, 2021 and 2020, respectively, which was included in contract liabilities at the beginning of each period. The Company recognized revenue of \$2,746 and \$2,187 during the nine months ended September 30, 2021 and 2020, respectively, which was included in contract liabilities at the beginning of each period.

**3. Credit Losses**

Effective January 1, 2020, the Company adopted new accounting guidance that significantly changed the impairment model for estimating credit losses on financial assets to a current expected credit losses ("CECL") model that requires entities to estimate the lifetime expected credit losses on such assets, leading to earlier recognition of such losses. Effective January 1, 2020, the adoption of CECL accounting, through a modified-retrospective approach, caused an increase to the allowance for credit losses of approximately \$400 and \$350 for the Work Truck Attachments and Work Truck Solutions segments, respectively.

The majority of the Company's accounts receivable are due from distributors of truck equipment and dealers of completed upfit trucks. Credit is extended based on an evaluation of a customer's financial condition. A

[Table of Contents](#)

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, 2021, the Company had an allowance for credit losses on its trade accounts receivable of \$1,783 and \$1,674 at its Work Truck Attachments and Work Truck Solutions segments, respectively. As of December 31, 2020, the Company had an allowance for credit losses on its trade accounts receivable of \$1,480 and \$1,449 at its Work Truck Attachments and Work Truck Solutions segments, respectively.

The following table rolls forward the activity related to credit losses for trade accounts receivable at each segment, and on a consolidated basis for the nine months ended September 30, 2021 and 2020:

	Balance at December 31, 2020	Additions charged to earnings	Writeoffs	Changes to reserve, net	Balance at September 30, 2021
Nine Months Ended September 30, 2021					
Work Truck Attachments	\$ 1,480	\$ 300	\$ -	\$ 3	\$ 1,783
Work Truck Solutions	1,449	219	(10)	16	1,674
Total	\$ 2,929	\$ 519	\$ (10)	\$ 19	\$ 3,457

	Balance at December 31, 2019	Adoption of ASU 2016-13	Additions charged to earnings	Writeoffs	Changes to reserve, net	Balance at September 30, 2020
Nine Months Ended September 30, 2020						
Work Truck Attachments	\$ 600	\$ 400	\$ 300	\$ (12)	\$ 67	\$ 1,355
Work Truck Solutions	887	350	478	(55)	(60)	1,600
Total	\$ 1,487	\$ 750	\$ 778	\$ (67)	\$ 7	\$ 2,955

#### 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).

[Table of Contents](#)

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, 2021	Fair Value at December 31, 2020
<b>Assets:</b>		
Non-qualified benefit plan assets (a)	\$ 9,837	\$ 9,041
<b>Total Assets</b>	<b>\$ 9,837</b>	<b>\$ 9,041</b>
<b>Liabilities:</b>		
Interest rate swaps (b)	\$ 9,149	\$ 13,073
Long-term debt (c)	221,659	241,278
<b>Total Liabilities</b>	<b>\$ 230,808</b>	<b>\$ 254,351</b>

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

(b) Valuation models are calibrated to initial trade price. Subsequent valuations are based on observable inputs to the valuation model (e.g. interest rates and credit spreads). Model inputs are changed only when corroborated by market data. A credit risk adjustment is made on each swap using observable market credit spreads. Thus, inputs used to determine fair value of the interest rate swap are Level 2 inputs. Interest rate swaps of \$4,106 and \$5,043 at September 30, 2021 are included in Accrued expenses and other current liabilities and Other long-term liabilities, respectively. Interest rate swaps of \$4,075 and \$8,998 at December 31, 2020 are included in Accrued expenses and other current liabilities and Other long-term liabilities, respectively.

(c) The fair value of the Company's long-term debt, including current maturities, is based on rates for instruments with comparable maturities and credit quality (Level 2 inputs), and approximates its carrying value. Prior to the Company's most recent debt refinancing, the fair value of the Company's long-term debt, including current maturities, was estimated using discounted cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements, which was a Level 2 input. See Note 9 for additional information. Long-term debt is recorded at carrying amount, net of discount and deferred debt issuance costs, as disclosed on the face of the balance sheet.

## 5. Inventories

Inventories consist of the following:

	September 30, 2021	December 31, 2020
Finished goods	\$ 49,354	\$ 39,496
Work-in-process	8,653	8,253
Raw material and supplies	42,127	31,733
	<u>\$ 100,134</u>	<u>\$ 79,482</u>

The inventories in the table above do not include truck chassis inventory financed through a floor plan financing agreement, which are recorded separately on the balance sheet. The Company takes title to truck chassis upon receipt of the inventory through its floor plan agreement and performs up-fitting service installations to the truck chassis inventory during the installation period. The floor plan obligation is then assumed by the dealer customer upon delivery. At September 30, 2021 and December 31, 2020, the Company had \$7,916 and \$8,146,

respectively, of chassis inventory and \$7,916 and \$7,885 of related floor plan financing obligation, respectively. The Company recognizes revenue associated with up-fitting and service installations net of the truck chassis.

## 6. Property, plant and equipment

Property, plant and equipment are summarized as follows:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Land	\$ 3,969	\$ 2,378
Land improvements	5,278	4,830
Leasehold improvements	4,087	4,087
Buildings	33,732	29,580
Machinery and equipment	67,676	61,154
Furniture and fixtures	20,773	19,782
Mobile equipment and other	4,775	5,200
Construction-in-process	4,738	11,751
Total property, plant and equipment	<u>145,028</u>	<u>138,762</u>
Less accumulated depreciation	<u>(80,416)</u>	<u>(74,442)</u>
Net property, plant and equipment	<u>\$ 64,612</u>	<u>\$ 64,320</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 15 years, some of which include options to extend the leases for up to 10 years. Such renewal options were not included in the determination of the lease term unless deemed reasonably certain of exercise. The discount rate used in measuring the lease liabilities is based on the Company's interest rate on its secured Term Loan Credit Agreement. Certain of the Company's leases contain escalating rental payments based on an index. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

### *Lease Expense*

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

	<b>Three Months Ended September 30, 2021</b>	<b>Nine Months Ended September 30, 2021</b>	<b>Three Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2020</b>
Operating lease expense	\$ 1,433	\$ 4,215	\$ 1,364	\$ 3,972
Short term lease cost	\$ 34	\$ 192	\$ 141	\$ 286
Total lease cost	<u>\$ 1,467</u>	<u>\$ 4,407</u>	<u>\$ 1,505</u>	<u>\$ 4,258</u>



[Table of Contents](#)

*Cash Flow*

Supplemental cash flow information related to leases is as follows:

	<u>Nine Months Ended September 30, 2021</u>	<u>Nine Months Ended September 30, 2020</u>
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 4,142	\$ 3,911
Non-cash lease expense - right-of-use assets	\$ 2,360	\$ 3,095
Right-of-use assets obtained in exchange for operating lease obligations	\$ 865	\$ 3,796

*Balance Sheet*

Supplemental balance sheet information related to leases is as follows:

	<u>September 30, 2021</u>	<u>December 31, 2020</u>
<b>Operating Leases</b>		
Operating lease right-of-use assets	\$ 19,080	\$ 21,441
Other current liabilities	4,623	4,326
Operating lease liabilities	14,840	17,434
Total operating lease liabilities	\$ 19,463	\$ 21,760
<b>Weighted Average Remaining Lease Term</b>		
Operating leases	59 months	67 months
<b>Weighted Average Discount Rate</b>		
Operating leases	5.06%	5.16%

*Lease Maturities*

Maturities of leases were as follows:

<b>Year ending December 31,</b>	<b>Operating Leases</b>
2021 (excluding the nine months ended September 30, 2021)	\$ 1,405
2022	5,266
2023	4,634
2024	3,875
2025	3,113
Thereafter	3,619
<b>Total Lease Payments</b>	21,912
Less: imputed interest	(2,449)
<b>Total</b>	<u>\$ 19,463</u>

**8. Other Intangible Assets**

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

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
September 30, 2021			
Indefinite-lived intangibles:			
Trademark and tradenames	\$ 77,600	\$ -	\$ 77,600
Amortizable intangibles:			
Dealer network	80,000	70,000	10,000
Customer relationships	80,920	31,073	49,847
Patents	21,136	15,425	5,711
Noncompete agreements	8,640	8,640	-
Trademarks	5,459	3,878	1,581
Amortizable intangibles, net	<u>196,155</u>	<u>129,016</u>	<u>67,139</u>
Total	<u>\$ 273,755</u>	<u>\$ 129,016</u>	<u>\$ 144,739</u>

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
December 31, 2020			
Indefinite-lived intangibles:			
Trademark and tradenames	\$ 77,600	\$ -	\$ 77,600
Amortizable intangibles:			
Dealer network	80,000	67,000	13,000
Customer relationships	80,920	27,196	53,724
Patents	21,136	14,484	6,652
Noncompete agreements	8,640	8,477	163
Trademarks	5,459	3,807	1,652
Amortizable intangibles, net	<u>196,155</u>	<u>120,964</u>	<u>75,191</u>
Total	<u>\$ 273,755</u>	<u>\$ 120,964</u>	<u>\$ 152,791</u>

Amortization expense for intangible assets was \$2,642 and \$2,737 for the three months ended September 30, 2021 and 2020, respectively. Amortization expense for intangible assets was \$8,052 and \$8,214 for the nine months ended September 30, 2021 and 2020, respectively. Estimated amortization expense for the remainder of 2021 and each of the succeeding five years is as follows:

2021	\$ 2,668
2022	10,520
2023	10,520
2024	7,520
2025	6,075
2026	5,450

## 9. Long-Term Debt

Long-term debt is summarized below:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Term Loan, net of debt discount of \$527 and \$4,234 at September 30, 2021 and December 31, 2020, respectively	\$ 221,659	\$ 240,078
Less current maturities	11,137	1,666
Long-term debt before deferred financing costs	210,522	238,412
Deferred financing costs, net	1,775	1,736
Long-term debt, net	<u>\$ 208,747</u>	<u>\$ 236,676</u>

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

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

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

At September 30, 2021, the Company had outstanding borrowings under its term loan of \$221,659, \$37,000 in outstanding borrowings on its revolving credit facility, and remaining borrowing availability of \$62,050. At December 31, 2020, the Company had outstanding borrowings under its prior Term Loan Credit Agreement of

\$240,078, no outstanding borrowings on its prior Revolving Credit Agreement, and remaining borrowing availability of \$99,050.

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

In accordance with the Company's prior credit agreements, the Company was required to make additional principal prepayments over the above scheduled payments under certain conditions. This included, in the case of the term loan facility, 100% of the net cash proceeds of certain asset sales, certain insurance or condemnation events, certain debt issuances, and, within 150 days of the end of each fiscal year, 50% of consolidated excess cash flow including a deduction for certain distributions (which percentage is reduced to 0% upon the achievement of certain leverage ratio thresholds), for such fiscal year. Consolidated excess cash flow was defined in the senior credit facilities as consolidated adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) plus a consolidated working capital adjustment, less the sum of repayments of debt and capital expenditures (subject to certain adjustments), interest and taxes paid in cash, management fees and certain restricted payments (including certain dividends or distributions). Consolidated working capital adjustment was defined in the senior credit facilities as the change in working capital, defined as current assets, excluding cash and cash equivalents, less current liabilities, excluding the current portion of long-term debt. The Company made a voluntary payment of \$20,000 on its debt on January 31, 2020, a voluntary payment of \$30,000 on its debt on December 31, 2020, and voluntary payment of \$20,000 on its debt on March 31, 2021.

On June 13, 2019, the Company entered into an interest rate swap agreement to reduce its exposure to interest rate volatility. The interest rate swap has a notional amount of \$175,000 effective for the period May 31, 2019 through May 31, 2024. The Company may have counterparty credit risk resulting from the interest rate swap, which it monitors on an on-going basis. The risk lies with one global financial institution. Under the interest rate swap agreement, the Company will either receive or make payments on a monthly basis based on the differential between 2.495% and LIBOR. The interest rate swap was previously accounted for as a cash flow hedge. During the first quarter of 2020, the swap was determined to be ineffective. As a result, the swap was redesignated on March 19, 2020, and the remaining losses included in Accumulated other comprehensive 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 loss into earnings during the three months ended September 30, 2021 and 2020 was (\$291) and \$748, respectively. The amount amortized from Accumulated other comprehensive loss into earnings during the nine months ended September 30, 2021 and 2020 was \$859 and \$1,496, respectively. A mark-to-market adjustment of \$119 and (\$673) was recorded as Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended September 30, 2021 and 2020, respectively, related to the swap. A mark-to-market adjustment of (\$1,879) and \$1,637 was recorded as Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the nine months ended September 30, 2021 and 2020, 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 loss. The amortization from Accumulated other comprehensive income into earnings from the previous redesignation has been adjusted as of June 9, 2021 to include the de-recognition of previously recognized mark-to-market gains and the amortization of the off-market component as of the re-designation date, and will continue to be recognized through the life of the swap. The amount expected to be amortized from Accumulated other comprehensive loss into earnings in the next twelve months is \$687.

The interest rate swap's negative fair value at September 30, 2021 was \$9,149, of which \$4,106 and \$5,043 are included in Accrued expenses and other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet, respectively. The interest rate swap's negative fair value at December 31, 2020 was

\$13,073, of which \$4,075 and \$8,998 are included in Accrued expenses and other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet, respectively.

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

Accrued expenses and other current liabilities are summarized as follows:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Payroll and related costs	\$ 10,311	\$ 10,240
Employee benefits	7,977	7,642
Accrued warranty	3,499	3,392
Interest rate swaps	4,106	4,075
Other	6,759	5,482
	<u>\$ 32,652</u>	<u>\$ 30,831</u>

**11. Warranty Liability**

The Company accrues for estimated warranty costs as sales are recognized and periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary. The Company's warranties generally provide, with respect to its snow and ice control equipment, that all material and workmanship will be free from defect for a period of two years after the date of purchase by the end-user, and with respect to its parts and accessories purchased separately, that such parts and accessories will be free from defect for a period of one year after the date of purchase by the end-user. All of the Company's warranties are assurance-type warranties. Certain snowplows only provide for a one year warranty. The Company determines the amount of the estimated warranty costs (and its corresponding warranty reserve) based on the Company's prior five years of warranty history utilizing a formula driven by historical warranty expense and applying management's judgment. The Company adjusts its historical warranty costs to take into account unique factors such as the introduction of new products into the marketplace that do not provide a historical warranty record to assess. The warranty reserve was \$6,065 at September 30, 2021, of which \$2,566 is included in Other long-term liabilities and \$3,499 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet. The warranty reserve was \$5,812 at December 31, 2020, of which \$2,420 is included in Other long-term liabilities and \$3,392 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, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Balance at the beginning of the period	\$ 5,423	\$ 5,355	\$ 5,812	\$ 6,541
Warranty provision	1,315	864	4,020	2,125
Claims paid/settlements	(673)	(469)	(3,767)	(2,916)
Balance at the end of the period	\$ 6,065	\$ 5,750	\$ 6,065	\$ 5,750

## 12. Earnings (Loss) per Share

Basic earnings (loss) per share of common stock is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share of common stock is computed by dividing net income (loss) by the weighted average number of common shares, using the two-class method. As the Company has granted RSUs that both participate in dividend equivalents and do not participate in dividend equivalents, the Company has calculated earnings (loss) per share pursuant to the two-class method, which is an earnings allocation formula that determines earnings (loss) per share for common stock and participating securities according to dividends declared and participation rights in undistributed losses. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. Diluted net earnings (loss) per share is calculated by dividing net earnings (loss) attributable to common stockholders by the weighted average number of common stock and dilutive common stock outstanding during the period. Potential common shares in the diluted net income (loss) per share computation are excluded to the extent that they would be anti-dilutive. Weighted average of potentially dilutive non-participating RSU's were 24,132 in the nine months ended September 30, 2020.

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
<b>Basic earnings (loss) per common share</b>				
Net income (loss)	\$ 7,030	\$ 9,230	\$ 21,875	\$ (104,715)
Less income allocated to participating securities	117	121	357	-
Net income (loss) allocated to common shareholders	\$ 6,913	\$ 9,109	\$ 21,518	\$ (104,715)
Weighted average common shares outstanding	22,980,951	22,857,457	22,945,617	22,842,777
	\$ 0.30	\$ 0.40	\$ 0.94	\$ (4.60)
<b>Earnings (loss) per common share assuming dilution</b>				
Net income (loss)	\$ 7,030	\$ 9,230	\$ 21,875	\$ (104,715)
Less income allocated to participating securities	117	121	357	-
Net income (loss) allocated to common shareholders	\$ 6,913	\$ 9,109	\$ 21,518	\$ (104,715)
Weighted average common shares outstanding	22,980,951	22,857,457	22,945,617	22,842,777
Incremental shares applicable to non-participating RSUs	11,842	20,545	14,717	-
Weighted average common shares assuming dilution	22,992,793	22,878,002	22,960,334	22,842,777
	\$ 0.30	\$ 0.39	\$ 0.92	\$ (4.60)

### **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 \$0 and \$21 in the three months ended September 30, 2021 and 2020, respectively, and \$618 and \$983 in the nine months ended September 30, 2021 and 2020, respectively, in additional expense for employees who meet the thresholds of the retirement provision. In 2013, the Company's nominating and governance committee approved a retirement provision for the RSUs issued to non-employee directors that accelerates the vesting of such awards upon retirement. Such awards are fully expensed immediately upon grant in accordance with ASC 718, as the retirement provision eliminates substantive service conditions associated with the awards.

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

The Company 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 \$49.96. The Company recognized (\$290) and (\$15) of compensation expense related to the awards in the three months ended September 30, 2021 and 2020, respectively. The Company recognized \$2,984 and \$737 of compensation expense related to the awards in the nine months ended September 30, 2021 and 2020, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of September 30, 2021 expected to be earned through the requisite service period was approximately \$1,963 and is expected to be recognized through 2024.

#### ***Restricted Stock Unit Awards***

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

A summary of RSU activity for the nine months ended September 30, 2021 is as follows:

	Shares	Weighted Average Grant Date Fair value	Weighted Average Remaining Contractual Term
Unvested at December 31, 2020	36,022	\$ 42.73	1.40 years
Granted	133,718	\$ 44.49	1.19 years
Vested	(88,225)	\$ 39.73	
Cancelled and forfeited	(835)	\$ 44.49	
Unvested at September 30, 2021	<u>80,680</u>	<u>\$ 48.90</u>	<u>2.16 years</u>
Expected to vest in the future at September 30, 2021	<u>79,873</u>	<u>\$ 48.90</u>	<u>2.16 years</u>

The Company recognized \$295 and \$214 of compensation expense related to the RSU awards in the three months ended September 30, 2021 and 2020, respectively. The Company recognized \$3,041 and \$2,031 of compensation expense related to the RSU awards in the nine months ended September 30, 2021 and 2020, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of September 30, 2021, expected to be earned through the requisite service period was approximately \$1,751 and is expected to be recognized through 2024.

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, and in all events no later than the end of the calendar year in which such termination of service occurs or, if later, two and one-half months after such termination of service.

Vested management RSUs are “settled” by the delivery to the participant or a designated brokerage firm of one share of common stock per vested RSU as soon as reasonably practicable following vesting.

#### 14. Commitments and Contingencies

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

#### 15. Segments

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

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

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

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



[Table of Contents](#)

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

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

	<b>Three Months Ended</b>		<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>		<b>September 30,</b>	
	<b>2021</b>		<b>2020</b>		<b>2021</b>		<b>2020</b>	
<b>Net sales</b>								
Work Truck Attachments	\$	81,373	\$	76,903	\$	227,992	\$	169,853
Work Truck Solutions		46,263		56,858		160,516		152,141
	\$	127,636	\$	133,761	\$	388,508	\$	321,994
<b>Adjusted EBITDA</b>								
Work Truck Attachments	\$	14,790	\$	20,155	\$	55,206	\$	38,527
Work Truck Solutions		700		2,917		4,433		3,162
	\$	15,490	\$	23,072	\$	59,639	\$	41,689
<b>Depreciation and amortization expense</b>								
Work Truck Attachments	\$	3,038	\$	2,683	\$	8,836	\$	7,994
Work Truck Solutions		1,984		2,224		6,399		6,710
	\$	5,022	\$	4,907	\$	15,235	\$	14,704
<b>Assets</b>								
Work Truck Attachments	\$	405,401	\$	396,793				
Work Truck Solutions		194,833		214,471				
	\$	600,234	\$	611,264				
<b>Capital Expenditures</b>								
Work Truck Attachments	\$	2,221	\$	4,850	\$	6,202	\$	9,105
Work Truck Solutions		331		375		1,108		1,110
	\$	2,552	\$	5,225	\$	7,310	\$	10,215

<b>Adjusted EBITDA</b>				
Work Truck Attachments	\$	14,790	\$	20,155
Work Truck Solutions		700		2,917
<b>Total Adjusted EBITDA</b>	\$	15,490	\$	23,072
Less items to reconcile Adjusted EBITDA to				
Income (Loss) before taxes:				
Interest expense - net		2,167		5,007
Depreciation expense		2,380		2,170
Amortization		2,642		2,737
Purchase accounting (1)		-		-
Stock based compensation		5		199
Impairment charges		-		-
Debt modification expense		-		237
Loss on extinguishment of debt		-		-
COVID-19 (2)		12		157
Other charges (3)		50		101
Income (loss) before taxes	\$	8,234	\$	12,464

- (1) Reflects \$2,000 reversal of earn-out compensation in conjunction with the acquisition of Dejana in the periods presented. Reflects \$17 reversal of earn-out compensation in conjunction with the acquisition of Henderson in the periods presented.
- (2) Reflects incremental costs incurred related to the COVID-19 pandemic for the periods presented. Such COVID-19 related costs include increased expenses directly related to the pandemic, and do not include either production related overhead inefficiencies or lost or deferred sales.
- (3) Reflects unrelated legal and consulting fees for the periods presented.

**16. Income Taxes**

The Company's effective tax rate was 14.6% and 26.0% for the three months ended September 30, 2021 and 2020, respectively. The Company's effective tax rate was 8.2% and 14.3% for the nine months ended September 30, 2021 and 2020, respectively. The effective tax rate for the three and nine months ended September 30, 2021 was lower than the Company's historical annual effective tax rate due to a discrete tax benefit of \$774 and \$3,513 related to favorable income tax audit results in states in which the Company files, respectively. The following items caused the effective tax rate for the nine months ended September 30, 2020 to be significantly different from the Company's historical annual effective tax rate:

- The Company recorded impairment of nondeductible goodwill related to the Municipal reporting unit. This decreased the rate by 8.2% for the nine months ended September 30, 2020.
- After an evaluation of recent profitability, future projections of profitability, and future deferred tax liabilities, the Company concluded that an additional valuation allowance of approximately \$1,652 was necessary for certain state deferred tax assets. This decreased the rate by 0.3% for the nine months ended September 30, 2020.

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 Loss by Component**

Changes to accumulated other comprehensive loss by component for the nine months ended September 30, 2021 are as follows:

	Unrealized Net Loss on Interest Rate Swap	Retiree Health Benefit Obligation	Total
Balance at December 31, 2020	\$ (7,608)	\$ 2,113	\$ (5,495)
Other comprehensive loss before reclassifications	(177)	—	(177)
Amounts reclassified from accumulated other comprehensive loss: (1)	2,355	(173)	2,182
Balance at September 30, 2021	<u>\$ (5,430)</u>	<u>\$ 1,940</u>	<u>\$ (3,490)</u>
(1) Amounts reclassified from accumulated other comprehensive loss:			
Amortization of Other Postretirement Benefit items:			
Actuarial gains	\$ (234)		
Tax expense	61		
Reclassification net of tax	<u>\$ (173)</u>		
Realized losses on interest rate swaps reclassified to interest expense	\$ 3,182		
Tax benefit	(827)		
Reclassification net of tax	<u>\$ 2,355</u>		

[Table of Contents](#)

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

	Unrealized Net Loss on Interest Rate Swap	Retiree Health Benefit Obligation	Total
Balance at December 31, 2019	\$ (5,023)	\$ 2,209	\$ (2,814)
Other comprehensive gain before reclassifications	(4,837)	-	(4,837)
Amounts reclassified from accumulated other comprehensive loss: (1)	1,685	(171)	1,514
Balance at September 30, 2020	<u>\$ (8,175)</u>	<u>\$ 2,038</u>	<u>\$ (6,137)</u>

(1) Amounts reclassified from accumulated other comprehensive loss:

Amortization of Other Postretirement Benefit items:			
Actuarial gains	\$ (231)		
Tax expense	60		
Reclassification net of tax	<u>\$ (171)</u>		
Realized losses on interest rate swaps reclassified to interest expense	\$ 2,277		
Tax benefit	(592)		
Reclassification net of tax	<u>\$ 1,685</u>		

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

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

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

### **Forward-Looking Statements**

*This Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements include information relating to future events, product demand, the payment of dividends, future financial performance, strategies, expectations, competitive environment, regulation and availability of financial resources. These statements are often identified by use of words such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will" and similar expressions and include references to assumptions and relate to our future prospects, developments and business strategies. Such statements involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: (i) weather conditions, particularly lack of or reduced levels of snowfall and the timing of such snowfall, including as a result of global climate change; (ii) our ability to manage general economic, business and geopolitical conditions, including the impacts of natural disasters, pandemics and outbreaks of contagious diseases and other adverse public health developments, such as the COVID-19 pandemic (iii) our inability to maintain good relationships with the original equipment manufacturers ("OEM") with whom we currently do significant business; (iv) the inability of our suppliers and OEM partners to meet our volume or quality requirements; (v) increases in the price of steel or other materials, including as a result of tariffs, necessary for the production of our products that cannot be passed on to our distributors; (vi) increases in the price of fuel or freight, (vii) the effects of laws and regulations (including those enacted in response to the COVID-19 pandemic) and their interpretations on our business and financial condition; (viii) a significant decline in economic conditions, including as a result of global health epidemics such as COVID-19; (ix) our inability to maintain good relationships with our distributors; (x) lack of available or favorable financing options for our end-users, distributors or customers; (xi) inaccuracies in our estimates of future demand for our products; (xii) our inability to protect or continue to build our intellectual property portfolio; (xiii) the effects of laws and regulations and their interpretations on our business and financial condition; (xiv) our inability to develop new products or improve upon existing products in response to end-user needs; (xv) losses due to lawsuits arising out of personal injuries associated with our products; (xvi) factors that could impact the future declaration and payment of dividends; (xvii) our inability to compete effectively against competition; (xviii) our inability to successfully execute our acquisition strategy; and (xix) our inability to achieve the projected financial performance with the business of Henderson Enterprises Group, Inc. ("Henderson") which we acquired in 2014 or the assets of Dejana, which we acquired in 2016 and unexpected costs or liabilities related to such acquisitions, as well as those discussed in the sections entitled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q, if any, or in our most recent Annual Report on Form 10-K. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. In addition, the forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date hereof and we undertake no obligation, except as required by law, to update or release any revisions to any forward-looking statement, even if new information becomes available in the future.*

### **Results of Operations**

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

**Work Truck Attachments.** The Work Truck Attachments segment includes commercial snow and ice management attachments sold under the FISHER®, WESTERN® and SNOWEX® brands. This segment

consists of our operations that manufacture and sell snow and ice control products. As described under “Seasonality and Year-To-Year Variability,” the Work Truck Attachments Segment is seasonal and, as a result, its results of operations can vary from quarter-to-quarter and from year-to-year.

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

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

#### *COVID-19*

As a result of the COVID-19 pandemic, including the market volatility and other economic implications associated with the pandemic and the economic and regulatory measures enacted to contain its spread, our results of operations have been impacted in the three and nine months ended September 30, 2021 and 2020, and may be significantly impacted in future quarters. See below for further discussion of the impact to our financial statements. We are not able to predict the full impact of the pandemic on our future financial results as the situation remains unpredictable, but the pandemic has had and is likely to continue to have a material impact on our results of operations for the year ended December 31, 2021. In addition, results may be impacted in future quarters due to supply chain constraints and inflation stemming from the pandemic, including constraints around chassis and other component parts, inflation in materials and freight, and labor availability.

In consideration of the COVID-19 pandemic, we expect that cash on hand and cash we generate from operations, as well as available credit under our senior credit facilities, will provide adequate funds for the foreseeable future. We are taking appropriate steps to mitigate the effects of the pandemic where possible. We preventatively and voluntarily closed our facilities on March 18, 2020, suspending production and shipments at all of our locations, which negatively impacted sales volumes and profitability during the shutdown period. Throughout the second quarter of 2020, we slowly ramped up production at various facilities as appropriate and returned to full production levels by the end of the second quarter of 2020. We believe that we have taken all of the necessary and appropriate safety steps and precautions for employees who have returned to work. Throughout 2021, due to supply chain constraints around chassis and other component parts, we implemented temporary rolling shutdowns of certain facilities within our Work Truck Solutions Segment. We will continue to monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, suppliers and shareholders.

#### *Goodwill*

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

[Table of Contents](#)

*Overview*

The following table sets forth, for the three and nine months ended September 30, 2021 and 2020, 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, 2021 and 2020 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, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	(unaudited) (in thousands)		(unaudited) (in thousands)	
Net sales	\$ 127,636	\$ 133,761	\$ 388,508	\$ 321,994
Cost of sales	97,001	97,033	282,823	241,501
Gross profit	30,635	36,728	105,685	80,493
Selling, general, and administrative expense	17,607	16,428	59,488	47,435
Impairment charges	-	-	-	127,872
Intangibles amortization	2,642	2,737	8,052	8,214
Income (loss) from operations	10,386	17,563	38,145	(103,028)
Interest expense, net	(2,167)	(5,007)	(9,514)	(15,709)
Debt modification expense	-	(237)	-	(3,429)
Loss on extinguishment of debt	-	-	(4,936)	-
Other income (expense), net	15	145	123	(33)
Income (loss) before taxes	8,234	12,464	23,818	(122,199)
Income tax expense (benefit)	1,204	3,234	1,943	(17,484)
Net income (loss)	\$ 7,030	\$ 9,230	\$ 21,875	\$ (104,715)

[Table of Contents](#)

The following table sets forth for the three and nine months ended September 30, 2021 and 2020, the percentage of certain items in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), relative to net sales:

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
	(unaudited)		(unaudited)	
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	76.0 %	72.5 %	72.8 %	75.0 %
Gross profit	24.0 %	27.5 %	27.2 %	25.0 %
Selling, general, and administrative expense	13.8 %	12.3 %	15.3 %	14.7 %
Impairment charges	- %	- %	- %	39.7 %
Intangibles amortization	2.1 %	2.0 %	2.1 %	2.6 %
Income (loss) from operations	8.1 %	13.2 %	9.8 %	(32.0)%
Interest expense, net	(1.7)%	(3.7)%	(2.4)%	(4.9)%
Debt modification expense	- %	(0.2)%	- %	(1.1)%
Loss on extinguishment of debt	- %	- %	(1.7)%	- %
Other income (expense), net	- %	- %	- %	- %
Income (loss) before taxes	6.4 %	9.3 %	5.7 %	(38.0)%
Income tax expense (benefit)	0.9 %	2.4 %	0.5 %	(5.4)%
Net income (loss)	5.5 %	6.9 %	5.2 %	(32.6)%

*Net Sales*

Net sales were \$127.6 million for the three months ended September 30, 2021 compared to \$133.8 million in the three months ended September 30, 2020, a decrease of \$6.2 million, or 4.6%. The decrease in sales for the three months ended September 30, 2021 compared to the same period in 2020 is a result of chassis and component shortages leading to lower production and deliveries at Work Truck Solutions. In addition, volumes were relatively flat at Work Truck Attachments in the three months ended September 30, 2021 when compared to the same period in the prior year. Sales increased in the three month period as a result of pricing actions. Net sales were \$388.5 million for the nine months ended September 30, 2021 compared to \$322.0 million in the nine months ended September 30, 2020, an increase of \$66.5 million, or 20.7%. Sales increased for the nine months ended September 30, 2021 compared to the same period in the prior year due to pricing actions, improved snowfall levels for the snow season ended March 31, 2021 when compared to the prior year, as well as the release of pent-up demand after pandemic-related dealer conservatism in 2020. In addition, sales for the nine month period ended September 30, 2021 were higher when compared to the same period in the prior year due to the effect of reduced shipments in the prior year from our facilities being shut down as a result of the COVID-19 pandemic for several weeks throughout the first and second quarters of 2020. 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,	September 30,	September 30,	September 30,
	2021	2020	2021	2020
<b>Net sales</b>				
Work Truck Attachments	\$ 81,373	\$ 76,903	\$ 227,992	\$ 169,853
Work Truck Solutions	46,263	56,858	160,516	152,141
	<u>\$ 127,636</u>	<u>\$ 133,761</u>	<u>\$ 388,508</u>	<u>\$ 321,994</u>



[Table of Contents](#)

Net sales at our Work Truck Attachments segment were \$81.4 million for the three months ended September 30, 2021 compared to \$76.9 million in the three months ended September 30, 2020, an increase of \$4.5 million. Net sales at our Work Truck Attachments segment were \$228.0 million for the nine months ended September 30, 2021 compared to \$169.9 million in the nine months ended September 30, 2020, an increase of \$58.1 million. The increases in the three and nine months ended September 30, 2021 were primarily due to pricing actions, improved snowfall levels, as well as the deferral of sales from 2020 to 2021 due to pandemic-related dealer conservatism in the prior year. Snowfall in this most recent snow season ended March 2021 was approximately 7% below the ten-year average, compared to the prior snow season ended March 2020 which was approximately 25% below the ten-year average.

Net sales at our Work Truck Solutions segment were \$46.3 million for the three months ended September 30, 2021 compared to \$56.9 million in the three months ended September 30, 2020, a decrease of \$10.6 million. The decrease in sales for the three months ended September 30, 2021 compared to the same period in 2020 was a result of chassis and component shortages leading to lower production and deliveries. Net sales at our Work Truck Solutions segment were \$160.5 million for the nine months ended September 30, 2021 compared to \$152.1 million in the nine months ended September 30, 2020, an increase of \$8.4 million. Sales were higher for the nine months ended September 30, 2021 when compared to the same periods in the prior year due to overall higher volumes, somewhat offset by the chassis and component shortages noted above, as well as the effect of lower volumes in the prior year from the facilities shutdown associated with the COVID-19 pandemic leading to significantly reduced shipments in the first and second quarters of 2020.

*Cost of Sales*

Cost of sales was \$97.0 million for the three months ended September 30, 2021, which was flat compared to \$97.0 million for the three months ended September 30, 2020. Cost of sales was flat for the three-month period ended September 30, 2021 compared to the same period in the prior year despite a decrease in sales due to the timing of material and freight inflation. Cost of sales was \$282.8 million for the nine months ended September 30, 2021 compared to \$241.5 million for the nine months ended September 30, 2020, an increase of \$41.3 million, or 17.1%. The increase in Cost of sales for the nine-month period was driven by increased sales as discussed above under “—Net Sales”, somewhat offset by the material and freight inflation noted above. Cost of sales as a percentage of sales were 76.0% for the three-month period ended September 30, 2021 compared to 72.5% for the three-month period ended September 30, 2020. The increase in cost of sales as a percentage of sales for the three-month period is due to the lower volumes and inflation. Cost of sales as a percentage of sales were 72.8% for the nine-month period ended September 30, 2021 compared to 75.0% for the nine-month period ended September 30, 2020. The decrease in cost of sales as a percentage of sales for the nine month period is due to the higher sales volumes in the current year, as well as facility shutdown expenses related to COVID-19 in the prior year, slightly offset by inflation. Such shutdown expenses include the continuation of wages for employees who were not working during the shutdown, as well as an increase in fixed expenses and overhead, as these costs were not capitalized into inventory for the shutdown period.

*Gross Profit*

Gross profit was \$30.6 million for the three months ended September 30, 2021 compared to \$36.7 million for the three months ended September 30, 2020, a decrease of \$6.1 million, or 16.6%. Gross profit was \$105.7 million for the nine months ended September 30, 2021 compared to \$80.5 million for the nine months ended September 30, 2020, an increase of \$25.2 million, or 31.3%. 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 27.5% for the three months ended September 30, 2020 to 24.0% for the corresponding period in 2021. As a percentage of net sales, gross profit increased from 25.0% for the nine months ended September 30, 2020 to 27.2% for the corresponding period in 2021. 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 \$20.2 million for the three months ended September 30, 2021, compared to \$19.2 million for the three months ended September 30, 2020, an increase of \$1.0 million, or 5.2%. The increase in the three months ended September 30, 2021 is related to increased salaries and benefits, as well as discretionary spending as spending was significantly reduced in 2020 as a result of the COVID-19 pandemic. These increases were slightly offset by a decrease in incentive-based compensation as a result of the decrease in operating performance during the quarter. Selling, general and administrative expenses, including intangibles amortization, were \$67.5 million for the nine months ended September 30, 2021, compared to \$55.6 million for the nine months ended September 30, 2020, an increase of \$11.9 million, or 21.4%. The increase in the nine months ended September 30, 2021 is related to increased stock-based compensation of \$3.3 million. The increase for the nine-month period was also in part due to \$2.0 million of earnout valuation adjustments in the nine months ended September 30, 2020. In addition, the increase in the nine months ended September 30, 2021 is related to increased incentive-based compensation of \$1.9 million on the improved operating results. The remaining increases relate to employee salaries and benefits, as well as discretionary spending.

*Impairment Charges*

Impairment charges were \$127.9 million for the nine months ended September 30, 2020. There were no impairment charges in the same period in the current year. The impairment charges in 2020 relate to goodwill impairment taken on our Municipal and Dejana reporting units of \$47.8 and \$80.1 million, respectively. The impairment charges were the result of reduced 2020 performance and projected future performance stemming from the COVID-19 pandemic and chassis and other supply chain constraints. See Note 1 for additional information.

*Interest Expense*

Interest expense was \$2.2 million for the three months ended September 30, 2021, which was lower than the \$5.0 million incurred in the same period in the prior year. Interest expense was \$9.5 million for the nine months ended September 30, 2021, which was lower than the \$15.7 million incurred in the same period in the prior year. The decrease in interest expense for the three and nine months ended September 30, 2021 was due to a (\$0.2) million gain and a (\$1.0) million gain in non-cash mark-to-market and amortization adjustments on an interest rate swap not accounted for as a hedge in the three and nine months ended September 30, 2021, respectively, compared to a \$0.1 million and \$3.1 million loss in the three and nine months ended September 30, 2020, respectively. The decrease in interest expense in the three and nine months ended September 30, 2021 was also due to lower interest paid on our term loan of \$2.2 million and \$1.4 million, respectively due to the decrease in principal balance from the June 9, 2021 refinancing. See Note 9 for additional information. The remaining decreases in the three and nine months ended September 30, 2021 are due to lower interest on our floor plan financing agreement. See Note 5 for additional information.

*Debt Modification Expense*

Debt modification expense was \$0.2 million and \$3.4 million in the three and nine months ended September 30, 2020. The debt modification expense in 2020 related to fees incurred in conjunction with the Company's June 8, 2020 refinancing of its Term Loan and Revolving Credit Agreement.

*Loss on Extinguishment of Debt*

Loss on extinguishment of debt was \$0.0 million and \$4.9 million in the three and nine months ended September 30, 2021. The loss on extinguishment of debt in 2021 related to fees incurred in conjunction with the Company's June 9, 2021 refinancing of its Credit Agreement. The previous debt was considered extinguished, as all lenders on our previous term loan exited their positions in conjunction with changing from a Term Loan B to a Term Loan A arrangement.

### *Income Taxes*

The Company's effective tax rate was 14.6% and 26.0% for the three months ended September 30, 2021 and 2020, respectively. The Company's effective tax rate was 8.2% and 14.3% for the nine months ended September 30, 2021 and 2020, respectively. The effective tax rate for the three and nine months ended September 30, 2021 was lower than the Company's historical annual effective tax rate due to a discrete tax benefit of \$0.8 million and \$3.5 million related to favorable income tax audit results in states in which we file, respectively. The following items caused the effective tax rate for the nine months ended September 30, 2020 to be significantly different from the Company's historical annual effective tax rate:

- The Company recorded impairment of nondeductible goodwill related to the Municipal reporting unit. This decreased the rate by 8.2% for the nine months ended September 30, 2020.
- After an evaluation of recent profitability, future projections of profitability, and future deferred tax liabilities, the Company concluded that an additional valuation allowance of approximately \$1.7 million was necessary for certain state deferred tax assets. This decreased the rate by 0.3% for the nine months ended September 30, 2020.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The largest item affecting deferred taxes is the difference between book and tax amortization of goodwill and other intangibles amortization.

### *Net Income (Loss)*

Net income for the three months ended September 30, 2021 was \$7.0 million, compared to net income of \$9.2 million for the corresponding period in 2020, a decrease of \$2.2 million. Net income for the nine months ended September 30, 2021 was \$21.9 million, compared to a net loss of (\$104.7) million for the corresponding period in 2020, an increase of \$126.6 million. The change in net income for the three and nine months ended September 30, 2021 was driven by the factors described above under "— Net Sales," "— Cost of Sales," "— Selling, General and Administrative Expense," "— Impairment Charges," and "— Income Taxes." As a percentage of net sales, net income was 5.5% for the three months ended September 30, 2021 compared to 6.9% for the three months ended September 30, 2020. As a percentage of net sales, net income (loss) was 5.2% for the nine months ended September 30, 2021 compared to (32.6%) for the nine months ended September 30, 2020.

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

There have been no material changes, other than those described below, to our critical accounting policies previously disclosed in our Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies."

### **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

[Table of Contents](#)

circumstances. As a result of this dividend policy, we may not have significant cash available to meet any large unanticipated liquidity requirements. As a result, we may not retain a sufficient amount of cash to fund our operations or to finance unanticipated capital expenditures or growth opportunities, including acquisitions. Our Board of Directors may, however, amend, revoke or suspend our dividend policy at any time and for any reason.

As of September 30, 2021, we had \$69.4 million of total liquidity, comprised of \$7.3 million in cash and cash equivalents and \$62.1 million of borrowing availability under our revolving credit facility, compared with total liquidity as of December 31, 2020 of approximately \$140.1 million, comprised of approximately \$41.0 million in cash and cash equivalents and borrowing availability of approximately \$99.1 million under our revolving credit facility. The change in our total liquidity from December 31, 2020 is primarily due to the seasonality of our business. Prior to the entry into our new Credit Agreement on June 9, 2021, borrowing availability under our revolving credit facility was governed by a borrowing base, the calculation of which included cash on hand. Accordingly, use of cash on hand may have also resulted in a reduction in the amount available for borrowing under our revolving credit facility. We have taken various steps to preserve liquidity, including reducing discretionary spending and deferring payments where appropriate within existing contractual terms, while remaining committed to long-term growth projects. In consideration of the COVID-19 pandemic, we expect that cash on hand and cash we generate from operations, as well as available credit under our senior credit facilities, will provide adequate funds for the primary uses of cash we describe above for the foreseeable future. From time to time, we may seek additional funding through the issuance of debt or equity securities to provide additional liquidity to fund acquisitions aligned with our strategic priorities and for other general corporate purposes.

The following table shows our cash and cash equivalents and inventories in thousands at September 30, 2021, December 31, 2020 and September 30, 2020.

	As of		
	September 30, 2021	December 31, 2020	September 30, 2020
Cash and cash equivalents	\$ 7,340	\$ 41,030	\$ 14,285
Inventories	100,134	79,482	93,721

We had cash and cash equivalents of \$7.3 million at September 30, 2021 compared to cash and cash equivalents of \$41.0 million and \$14.3 million at December 31, 2020 and September 30, 2020, 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, 2021	September 30, 2020		
Net cash used in operating activities	\$ (19,481)	\$ (27,082)	\$ 7,601	(28.1)%
Net cash used in investing activities	(7,271)	(9,465)	2,194	(23.2)%
Net cash provided by (used in) financing activities	(6,938)	15,167	(22,105)	(145.7)%
Change in cash	<u>\$ (33,690)</u>	<u>\$ (21,380)</u>	<u>\$ (12,310)</u>	<u>(57.58)%</u>

Net cash used in operating activities decreased \$7.6 million from the nine months ended September 30, 2020 to the nine months ended September 30, 2021. The decrease in cash used by operating activities was due to a \$23.2 million increase in net income (loss) adjusted for reconciling items as a result of the higher net income in the nine months ended September 30, 2021 from more favorable operating results, slightly offset by unfavorable changes in working capital of \$15.6 million. The largest unfavorable change in working capital was an increase in accounts receivable, which is attributable to the increase in sales when compared to the prior year. In addition, there

was an unfavorable change in working capital related to inventories, due to the pulling forward of purchases in anticipation of inflationary price increases and supply chain disruptions.

Net cash used in investing activities decreased \$2.2 million for the nine months ended September 30, 2021 when compared to the corresponding period in 2020 due to a decrease in capital expenditures.

Net cash used in financing activities increased \$22.1 million for the nine months ended September 30, 2021 as compared to the corresponding period in 2020. The increase was primarily a result of our debt refinancing that occurred on June 9, 2021 where we borrowed \$225.0 million, compared to our debt refinancing on June 8, 2020, where we borrowed \$275.0 million. This increase in cash used was slightly offset by having \$37.0 million in revolver borrowings outstanding at September 30, 2021 compared to \$12.0 million in revolver borrowings outstanding at September 31, 2020. See Note 9 for additional information.

#### *Free Cash Flow*

Free cash flow for the three months ended September 30, 2021 was (\$35.3) million compared to (\$25.5) million in the corresponding period in 2020, a decrease of \$9.8 million. Free cash flow for the nine months ended September 30, 2021 was \$(26.7) million compared to (\$36.5) million in the corresponding period in 2020, an increase of \$9.8 million. The increase in free cash flow for the nine months ended September 30, 2021 is primarily a result of lower cash used in operating activities of \$7.6 million and lower cash used in investing activities of \$2.2 million, as discussed above under “Liquidity and Capital Resources.”

#### *Non-GAAP Financial Measures*

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

These non-GAAP measures include:

- Free cash flow; and
- Adjusted EBITDA; and
- Adjusted net income (loss) and earnings (loss) per share.

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

Free cash flow is a non-GAAP financial measure which we define as net cash provided by (used in) operating activities less capital expenditures. Free cash flow should be evaluated in addition to, and not considered a substitute for, other financial measures such as net income (loss) 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.

[Table of Contents](#)

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, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	(In Thousands)		(In Thousands)	
Net cash provided by (used in) operations	\$ (32,622)	\$ (21,058)	\$ (19,481)	\$ (27,082)
Acquisition of property and equipment	(2,685)	(4,417)	(7,271)	(9,465)
Free cash flow	<u>\$ (35,307)</u>	<u>\$ (25,475)</u>	<u>\$ (26,752)</u>	<u>\$ (36,547)</u>

Adjusted EBITDA represents net income (loss) before interest, taxes, depreciation and amortization, as further adjusted for certain charges consisting of unrelated legal and consulting fees, stock-based compensation, certain non-cash purchase accounting expenses, impairment charges, expenses related to debt modifications, loss on extinguishment of debt, and incremental costs incurred related to the COVID-19 pandemic. Such COVID-19 related costs include increased expenses directly related to the pandemic, and do not include either production related overhead inefficiencies or lost or deferred sales. We believe these costs are out of the ordinary, unrelated to our business and not representative of our results. We use, and we believe our investors benefit from the presentation of, Adjusted EBITDA in evaluating our operating performance because it provides us and our investors with additional tools to compare our operating performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our core operations. In addition, we believe that Adjusted EBITDA is useful to investors and other external users of our consolidated financial statements in evaluating our operating performance as compared to that of other companies, because it allows them to measure a company's operating performance without regard to items such as interest expense, taxes, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets and liabilities, capital structure and the method by which assets were acquired. Our management also uses Adjusted EBITDA for planning purposes, including the preparation of our annual operating budget and financial projections. Management also uses Adjusted EBITDA to evaluate our ability to make certain payments, including dividends, in compliance with our senior credit facilities, which is determined based on a calculation of "Consolidated Adjusted EBITDA" that is substantially similar to Adjusted EBITDA.

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

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

[Table of Contents](#)

The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to Adjusted EBITDA as well as the resulting calculation of Adjusted EBITDA for the three and nine months ended September 30, 2021 and 2020:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2021</b>	<b>September 30, 2020</b>	<b>September 30, 2021</b>	<b>September 30, 2020</b>
	<i>(in thousands)</i>		<i>(in thousands)</i>	
<b>Net income (loss)</b>	\$ 7,030	\$ 9,230	\$ 21,875	\$ (104,715)
Interest expense, net	2,167	5,007	9,514	15,709
Income tax expense (benefit)	1,204	3,234	1,943	(17,484)
Depreciation expense	2,380	2,170	7,183	6,490
Amortization	2,642	2,737	8,052	8,214
<b>EBITDA</b>	<b>15,423</b>	<b>22,378</b>	<b>48,567</b>	<b>(91,786)</b>
Stock-based compensation expense	5	199	6,025	2,768
Impairment charges	-	-	-	127,872
Debt modification expense	-	237	-	3,429
Loss on extinguishment of debt	-	-	4,936	-
COVID-19 (1)	12	157	67	1,322
Purchase accounting (2)	-	-	-	(2,017)
Other charges (3)	50	101	44	101
<b>Adjusted EBITDA</b>	<b>\$ 15,490</b>	<b>\$ 23,072</b>	<b>\$ 59,639</b>	<b>\$ 41,689</b>

- (1) Reflects incremental costs incurred related to the COVID-19 pandemic for the periods presented. Such COVID-19 related costs include increased expenses directly related to the pandemic, and do not include either production related overhead inefficiencies or lost or deferred sales.
- (2) Reflects \$2,000 reversal of earn-out compensation acquired in conjunction with the acquisition of Dejana in the periods presented. Reflects \$17 reversal of earn-out compensation in conjunction with the acquisition of Henderson in the periods presented.
- (3) Reflects unrelated legal, severance and consulting fees for the periods presented.

The following table presents Adjusted EBITDA by segment for the three and months ended June 30, 2021 and 2020.

	<b>Three Months Ended</b>		<b>Three Months Ended</b>		<b>Nine Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2021</b>		<b>September 30, 2020</b>		<b>September 30, 2021</b>		<b>September 30, 2020</b>	
<b>Adjusted EBITDA</b>								
Work Truck Attachments	\$ 14,790	\$ 14,790	\$ 20,155	\$ 20,155	\$ 55,206	\$ 55,206	\$ 38,527	\$ 38,527
Work Truck Solutions	700	700	2,917	2,917	4,433	4,433	3,162	3,162
	<b>\$ 15,490</b>	<b>\$ 15,490</b>	<b>\$ 23,072</b>	<b>\$ 23,072</b>	<b>\$ 59,639</b>	<b>\$ 59,639</b>	<b>\$ 41,689</b>	<b>\$ 41,689</b>

Adjusted EBITDA at our Work Truck Attachments segment was \$14.8 million for the three months ended September 30, 2021 compared to \$20.2 million in the three months ended September 30, 2020, a decrease of \$5.4 million. The change in the three months ended September 30, 2021 from the corresponding period in 2020 is primarily due to material and freight inflation and the timing of price increases. Adjusted EBITDA at our Work Truck Attachments segment was \$55.2 million for the nine months ended September 30, 2021 compared to \$38.5 million in the nine months ended September 30, 2020, an increase of \$16.7 million. The change in the nine months ended September 30, 2021 from the corresponding period in 2020 is primarily due to pricing actions and higher

[Table of Contents](#)

volumes, somewhat offset by the material and freight inflation noted above. In addition, Adjusted EBITDA for the nine months ended September 30, 2020 was lower due to additional costs and inefficiencies related to the COVID-19 pandemic.

Adjusted EBITDA at our Work Truck Solutions segment was \$0.7 million for the three months ended September 30, 2021 compared to \$2.9 million in the three months ended September 30, 2020, a decrease of \$2.2 million. The change in the three months ended September 30, 2021 is primarily due to lower volumes as a result of chassis and component shortages affecting production and deliveries. Adjusted EBITDA at our Work Truck Solutions segment was \$4.4 million for the nine months ended September 30, 2021 compared to \$3.2 million in the nine months ended September 30, 2020, an increase of \$1.2 million. The change in the nine months ended September 30, 2021 is primarily due to overall higher volumes. In addition, Adjusted EBITDA for the nine months ended September 30, 2020 was lower due to additional costs and inefficiencies related to the COVID-19 pandemic.

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



[Table of Contents](#)

The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to Adjusted net income (loss) as well as a reconciliation of diluted earnings (loss) per share, the most comparable GAAP financial measure, to Adjusted diluted earnings (loss) per share for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Net income (loss) (GAAP)	\$ 7,030	\$ 9,230	\$ 21,875	\$ (104,715)
Adjustments:				
- Stock-based compensation	5	199	6,025	2,768
- Impairment charges	-	-	-	127,872
- Debt modification expense	-	237	-	3,429
- Loss on extinguishment of debt	-	-	4,936	-
- COVID-19 (1)	12	157	67	1,322
- Purchase accounting (2)	-	-	-	(2,017)
- Adjustments on derivative not classified as hedge (3)	(171)	76	(1,020)	3,133
- Other charges (4)	50	101	44	101
Tax effect on adjustments	26	(192)	(2,513)	(22,202)
Adjusted net income (loss) (non-GAAP)	\$ 6,952	\$ 9,808	\$ 29,414	\$ 9,691
Weighted average common shares outstanding assuming dilution	22,992,793	22,878,002	22,960,334	22,866,909
Adjusted earnings (loss) per common share - dilutive	\$ 0.29	\$ 0.42	\$ 1.24	\$ 0.41
GAAP diluted earnings (loss) per share	\$ 0.30	\$ 0.39	\$ 0.92	\$ (4.60)
Adjustments net of income taxes:				
- Stock-based compensation	-	0.01	0.20	0.09
- Impairment charges	-	-	-	4.72
- Debt modification expense	-	0.01	-	0.11
- Loss on extinguishment of debt	-	-	0.16	-
- COVID-19 (1)	-	0.01	-	0.05
- Purchase accounting (2)	-	-	-	(0.07)
- Adjustments on derivative not classified as hedge (3)	(0.01)	-	(0.04)	0.11
- Other charges (4)	-	-	-	-
Adjusted diluted earnings (loss) per share (non-GAAP)	\$ 0.29	\$ 0.42	\$ 1.24	\$ 0.41

- (1) Reflects incremental costs incurred related to the COVID-19 pandemic for the periods presented. Such COVID-19 related costs include increased expenses directly related to the pandemic, and do not include either production related overhead inefficiencies or lost or deferred sales.
- (2) Reflects \$2,000 reversal of earn-out compensation acquired in conjunction with the acquisition of Dejana in the periods presented. Reflects \$17 reversal of earn-out compensation in conjunction with the acquisition of Henderson in the periods presented.
- (3) Reflects mark-to-market and amortization adjustments on an interest rate swap not classified as a hedge for the periods presented.
- (4) Reflects unrelated legal, severance and consulting fees for the periods presented.

### **Contractual Obligations**

There have been no material changes to our contractual obligations in the three months ended September 30, 2021.

### **Off-Balance Sheet Arrangements**

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

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

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

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

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

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

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

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

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

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

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

We do not use financial instruments for speculative trading purposes, and do not hold any derivative financial instruments that could expose us to significant market risk. Other than the broad effects of the COVID-19 pandemic and its negative impact on the global economy and major financial markets, our primary market risk exposures are changes in interest rates and steel price fluctuations.

#### **Interest Rate Risk**

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

As of September 30, 2021, we had outstanding borrowings under our term loan of \$221.6 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, 2021 by \$0.1 million, \$0.2 million, and \$0.2 million, respectively.

The Company is party to an interest rate swap agreement 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 loss. The amortization from Accumulated other comprehensive income into earnings from the previous dedesignation has been adjusted as of June 9, 2021 to include the de-recognition of previously recognized mark-to-market gains and the amortization of the off-market component as of the re-designation date, and will

continue to be recognized through the life of the swap. See Note 9 to our Unaudited Condensed Consolidated Financial Statements for additional details on our interest rate swap agreement.

As of September 30, 2021, we had \$37.0 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, 2021 by \$0.0 million, \$0.0 million, and \$0.0 million, respectively.

#### **Commodity Price Risk**

In the normal course of business, we are exposed to market risk related to our purchase of steel, the primary commodity upon which our manufacturing depends. Our steel purchases as a percentage of revenue were 12.2% and 11.4% for the three and nine months ended September 30, 2021 compared to 8.9% and 9.9% for the three and nine months ended September 30, 2020. Steel costs increased in 2021 when compared to 2020 and historical levels due to the worldwide raw material shortage stemming from the COVID-19 pandemic. While steel is typically available from numerous suppliers, the price of steel is a commodity subject to fluctuations that apply across broad spectrums of the steel market. We do not use any derivative or hedging instruments to manage steel price risk. If the price of steel increases, our variable costs could also increase. While historically we have successfully mitigated these increased costs through the implementation of either permanent price increases and/or temporary invoice surcharges, in the future we may not be able to successfully mitigate these costs, which could cause our gross margins to decline. If our costs for steel were to increase by \$1.00 in a period where we are not able to pass any of this increase onto our distributors, our gross margins would decline by \$1.00 in the period in which such inventory was sold.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

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

##### **Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **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, 2020.

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

**Unregistered Sales of Equity Securities**

During the three months ended September 30, 2021, the Company did not sell any securities that were not registered under the Securities Act of 1933, as amended.

**Purchase of Equity Securities**

During the three months ended September 30, 2021, the Company did not purchase any of its equity securities.

**Dividend Payment Restrictions**

The Company's senior credit facilities include certain restrictions on its ability to pay dividends. The senior credit facilities also restrict the Company's subsidiaries from paying dividends and otherwise transferring assets to Douglas Dynamics, Inc. For additional detail regarding these restrictions, see Note 9 to the Unaudited Consolidated Financial Statements.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

[Table of Contents](#)

**Item 6. Exhibits**

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

<u>Exhibit Numbers</u>	<u>Description</u>
31.1*	<a href="#">Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1*	<a href="#">Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101*	The following financial statements from the quarterly report on Form 10-Q of Douglas Dynamics, Inc. for the quarter ended September 30, 2021, filed on November 2, 2021, formatted in inline XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss); (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Shareholders' Equity; and (v) the Notes to the Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).

\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**DOUGLAS DYNAMICS, INC.**

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

Dated: November 2, 2021

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: November 2, 2021

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Section 302 Certification

I, Sarah Lauber, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Douglas Dynamics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Dated: November 2, 2021

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

In connection with the Quarterly Report of Douglas Dynamics, Inc., or the Company, on Form 10-Q for the fiscal quarter ended September 30, 2021 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: November 2, 2021

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

Dated: November 2, 2021

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

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