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, 2020

OR

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

For the transition period from to .

Commission file number: 001-34728

DOUGLAS DYNAMICS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**13-4275891** (I.R.S. Employer Identification No.)

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

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

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

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

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

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

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

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

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

Number of shares of registrant's common shares outstanding as of November 2, 2020 was 22,857,457.

DOUGLAS DYNAMICS, INC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 30, 2020 (unaudited)	December 31, 2019 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 14,285	$ 35,665
Accounts receivable, net	123,192	87,871
Inventories	93,721	77,942
Inventories - truck chassis floor plan	11,306	6,539
Refundable income taxes paid	1,441	-
Prepaid and other current assets	4,739	3,511
Total current assets	248,684	211,528
Property, plant, and equipment, net	62,169	58,444
Goodwill	113,134	241,006
Other intangible assets, net	155,508	163,722
Operating lease - right of use asset	22,458	22,557
Other long-term assets	9,311	8,438
Total assets	$ 611,264	$ 705,695
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 20,068	$ 16,113
Accrued expenses and other current liabilities	28,670	26,496
Floor plan obligations	11,028	6,539
Operating lease liability - current	4,297	3,822
Income taxes payable	-	2,990
Short term borrowings	12,000	-
Current portion of long-term debt	1,972	22,143
Total current liabilities	78,035	78,103
Retiree health benefit obligation	6,654	6,338
Deferred income taxes	28,655	47,211
Long-term debt, less current portion	265,920	222,081
Operating lease liability - noncurrent	18,466	18,981
Other long-term liabilities	25,681	19,818
Stockholders’ equity:		
Common Stock, par value $0.01, 200,000,000 shares authorized, 22,857,457 and 22,795,412 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	229	228
Additional paid-in capital	157,696	155,001
Retained earnings	36,065	160,748
Accumulated other comprehensive loss, net of tax	(6,137)	(2,814)
Total stockholders’ equity	187,853	313,163
Total liabilities and stockholders’ equity	$ 611,264	$ 705,695

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 September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(unaudited)		(unaudited)	
Net sales	$ 133,761	$ 141,869	$ 321,994	$ 411,412
Cost of sales	97,033	101,930	241,501	288,934
Gross profit	36,728	39,939	80,493	122,478
Selling, general, and administrative expense	16,428	17,269	47,435	52,680
Impairment charges	-	-	127,872	-
Intangibles amortization	2,737	2,737	8,214	8,217
Income (loss) from operations	17,563	19,933	(103,028)	61,581
Interest expense, net	(5,007)	(4,271)	(15,709)	(12,610)
Debt modification expense	(237)	-	(3,429)	-
Other income (expense), net	145	(120)	(33)	(416)
Income (loss) before taxes	12,464	15,542	(122,199)	48,555
Income tax expense (benefit)	3,234	3,113	(17,484)	10,949
Net income (loss)	$ 9,230	$ 12,429	$ (104,715)	$ 37,606
Weighted average number of common shares outstanding:				
Basic	22,857,457	22,795,412	22,842,777	22,773,546
Diluted	22,878,002	22,832,170	22,842,777	22,808,722
Earnings (loss) per common share:				
Basic	$ 0.40	$ 0.54	$ (4.60)	$ 1.63
Diluted	$ 0.39	$ 0.53	$ (4.60)	$ 1.61
Cash dividends declared and paid per share	$ 0.28	$ 0.27	$ 0.84	$ 0.82
Comprehensive income (loss)	$ 9,719	$ 11,361	$ (108,038)	$ 33,116

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, 2020	Nine Months Ended September 30, 2019
	(unaudited)	
Operating activities		
Net income (loss)	$ (104,715)	$ 37,606
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	14,704	14,335
Amortization of deferred financing costs and debt discount	914	910
Debt modification expense	267	-
Stock-based compensation	2,768	3,061
Adjustments on derivatives not classified as hedges	3,133	-
Provision for losses on accounts receivable	778	988
Deferred income taxes	(18,556)	442
Impairment charges	127,872	-
Earnout liability	(2,017)	(217)
Changes in operating assets and liabilities:		
Accounts receivable	(36,656)	(72,734)
Inventories	(16,057)	(8,410)
Prepaid assets, refundable income taxes and other assets	(3,542)	(2,450)
Accounts payable	3,205	(1,594)
Accrued expenses and other current liabilities	(962)	4,418
Benefit obligations and other long-term liabilities	1,782	2,476
Net cash used in operating activities	(27,082)	(21,169)
Investing activities		
Capital expenditures	(9,465)	(7,801)
Net cash used in investing activities	(9,465)	(7,801)
Financing activities		
Shares withheld on restricted stock vesting paid for employees' taxes	(72)	(50)
Payments of financing costs	(992)	-
Dividends paid	(19,411)	(18,879)
Net revolver borrowings	12,000	57,000
Borrowings on long-term debt	270,875	-
Repayment of long-term debt	(247,233)	(32,051)
Net cash provided by financing activities	15,167	6,020
Change in cash and cash equivalents	(21,380)	(22,950)
Cash and cash equivalents at beginning of period	35,665	27,820
Cash and cash equivalents at end of period	$ 14,285	$ 4,870
Non-cash operating and financing activities		
Truck chassis inventory acquired through floorplan obligations	$ 27,691	$ 40,974

See the accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional	Retained	Accumulated Other	
	Shares	Dollars	Paid-in Capital	Earnings	Comprehensive Loss	Total
Three Months Ended September 30, 2020						
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 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	22,857,457	$ 229	$ 157,696	$ 36,065	$ (6,137)	$ 187,853
Nine Months Ended September 30, 2020						
Balance at December 31, 2019	22,795,412	$ 228	$ 155,001	$ 160,748	$ (2,814)	$ 313,163
Net income (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	22,857,457	$ 229	$ 157,696	$ 36,065	$ (6,137)	$ 187,853
Three Months Ended September 30, 2019						
Balance at June 30, 2019	22,795,412	$ 228	$ 154,298	$ 149,372	$ (9,470)	$ 294,428
Net income	—	—	—	12,429	—	12,429
Dividends paid	—	—	—	(6,309)	—	(6,309)
Adjustment for pension and postretirement benefit liability, net of tax of ($18)	—	—	—	—	53	53
Adjustment for interest rate swap, net of tax of $394	—	—	—	—	(1,122)	(1,122)
Shares withheld on restricted stock vesting	—	—	—	—	—	-
Stock based compensation	—	—	525	—	—	525
Balance at September 30, 2019	22,795,412	$ 228	$ 154,823	$ 155,492	$ (10,539)	$ 300,004
Nine Months Ended September 30, 2019						
Balance at December 31, 2018	22,700,991	$ 227	$ 151,813	$ 136,765	$ (6,049)	$ 282,756
Net income	—	—	—	37,606	—	37,606
Dividends paid	—	—	—	(18,879)	—	(18,879)
Adjustment for pension and postretirement benefit liability, net of tax of ($54)	—	—	—	—	159	159
Adjustment for interest rate swap, net of tax of $1,634	—	—	—	—	(4,649)	(4,649)
Shares withheld on restricted stock vesting	—	—	(50)	—	—	(50)
Stock based compensation	94,421	1	3,060	—	—	3,061
Balance at September 30, 2019	22,795,412	$ 228	$ 154,823	$ 155,492	$ (10,539)	$ 300,004

See the accompanying notes to condensed consolidated financial statements.

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

1. Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for fiscal year-end financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the financial statements and related footnotes included in our 2019 Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission on February 25, 2020.

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

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

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

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

Interim Condensed Consolidated Financial Information

The accompanying Condensed Consolidated Balance Sheet as of September 30, 2020, 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, 2020 and 2019, and the Condensed Cash Flows for the nine months ended September 30, 2020 and 2019 have been prepared by the Company and have not been audited.

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

As a result of the COVID-19 pandemic, including the market volatility and other economic implications associated with the crisis and the economic and regulatory measures enacted to contain its spread, the Company's results of operations have been impacted in the three and nine months ended September 30, 2020, and may be significantly impacted in future quarters. In addition, the Company's working capital and liquidity needs may become more unpredictable as a result of changes in order patterns among customers due to the pandemic. Based on the COVID-19 pandemic, the results of operations of the Company for any quarter during the crisis may not be indicative of results of operations that may be achieved for a subsequent quarter or the full year, and may not be similar to results of operations experienced in prior years.

The Company preventatively and voluntarily closed its facilities on March 18, 2020. The Company slowly ramped up production and returned to full production during the second quarter and remained fully operational in the third quarter. The Company has taken what it believes to be the appropriate and necessary safety steps and precautions as employees have returned to work.

During the nine months ended September 30, 2020, the Company benefited from credits related to the passage of the CARES Act on March 27, 2020 in response to the COVID-19 pandemic. Under the CARES Act, the Company qualified for an Employee Retention Credit for wages paid to employees who were not working due to a plant shutdown related to the COVID-19 pandemic. As a result of the CARES Act, the Company recorded a total benefit of $ 1,152 for the 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. Annual impairment tests conducted by the Company on December 31, 2019 resulted in no adjustment to the carrying value of goodwill. During the quarter ended June 30, 2020, the Company identified a triggering event as there has been a significant decline in the business climate and in results of operations as a result of uncertainty related to the COVID-19 pandemic and chassis availability constraints. Given these indicators, the Company determined that there was a higher degree of uncertainty in achieving its financial projections. Therefore, the Company performed an impairment test as of June 30, 2020 for each of its reporting units.

The Work Truck Attachments segment consists of one reporting unit: Commercial. The impairment test performed as of June 30, 2020 indicated no impairment for the Commercial reporting unit. The Work Truck Solutions consists oftwo 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).

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses," which modifies the measurement of expected credit losses for financial instruments held at the reporting date. The standard is effective for annual periods beginning after December 15, 2019. The Company adopted this standard in the first quarter of fiscal 2020. Upon adoption, the Company recognized the cumulative effect of adopting this guidance as an adjustment to the opening balance of retained earnings of $557, net of tax. The Company has identified and implemented changes to processes and controls to meet the standard's updated reporting and disclosure requirements. See Note 3 for additional information.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform," which provides optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The Company adopted this standard in the first quarter of fiscal 2020 specifically related to its interest rate swap, where the Company asserts the forecasted transaction using the existing reference rate associated with the swap remains probable. See Note 9 for additional information.

2. Revenue Recognition

Revenue Streams

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

Work Truck Attachments

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

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

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

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

Work Truck Solutions

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

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

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

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

Fleet Upfit Sales – The Company enters into contracts with certain fleet customers. Fleet agreements create enforceable rights without the issuance of a purchase order. Typically, these agreements outline the terms of sale, payment terms, standard pricing, and the rights of the customer and seller. Fleet sales are performed on both customer owned vehicles as well as non-customer owned vehicles. For non-customer owned vehicles, revenue is recognized at a point in time upon delivery of the truck to the customer. For customer-owned vehicles, per Topic 606, revenue is recognized over time based on a cost input method. The Company accumulates costs incurred on partially completed customer-owned upfits based on estimated margin and completion. The Company books an adjustment to account for revenue over time related to customer owned vehicles, which decreased revenue by $216 and increased revenue by $839 for the three months ended September 30, 2020 and 2019, respectively. The adjustment decreased revenue by $406 and increased revenue by $983 for the nine months ended September 30, 2020 and 2019, respectively.

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

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

Disaggregation of Revenue

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

Revenue by customer type was as follows:

Three Months Ended September 30, 2020	Work Truck Attachments	Work Truck Solutions	Total Revenue
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

Three Months Ended September 30, 2019	Work Truck Attachments	Work Truck Solutions	Total Revenue
Independent dealer	$ 75,632	$ 29,007	$ 104,639
Government	-	18,373	18,373
Fleet	-	16,775	16,775
Other	-	2,082	2,082
Total revenue	$ 75,632	$ 66,237	$ 141,869

Nine Months Ended September 30, 2020	Work Truck Attachments	Work Truck Solutions	Total Revenue
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

Nine Months Ended September 30, 2019	Work Truck Attachments	Work Truck Solutions	Total Revenue
Independent dealer	$ 213,693	$ 91,199	$ 304,892
Government	-	49,985	49,985
Fleet	-	48,292	48,292
Other	-	8,243	8,243
Total revenue	$ 213,693	$ 197,719	$ 411,412

Revenue by timing of revenue recognition was as follows:

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

Three Months Ended September 30, 2019	Work Truck Attachments	Work Truck Solutions	Total Revenue
Point in time	$ 75,632	$ 41,099	$ 116,731
Over time	-	25,138	25,138
Total revenue	$ 75,632	$ 66,237	$ 141,869

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

Nine Months Ended September 30, 2019	Work Truck Attachments	Work Truck Solutions	Total Revenue
Point in time	$ 213,693	$ 120,577	$ 334,270
Over time	-	77,142	77,142
Total revenue	$ 213,693	$ 197,719	$ 411,412

Contract Balances

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

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

Three Months Ended September 30, 2019	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Contract liabilities	$ 6,886	$ 3,328	$ (6,147)	$ 4,067

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

Nine Months Ended September 30, 2019	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Contract liabilities	$ 2,006	$ 13,479	$ (11,418)	$ 4,067

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 not yet invoiced. There were no contract assets as of September 30, 2020 or 2019. Contract liabilities include payments received in advance of performance under the contract, variable freight allowances which are refunded to the customer, and rebates paid to distributors under our municipal rebate program, and are realized with the associated revenue recognized under the contract.

The Company recognized revenue of $773 and $721 during the three months ended September 30, 2020 and 2019, respectively, which was included in contract liabilities at the beginning of each period. The Company recognized revenue of $2,187 and $2,006 during the nine months ended September 30, 2020 and 2019, respectively, which was included in contract liabilities at the beginning of each period.

3. Credit Losses

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

The majority of the Company's accounts receivable are due from distributors of truck equipment and dealers of completed upfit trucks. Credit is extended based on an evaluation of a customer's financial condition. A receivable is considered past due if payments have not been received within agreed upon invoice terms. Accounts receivable are written off after all collection efforts have been exhausted. The Company takes a security interest in the inventory as collateral for the receivable but often does not have a priority security interest. The Company has short-term accounts receivable at its Work Truck Attachments and Work Truck Solutions segments subject to evaluation for expected credit losses. Expected credit losses are estimated based on the loss-rate and probability of default methods. On a periodic basis, the Company evaluates its accounts receivable and establishes the allowance for credit losses based on specific customer circumstances, past events including collections and write-off history, current conditions, and reasonable forecasts about the future. Management evaluated the need for an additional allowance for credit losses related to economic conditions arising from the COVID-19 pandemic. Management has not seen indications of customers going out of business and not being able to pay their bills (although the receivables may become more aged). Management believes customers of the Work Truck Attachments segment have long-standing relationships with the Company, and are mature dealers that are likely able to weather the crisis. Many Work Truck Solutions customers are governments and municipal entities who management believes are highly unlikely to default. In addition management believes Work Truck Solutions has long-standing relationships with its customers, and the customers are in general mature dealers that are unlikely to default as a result of the pandemic. Therefore, as of September 30, 2020, no additional reserve related to the COVID-19 pandemic was deemed necessary. As of September 30, 2020, the Company had an allowance for credit losses on its trade accounts receivable of $1,355 and $1,600 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, 2020:

	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	$ 43	$ 1,355
Work Truck Solutions	887	350	478	55	(170)	1,600
Total	$ 1,487	$ 750	$ 778	$ 67	$ (127)	$ 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).

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, 2020	Fair Value at December 31, 2019
Assets:		
Other long-term assets (a)	$ 8,152	$ 7,270
Total Assets	$ 8,152	$ 7,270
Liabilities:		
Interest rate swaps (b)	$ 14,099	$ 6,736
Long-term debt (c)	267,187	247,630
Earnout - Dejana (d)	-	2,000
Total Liabilities	$ 281,286	$ 256,383

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

(b) Valuation models are calibrated to initial trade price. Subsequent valuations are based on observable inputs to the valuation model (e.g. interest rates and credit spreads). Model inputs are changed only when corroborated by market data. A credit risk adjustment is made on each swap using observable market credit spreads. Thus, inputs used to determine fair value of the interest rate swap are Level 2 inputs. Interest rate swaps of $4,064 and $10,035 at September 30, 2020 are included in Accrued expenses and other current liabilities and Other long-term liabilities, respectively. Interest rate swaps of $1,522 and $5,214 at December 31, 2019 are included in Accrued expenses and other current liabilities and Other long-term liabilities, respectively.

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

(d) Due to the remote probability of attaining targets related to the obligation for a portion of the potential earnout incurred in conjunction with the acquisition of substantially all of the assets of Dejana Truck & Utility Equipment Company, Inc. and certain entities directly or indirectly owned by the Peter Paul Dejana Family Trust dated 12/31/98 ("Dejana"), the earnout obligation was reduced to $0 during the nine months ended September 30, 2020, which is the fair value of an obligation for a portion of the potential earnout incurred in conjunction with the acquisition of substantially all of the assets of Dejana Truck & Utility Equipment Company, Inc. and certain entities directly or indirectly owned by Dejana. Included in Other long-term liabilities in the amount of $2,200 at September 30, 2019 is the fair value of an obligation for a portion of the potential earnout incurred in conjunction with the acquisition of Dejana. Fair value is based upon Level 3 inputs of a real options approach where gross sales were simulated in a risk-neutral framework using Geometric Brownian Motion, a well-accepted model of stock price behavior that is used in option pricing models such as the Black-Scholes option pricing model, using key inputs of forecasted future sales and financial performance as well as a risk adjusted expected growth rate adjusted appropriately based on its correlation with the market. There were no adjustments to fair value or payments to former owners in either the three or nine months ended September 30, 2020 or September 30, 2019, other than the write off of the remaining balance of the earnout obligation.

5. Inventories

Inventories consist of the following:

	September 30, 2020	December 31, 2019
Finished goods	$ 47,858	$ 42,125
Work-in-process	8,162	6,906
Raw material and supplies	37,701	28,911
	$ 93,721	$ 77,942

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, 2020 and December 31, 2019, the Company had $11,306 and $6,539, respectively, of chassis inventory and $11,028 and $6,539 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:

	September 30, 2020	December 31, 2019
Land	$ 2,378	$ 2,378
Land improvements	4,684	4,541
Leasehold improvements	4,087	4,087
Buildings	29,300	28,715
Machinery and equipment	58,253	55,238
Furniture and fixtures	18,783	17,918
Mobile equipment and other	5,192	5,285
Construction-in-process	11,685	6,555
Total property, plant and equipment	134,362	124,717
Less accumulated depreciation	(72,193)	(66,273)
Net property, plant and equipment	$ 62,169	$ 58,444

7. Leases

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

Lease Expense

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

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease expense	$ 1,364	$ 3,972	$ 1,286	$ 3,562
Short term lease cost	$ 141	$ 286	$ 121	$ 317
Total lease cost	$ 1,505	$ 4,258	$ 1,407	$ 3,879

Cash Flow

Supplemental cash flow information related to leases is as follows:

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	$ 3,911	$ 3,392
Non-cash lease expense - right-of-use assets	$ 3,095	$ 2,679
Right-of-use assets obtained in exchange for operating lease obligations	$ 3,796	$ 3,525

Balance Sheet

Supplemental balance sheet information related to leases is as follows:

	September 30, 2020	December 31, 2019
Operating Leases		
Operating lease right-of-use assets	$ 22,458	$ 22,557
Other current liabilities	4,297	3,822
Operating lease liabilities	18,466	18,981
Total operating lease liabilities	$ 22,763	$ 22,803
Weighted Average Remaining Lease Term		
Operating leases	69 months	78 months
Weighted Average Discount Rate		
Operating leases	5.16%	5.32%

Lease Maturities

Maturities of leases were as follows:

Year ending December 31,	Operating Leases
2020 (excluding the nine months ended September 30, 2020)	$ 1,353
2021	5,271
2022	4,916
2023	4,360
2024	3,742
Thereafter	6,578
Total Lease Payments	26,220
Less: imputed interest	(3,457)
Total	$ 22,763

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, 2020			
Indefinite-lived intangibles:			
Trademark and tradenames	$ 77,600	$ -	$ 77,600
Amortizable intangibles:			
Dealer network	80,000	66,000	14,000
Customer relationships	80,920	25,891	55,029
Patents	21,136	14,170	6,966
Noncompete agreements	8,640	8,402	238
Trademarks	5,459	3,784	1,675
Amortizable intangibles, net	196,155	118,247	77,908
Total	$ 273,755	$ 118,247	$ 155,508

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

Amortization expense for intangible assets was $2,737 and $2,737 for the three months ended September 30, 2020 and 2019, respectively. Amortization expense for intangible assets was $ 8,214 and $8,217 for the nine months ended September 30, 2020 and 2019, respectively. Estimated amortization expense for the remainder of 2020 and each of the succeeding five years is as follows:

2020	$ 2,733
2021	10,670
2022	10,520
2023	10,520
2024	7,520
2025	6,075

9. Long-Term Debt

Long-term debt is summarized below:

	September 30, 2020	December 31, 2019
Term Loan, net of debt discount of $4,427 and $781 at September 30, 2020 and December 31, 2019, respectively	$ 269,886	$ 245,787
Less current maturities	1,972	22,143
Long-term debt before deferred financing costs	267,914	223,644
Deferred financing costs, net	1,994	1,563
Long-term debt, net	$ 265,920	$ 222,081

On June 8, 2020, the Company amended and restated its senior credit facilities. Following the changes, the Company's senior credit facilities consist of a $275,000 term loan facility (the "Term Loan Credit Agreement") and a $100,000 revolving credit facility (the "Revolving Credit Agreement") with a group of banks, of which $10,000 will be available in the form of letters of credit and $10,000 will be available for the issuance of short-term swingline loans. The Term Loan Credit Agreement also allows the Company to request the establishment of one or more additional term loan commitments in an aggregate amount not in excess of $100,000 subject to specified terms and conditions, which amount may be further increased so long as the First Lien Debt Ratio (as defined in the Term Loan Credit Agreement) is not greater than 3.25 to 1.00. The Revolving Credit Agreement also allows the Company, as a borrower, to request the establishment of one or more additional revolving commitments in an aggregate amount not in excess of $50,000, subject to specified terms and conditions. The Company applied the proceeds of the Term Loan Credit Agreement to refinance its existing senior secured term loan facility and for the payment of transaction consideration and expenses in connection with the Revolving Credit Agreement and the Term Loan Credit Agreement.

Following the June 8, 2020 changes to senior credit facilities described above, the new term loan under the Term Loan Credit Agreement generally bears interest at (at the Company's election) either (i)2.75% per annum plus the greatest of (which if the following would be less than 2.00%, such rate shall be deemed to be2.00%) (a) the Prime Rate (as defined in the Term Loan Credit Agreement) in effect on such day, (b) the NYFRB Rate (as defined in the Term Loan Credit Agreement) plus 0.50% and (c) 1.00% plus the greater of (1) the London Interbank Offered Rate ("LIBOR") for a one month interest period multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (2) 1.00% or (ii) 3.75% per annum plus the greater of (a) the LIBOR for the applicable interest period multiplied by the Statutory Reserve Rate and (b) 1.00%. If the LIBOR for the applicable interest period is less than 1.00%, such rate shall be deemed to be1.00% for purposes of calculating the foregoing interest rates in the Term Loan Credit Agreement. The final maturity date of the Term Loan Credit Agreement is June 8, 2026. The principal amount of the term loan will be repaid in quarterly installments in amounts equal to 0.25% of the principal amount of the Term Loan Credit Agreement, with the balance payable on the maturity date.

The Company will be required to pay a fee for unused amounts under the Revolving Credit Agreement in an amount ranging from 0.375% to 0.50% of the unused portion of the facility, depending on the utilization of the facility. The Revolving Credit Agreement provides that the Company has the option to select whether borrowings will bear interest at either (i) a margin ranging from 1.75% to 2.25% per annum, depending on the utilization of the facility, plus the LIBOR for the applicable interest period multiplied by the Statutory Reserve Rate (as defined in the Revolving Credit Agreement) or (ii) a margin ranging from 0.75% to 1.25% per annum, depending on the utilization of the facility, plus the greatest of (which if the following would be less than 2.00%, such rate shall be deemed to be 2.00%) (a) the Prime Rate (as defined in the Revolving Credit Agreement) in effect on such day, (b) the NYFRB Rate (as defined in the Revolving Loan Credit Agreement) plus 0.50% and (c) the LIBOR for a one month interest period multiplied by the Statutory Reserve Rate plus 1.00%. If the LIBOR for the applicable interest period is less than 1.00%, such rate shall be deemed to be1.00% for purposes of calculating the foregoing interest rates in the Revolving Credit Agreement. The final maturity date of the Revolving Credit Agreement is June 8, 2023.

The Term Loan Credit Agreement was issued at a $4,125 discount which is being amortized over the term of the term loan. Additionally, deferred financing costs of $1,133 are being amortized over the term of the term loan.

The Company's amendment to its Term Loan Credit Agreement resulted in a significant modification to a portion of the Company's debt under ASC 470-50. The Company recorded debt expense of $ 3,429 related to third party fees that were expensed as incurred as the debt was deemed to be modified under ASC 470-50, and such costs are included as debt modification expense in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the nine months ended September 30, 2020.

At September 30, 2020, the Company had outstanding borrowings under its Term Loan Credit Agreement of $269,886, outstanding borrowings under its Revolving Credit Agreement of $12,000, and remaining borrowing availability of $79,627. At December 31, 2019, the Company had outstanding borrowings under its previous term loan credit agreement of $245,787, no outstanding borrowings on its previous revolving credit facility and remaining borrowing availability of $99,352.

The Company's senior credit facilities include certain negative and operating covenants, including restrictions on its ability to pay dividends, and other customary covenants, representations and warranties in events of default. The senior credit facilities entered into and recorded by the Company's subsidiaries significantly restrict its subsidiaries from paying dividends and otherwise transferring assets to Douglas Dynamics, Inc. The terms of the Revolving Credit Agreement specifically restrict subsidiaries from paying dividends if a minimum availability under the Revolving Credit Agreement is not maintained, and both senior credit facilities restrict subsidiaries from paying dividends above certain levels or at all if an event of default has occurred. These restrictions would affect the Company indirectly since the Company relies principally on distributions from its subsidiaries to have funds available for the payment of dividends. In addition, the Revolving Credit Agreement includes a requirement that, if certain minimum availability under the Revolving Credit Agreement is not maintained, the Company comply with a monthly minimum fixed charge coverage ratio test of 1.0:1.0. Compliance with the fixed charge coverage ratio test is subject to certain cure rights under the Revolving Credit Agreement. At September 30, 2020, the Company was in compliance with the respective covenants. The credit facilities are collateralized by substantially all of the assets of the Company.

In accordance with the senior credit facilities, the Company is required to make additional principal prepayments over the above scheduled payments under certain conditions. This includes, in the case of the term loan facility, 100% of the net cash proceeds of certain asset sales, certain insurance or condemnation events, certain debt issuances, and, within 150 days of the end of each fiscal year, 50% of consolidated excess cash flow including a deduction for certain distributions (which percentage is reduced to0% upon the achievement of certain leverage ratio thresholds), for such fiscal year. Consolidated excess cash flow is defined in the senior credit facilities as consolidated adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) plus a consolidated working capital adjustment, less the sum of repayments of debt and capital expenditures (subject to certain adjustments), interest and taxes paid in cash, management fees and certain restricted payments (including certain dividends or distributions). Consolidated working capital adjustment is defined in the senior credit facilities as the change in working capital, defined as current assets, excluding cash and cash equivalents, less current liabilities, excluding the current portion of long-term debt. As of September 30, 2020, the Company was not required to make additional excess cash flow payments during fiscal 2020. The Company made a voluntary payment of $20,000 on its debt on January 31, 2020.

On June 13, 2019 the Company entered into an interest rate swap agreement to reduce its exposure to interest rate volatility. The interest rate swap has a notional amount of $175,000 effective for the period May 31, 2019 through May 31, 2024. The Company may have counterparty credit risk resulting from the interest rate swap, which it monitors on an on-going basis. The risk lies with one global financial institution. Under the interest rate swap agreement, the Company will either receive or make payments on a monthly basis based on the differential between 2.495% and LIBOR (with a LIBOR floor of 1.0%). The interest rate swap was previously accounted for as a cash flow hedge. During the first quarter of 2020, the swap was determined to be ineffective. As a result, the swap was dedesignated on March 19, 2020, and the remaining losses currently included in Accumulated other comprehensive loss on the Condensed Consolidated Balance Sheets will be amortized into interest expense on a straight line basis through the life of the swap. The amount expected to be amortized from Accumulated other comprehensive loss into earnings in the next twelve months is $2,991. A mark-to-market adjustment of ($673) and $1,637 was recorded as Interest expense in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, 2020, respectively, related to the swap.

The interest rate swap's negative fair value at September 30, 2020 was $14,099, of which $4,064 and $10,035 are included in Accrued expenses and other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet, respectively. The interest rate swap's negative fair value at December 31, 2019 was $6,736, of which $1,522 and $5,214 are included in Accrued expenses and other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet, respectively.

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities are summarized as follows:

	September 30, 2020	December 31, 2019
Payroll and related costs	$ 6,899	$ 10,382
Employee benefits	7,616	6,097
Accrued warranty	3,370	3,941
Interest rate swaps	4,064	1,522
Other	6,721	4,554
	$ 28,670	$ 26,496

11. Warranty Liability

The Company accrues for estimated warranty costs as sales are recognized and periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary. The Company's warranties generally provide, with respect to its snow and ice control equipment, that all material and workmanship will be free from defect for a period of two years after the date of purchase by the end-user, and with respect to its parts and accessories purchased separately, that such parts and accessories will be free from defect for a period of one year after the date of purchase by the end-user. All of the Company's warranties are assurance-type warranties. Certain snowplows only provide for a one year warranty. The Company determines the amount of the estimated warranty costs (and its corresponding warranty reserve) based on the Company's prior five years of warranty history utilizing a formula driven by historical warranty expense and applying management's judgment. The Company adjusts its historical warranty costs to take into account unique factors such as the introduction of new products into the marketplace that do not provide a historical warranty record to assess. The warranty reserve was $5,750 at September 30, 2020, of which $2,380 is included in Other long-term liabilities and $3,370 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet. The warranty reserve was $6,541 at December 31, 2019, of which $2,600 is included in Other long-term liabilities and $3,941 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Balance at the beginning of the period	$ 5,355	$ 5,731	$ 6,541	$ 6,174
Warranty provision	864	886	2,125	2,665
Claims paid/settlements	(469)	(273)	(2,916)	(2,495)
Balance at the end of the period	$ 5,750	$ 6,344	$ 5,750	$ 6,344

12. Employee Retirement Plans

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

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

	Three Months Ended	Nine Months Ended
	September 30, 2019	September 30, 2019
Component of net periodic pension cost:		
Service cost	$ -	$ -
Interest cost	410	1,230
Expected return on plan assets	(294)	(882)
Amortization of net loss	149	447
Net periodic pension cost	$ 265	$ 795

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Component of periodic other postretirement benefit cost:				
Service cost	$ 37	$ 37	$ 111	$ 111
Interest cost	47	63	141	189
Amortization of net gain	(77)	(78)	(231)	(234)
Net periodic other postretirement benefit cost	$ 7	$ 22	$ 21	$ 66

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

13. Earnings (Loss) per Share

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Basic earnings (loss) per common share				
Net income (loss)	$ 9,230	$ 12,429	$ (104,715)	$ 37,606
Less income allocated to participating securities	121	163	-	501
Net income (loss) allocated to common shareholders	$ 9,109	$ 12,266	$ (104,715)	$ 37,105
Weighted average common shares outstanding	22,857,457	22,795,412	22,842,777	22,773,546
	$ 0.40	$ 0.54	$ (4.60)	$ 1.63
Earnings (loss) per common share assuming dilution				
Net income (loss)	$ 9,230	$ 12,429	$ (104,715)	$ 37,606
Less income allocated to participating securities	121	163	-	501
Net income (loss) allocated to common shareholders	$ 9,109	$ 12,266	$ (104,715)	$ 37,105
Weighted average common shares outstanding	22,857,457	22,795,412	22,842,777	22,773,546
Incremental shares applicable to non-participating RSUs	20,545	36,758	-	35,176
Weighted average common shares assuming dilution	22,878,002	22,832,170	22,842,777	22,808,722
	$ 0.39	$ 0.53	$ (4.60)	$ 1.61

14. Employee Stock Plans

2010 Stock Incentive Plan

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

Equity awards issued to management include a retirement provision under which members of management who either (1) are age 65 or older or (2) have at least ten years of service and are at least age 55 will continue to vest in unvested equity awards upon retirement. The retirement provision also stipulates that the employee remain employed by the Company for six months after the first day of the fiscal year of the grant. As the retirement provision does not qualify as a substantive service condition, the Company incurred $21 and $0 in the three months ended September 30, 2020 and 2019, respectively, and $983 and $1,374 in the nine months ended September 30, 2020 and 2019, respectively, in additional expense for employees who meet the thresholds of the retirement provision. In 2013, the Company's nominating and governance committee approved a retirement provision for the RSUs issued to non-employee directors that accelerates the vesting of such awards upon retirement. Such awards are fully expensed immediately upon grant in accordance with ASC 718, as the retirement provision eliminates substantive service conditions associated with the awards.

Performance Share Unit Awards

The Company granted performance share units as performance-based awards under the 2010 Plan in the first quarters of 2020 and 2019 that are subject to performance conditions over a three year performance period beginning in the year of the grant. Upon meeting the prescribed performance conditions, employees will be issued shares which vest immediately at the end of the measurement period. For performance share grants in years prior to 2018, upon meeting the prescribed performance conditions, in the first quarter of the year subsequent to grant, employees were issued RSUs, a portion of which is subject to vesting over the two years following the end of the performance period. In accordance with ASC 718, such awards are being expensed over the vesting period from the date of grant through the requisite service period, based upon the most probable outcome. The fair value per share of the awards is the closing stock price on the date of grant, which was $53.50. The Company recognized ($15) and $338 of compensation expense related to the awards in the three months ended September 30, 2020 and 2019, respectively. The Company recognized $737 and $1,401 of compensation expense related to the awards in the nine months ended September 30, 2020 and 2019, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of September 30, 2020 expected to be earned through the requisite service period was approximately $753 and is expected to be recognized through 2023.

Restricted Stock Unit Awards

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

A summary of RSU activity for the nine months ended September 30, 2020 is as follows:

	Shares	Weighted Average Grant Date Fair value	Weighted Average Remaining Contractual Term
Unvested at December 31, 2019	35,676	$ 36.49	1.40 years
Granted	48,433	$ 50.20	0.92 years
Vested	(47,196)	$ 45.71	
Cancelled and forfeited	(891)	$ 50.20	
Unvested at September 30, 2020	36,022	$ 42.73	1.65 years
Expected to vest in the future at September 30, 2020	36,022	$ 42.73	1.65 years

The Company recognized $214 and $187 of compensation expense related to the RSU awards in the three months ended September 30, 2020 and 2019, respectively. The Company recognized $2,031 and $1,660 of compensation expense related to the RSU awards in the nine months ended September 30, 2020 and 2019, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of September 30, 2020, expected to be earned through the requisite service period was approximately $1,098 and is expected to be recognized through 2023.

For 2020 and 2019 grants to non-employee directors, vesting occurs as of the grant date. Vested director RSUs are ‘‘settled’’ by the delivery to the participant or a designated brokerage firm of one share of common stock per vested RSU as soon as reasonably practicable following a termination of service of the participant that constitutes a separation from service, and in all events no later than the end of the calendar year in which such termination of service occurs or, if later, two and one-half months after such termination of service. Vested management RSUs are “settled” by the delivery to the participant or a designated brokerage firm of one share of common stock per vested RSU as soon as reasonably practicable following vesting.

15. Commitments and Contingencies

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

16. Segments

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

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

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

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

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

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net sales				
Work Truck Attachments	$ 76,903	$ 75,632	$ 169,853	$ 213,693
Work Truck Solutions	56,858	66,237	152,141	197,719
	$ 133,761	$ 141,869	$ 321,994	$ 411,412
Adjusted EBITDA				
Work Truck Attachments	$ 20,155	$ 18,673	$ 38,527	$ 59,423
Work Truck Solutions	2,917	6,393	3,162	18,772
	$ 23,072	$ 25,066	$ 41,689	$ 78,195
Depreciation and amortization expense				
Work Truck Attachments	$ 2,683	$ 2,524	$ 7,994	$ 7,579
Work Truck Solutions	2,224	2,204	6,710	6,756
	$ 4,907	$ 4,728	$ 14,704	$ 14,335
Assets				
Work Truck Attachments	$ 396,793	$ 406,746		
Work Truck Solutions	214,471	360,163		
	$ 611,264	$ 766,909		
Capital Expenditures				
Work Truck Attachments	$ 4,850	$ 1,955	$ 9,105	$ 6,209
Work Truck Solutions	375	404	1,110	1,478
	$ 5,225	$ 2,359	$ 10,215	$ 7,687

Adjusted EBITDA				
Work Truck Attachments	$ 20,155	$ 18,673	$ 38,527	$ 59,423
Work Truck Solutions	2,917	6,393	3,162	18,772
Total Adjusted EBITDA	$ 23,072	$ 25,066	$ 41,689	$ 78,195
Less items to reconcile Adjusted EBITDA to Income (Loss) before taxes:				
Interest expense - net	5,007	4,271	15,709	12,610
Depreciation expense	2,170	1,991	6,490	6,118
Amortization	2,737	2,737	8,214	8,217
Purchase accounting (1)	-	-	(2,017)	(217)
Stock based compensation	199	525	2,768	3,061
Impairment charges	-	-	127,872	-
Debt modification expense	237	-	3,429	-
COVID-19 (2)	157	-	1,322	-
Other charges (3)	101	-	101	(149)
Income (loss) before taxes	$ 12,464	$ 15,542	$ (122,199)	$ 48,555

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

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

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

17. Income Taxes

The Company’s effective tax rate was 26.0% and 20.0% for the three months ended September 30, 2020 and 2019, respectively. The effective tax rate for the three months ended September 30, 2020 was higher when compared to the same period in the prior year due to the release of reserves for uncertain tax positions of $819 in the three months ended September 30, 2019. The Company’s effective tax rate was 14.3% and 22.5% for the nine months ended September 30, 2020 and 2019, respectively. The following items caused the effective tax rate for the nine months ended September 30, 2020 to be significantly lower than the Company’s historical annual effective tax rate:

- The Company recorded an 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 is 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.

18. Changes in Accumulated Other Comprehensive Loss by Component

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 loss before reclassifications	(4,837)	—	(4,837)
Amounts reclassified from accumulated other comprehensive loss: (1)	1,685	(171)	1,514
Balance at September 30, 2020	$ (8,175)	$ 2,038	$ (6,137)
(1) Amounts reclassified from accumulated other comprehensive loss:			
Amortization of Other Postretirement Benefit items:			
Actuarial gains (a)	$ (231)		
Tax expense	60		
Reclassification net of tax	$ (171)		
Realized losses on interest rate swaps reclassified to interest expense	$ 2,277		
Tax benefit	(592)		
Reclassification net of tax	$ 1,685		

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

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

	Unrealized Net Loss on Interest Rate Swap	Retiree Health Benefit Obligation	Pension Obligation	Total
Balance at December 31, 2018	$ (1,530)	$ 2,118	$ (6,637)	$ (6,049)
Other comprehensive gain before reclassifications	(4,799)	-	-	(4,799)
Amounts reclassified from accumulated other comprehensive loss: (1)	152	(173)	330	309
Balance at September 30, 2019	$ (6,177)	$ 1,945	$ (6,307)	$ (10,539)
(1) Amounts reclassified from accumulated other comprehensive loss:				
Amortization of Other Postretirement Benefit items:				
Actuarial gains (a)	$ (234)			
Tax expense	61			
Reclassification net of tax	$ (173)			
Amortization of pension items:				
Actuarial losses (a)	$ 447			
Tax benefit	(117)			
Reclassification net of tax	$ 330			
Realized losses on interest rate swaps reclassified to interest expense	$ 206			
Tax benefit	(54)			
Reclassification net of tax	$ 152			

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

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

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

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

Forward-Looking Statements

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

Results of Operations

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

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

"Seasonality and Year-To Year Variability," the Work Truck Attachments Segment is seasonal and, as a result, its results of operations can vary from quarter-to-quarter and from year-to-year.

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

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

COVID-19

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

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

Overview

The following table sets forth, for the three and nine months ended September 30, 2020 and 2019, the consolidated statements of operations of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the table below and throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations," consolidated statements of operations data for the three and nine months ended September 30, 2020 and 2019 have been derived from our unaudited consolidated financial statements. The information contained in the table below should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q.

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(unaudited) (in thousands)		(unaudited) (in thousands)	
Net sales	$ 133,761	$ 141,869	$ 321,994	$ 411,412
Cost of sales	97,033	101,930	241,501	288,934
Gross profit	36,728	39,939	80,493	122,478
Selling, general, and administrative expense	16,428	17,269	47,435	52,680
Impairment charges	-	-	127,872	-
Intangibles amortization	2,737	2,737	8,214	8,217
Income (loss) from operations	17,563	19,933	(103,028)	61,581
Interest expense, net	(5,007)	(4,271)	(15,709)	(12,610)
Debt modification expense	(237)	-	(3,429)	-
Other income (expense), net	145	(120)	(33)	(416)
Income (loss) before taxes	12,464	15,542	(122,199)	48,555
Income tax expense (benefit)	3,234	3,113	(17,484)	10,949
Net income (loss)	$ 9,230	$ 12,429	$ (104,715)	$ 37,606

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(unaudited)		(unaudited)	
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	72.5 %	71.8 %	75.0 %	70.2 %
Gross profit	27.5 %	28.2 %	25.0 %	29.8 %
Selling, general, and administrative expense	12.3 %	12.2 %	14.7 %	12.8 %
Impairment charges	- %	- %	39.7 %	- %
Intangibles amortization	2.0 %	1.9 %	2.6 %	2.0 %
Income (loss) from operations	13.2 %	14.1 %	(32.0)%	15.0 %
Interest expense, net	(3.7)%	(3.0)%	(4.9)%	(3.1)%
Debt modification expense	(0.2)%	- %	(1.1)%	- %
Other income (expense), net	- %	- %	- %	- %
Income (loss) before taxes	9.3 %	11.1 %	(38.0)%	11.9 %
Income tax expense (benefit)	2.4 %	2.2 %	(5.4)%	2.7 %
Net income (loss)	6.9 %	8.9 %	(32.6)%	9.2 %

Net Sales

Net sales were $133.8 million for the three months ended September 30, 2020 compared to $141.9 million in the three months ended September 30, 2019, a decrease of $8.1 million, or 5.7%. Sales decreased for the three months ended September 30, 2020 compared to the same period in the prior year due to lower volumes driven by class 4-6 chassis availability constraints at Work Truck Solutions, offset by increased volumes at Work Truck

Attachments. Net sales were $322.0 million for the nine months ended September 30, 2020 compared to $411.4 million in the nine months ended September 30, 2019, a decrease of $89.4 million, or 21.7%. Sales decreased for the nine months ended September 30, 2020 compared to the same period in the prior year due to lower volumes driven by below average snowfall, the effect of reduced shipments from our facilities being shut down as a result of the COVID-19 pandemic for several weeks throughout the first and second quarters, and class 4-6 chassis availability constraints. See below for a discussion of net sales for each of our segments.

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net sales				
Work Truck Attachments	$ 76,903	$ 75,632	$ 169,853	$ 213,693
Work Truck Solutions	56,858	66,237	152,141	197,719
	$ 133,761	$ 141,869	$ 321,994	$ 411,412

Net sales at our Work Truck Attachments segment were $76.9 million for the three months ended September 30, 2020 compared to $75.6 million in the three months ended September 30, 2019, an increase of $1.3 million primarily due to the timing of shipments. Net sales at our Work Truck Attachments segment were $169.9 million for the nine months ended September 30, 2020 compared to $213.7 million in the nine months ended September 30, 2019, a decrease of $43.8 million primarily due to lower volumes resulting from reduced shipments due to the facilities shutdown associated with the COVID-19 pandemic as well as below average snowfall for the snow season ended March 31, 2020. Snowfall in this most recent snow season was approximately 25% below the ten year average, and was the second below average snowfall season in a row.

Net sales at our Work Truck Solutions segment were $56.9 million for the three months ended September 30, 2020 compared to $66.2 million in the three months ended September 30, 2019, a decrease of $9.3 million. Sales were lower for the three months ended September 30, 2020 when compared to the same period in the prior year due to lower volumes as a result of class 4-6 chassis supply constraints. Net sales at our Work Truck Solutions segment were $152.1 million for the nine months ended September 30, 2020 compared to $197.7 million in the nine months ended September 30, 2019, a decrease of $45.6 million. Sales were lower for the nine months ended September 30, 2020 when compared to the same period in the prior year due to lower volumes as a result of class 4-6 chassis supply constraints, as well as result of the facilities shutdown associated with the COVID-19 pandemic leading to significantly reduced shipments in the first and second quarters of 2020.

Cost of Sales

Cost of sales was $97.0 million for the three months ended September 30, 2020 compared to $101.9 million for the three months ended September 30, 2019, a decrease of $4.9 million, or 4.8%. Cost of sales was $241.5 million for the nine months ended September 30, 2020 compared to $288.9 million for the nine months ended September 30, 2019, a decrease of $47.4 million, or 16.4%. The decrease in Cost of sales was driven by decreased sales as discussed above under "—Net Sales". Cost of sales as a percentage of sales were 72.5% for the three month period ended September 30, 2020 compared to 71.8% for the three month period ended September 30, 2019. The increase in cost of sales as a percentage of sales for the three month period is due to the lower sales volumes. Cost of sales as a percentage of sales were 75.0% for the nine month period ended September 30, 2020 compared to 70.2% for the nine month period ended September 30, 2019. The increase in cost of sales as a percentage of sales for the nine month period is due to lower sales volumes due to below average snowfall and reduced shipments related to facility shutdowns, as well as shutdown expenses related to COVID-19. Such shutdown expenses include the continuation of wages for employees who were not working during the shutdown, as well as an increase in fixed expenses and overhead, as these costs were not capitalized into inventory for the shutdown period.

Gross Profit

Gross profit was $36.7 million for the three months ended September 30, 2020 compared to $39.9 million for the three months ended September 30, 2019, a decrease of $3.2 million, or 8.0%. Gross profit was $80.5 million for the nine months ended September 30, 2020 compared to $122.5 million for the nine months ended September 30, 2019, a decrease of $42.0 million, or 34.3%. 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 28.2% for the three months ended September 30, 2019 to 27.5% for the corresponding period in 2020. As a percentage of net sales, gross profit decreased from 29.8% for the nine months ended September 30, 2019 to 25.0% for the corresponding period in 2020. The reasons for the change in gross profit as a percentage of net sales are the same as those relating to the changes in cost of sales as a percentage of sales discussed above under "—Cost of Sales."

Selling, General and Administrative Expense

Selling, general and administrative expenses, including intangibles amortization, were $19.2 million for the three months ended September 30, 2020, compared to $20.0 million for the three months ended September 30, 2019, a decrease of $0.8 million, or 4.0%. Selling, general and administrative expenses, including intangibles amortization, were $55.6 million for the nine months ended September 30, 2020, compared to $60.9 million for the nine months ended September 30, 2019, a decrease of $5.3 million, or 8.7%. The decrease was in part due to $2.0 million of earnout valuation adjustments in the nine months ended September 30, 2020. The remainder of the decrease in the three and nine months ended September 30, 2020 is due to lower discretionary spending, including travel and advertising and promotions, as a result of facility shutdowns during the first and second quarters and decreased volumes as a result of the COVID-19 pandemic.

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 prior year. The impairment charges in 2020 relate to goodwill impairment taken on our Municipal and Dejana reporting units of $47.8 and $80.1 million, respectively. The increase in impairment charges was due to reduced performance in the current year and projected future years as a result of the COVID-19 pandemic and chassis and other supply chain constraints. See Note 1 for additional information.

Interest Expense

Interest expense was $5.0 million for the three months ended September 30, 2020, which was higher than the $4.3 million incurred in the same period in the prior year. Interest expense was $15.7 million for the nine months ended September 30, 2020, which was higher than the $12.6 million incurred in the same period in the prior year. The increase in interest expense for the three months ended September 30, 2020 was due to higher interest paid on our term loan of $1.0 million due to the increase in principal balance from the June 8, 2020 refinancing, as well as $0.1 million in non-cash mark-to-market and amortization adjustments on an interest rate swap not accounted for as a hedge. This increase in interest expense was somewhat offset by lower revolver interest of $0.3 million in the three ended September 30, 2020, as a result of decreased short-term borrowings when compared to the prior year. The increase in interest expense for the nine months ended September 30, 2020 was due to $3.2 million in non-cash mark-to-market and amortization adjustments on an interest rate swap not accounted for as a hedge, as well as higher interest paid on our term loan of $0.3 million, due to the increase in principal balance from the June 8, 2020 refinancing slightly offset by a $20.0 million voluntary prepayment made in January 2020. This increase in interest expense was somewhat offset by lower revolver interest of $0.4 million in the nine months ended September 30, 2020, as a result of decreased short-term borrowings when compared to the prior year. See Note 9 for additional information.

Debt Modification Expense

Debt modification expense was $0.2 million in the three months ended September 30, 2020, compared to $0.0 million in the same period in the prior year. Debt modification expense was $3.4 million in the nine months ended September 30, 2020, compared to $0.0 million in the same period in the prior year. The debt modification expense in 2020 related to fees incurred in conjunction with the Company's June 8, 2020 refinancing of its Term Loan and Revolving Credit Agreement.

Income Taxes

The Company's effective tax rate was 26.0% and 20.0% for the three months ended September 30, 2020 and 2019, respectively. The effective tax rate for the three months ended September 30, 2020 was higher when compared to the same period in the prior year due to the release of reserves for uncertain tax positions of $819 in the three months ended September 30, 2019. The Company's effective tax rate was 14.3% and 22.5% for the nine months ended September 30, 2020 and 2019, respectively. The following items caused the effective tax rate for the nine months ended September 30, 2020 to be significantly lower than the Company's historical annual effective tax rate:

- The Company recorded an 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 is 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, 2020 was $9.2 million, compared to net income of $12.4 million for the corresponding period in 2019, a decrease of $3.2 million. Net income (loss) for the nine months ended September 30, 2020 was ($104.7) million, compared to net income of $37.6 million for the corresponding period in 2019, a decrease in net income of $142.3 million. The decrease in net income for the three and nine months ended September 30, 2020 was driven by the factors described above under "— Net Sales," "—Cost of Sales," "— Selling, General and Administrative Expense," "— Impairment Charges," "— Debt Modification Expense," and "— Income Taxes." As a percentage of net sales, net income (loss) was 6.9% for the three months ended September 30, 2020 compared to 8.9% for the three months ended September 30, 2019. As a percentage of net sales, net income (loss) was (32.6%) for the nine months ended September 30, 2020 compared to 9.2% for the nine months ended September 30, 2019.

Discussion of Critical Accounting Policies

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

We assessed our reporting units for impariment 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.)

Liquidity and Capital Resources

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

Our primary uses of cash are to provide working capital, meet debt service requirements, finance capital expenditures, pay dividends under our dividend policy and support our growth, including through potential acquisitions, and for other general corporate purposes. For a description of the seasonality of our working capital rates see "—Seasonality and Year-To-Year Variability." Additionally, as a result of the COVID-19 pandemic, we may have challenges in short-term liquidity which could impact our ability to fund working capital and liquidity needs.

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

As of September 30, 2020, we had $93.9 million of total liquidity, comprised of $14.3 million in cash and cash equivalents and borrowing availability of $79.6 million under our revolving credit facility, compared with total liquidity as of December 31, 2019 of approximately $135.1 million, comprised of approximately $35.7 million in cash and cash equivalents and borrowing availability of approximately $99.4 million under our revolving credit facility. The decrease in our total liquidity from December 31, 2019 is primarily due to the seasonality of our business. Borrowing availability under our revolving credit facility is governed by a borrowing base, the calculation of which includes cash on hand. Accordingly, use of cash on hand may also result in a reduction in the amount available for borrowing under our revolving credit facility. We have taken various steps to preserve liquidity, including reducing discretionary spending and deferring payments where appropriate within existing contractual terms, while remaining committed to long-term growth projects. In consideration of the COVID-19 pandemic, we expect that cash on hand and cash we generate from operations, as well as available credit under our senior credit facilities, will provide adequate funds for the purposes described above for the foreseeable future.

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

	As of		
	September 30, 2020	December 31, 2019	September 30, 2019
Cash and cash equivalents	$ 14,285	$ 35,665	$ 4,870
Inventories	93,721	77,942	90,406

We had cash and cash equivalents of $14.3 million at September 30, 2020 compared to cash and cash equivalents of $35.7 million and $4.9 million at December 31, 2019 and September 30, 2019, respectively. The table below sets forth a summary of the significant sources and uses of cash for the periods presented in thousands.

Cash Flows (in thousands)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Change	% Change
Net cash used in operating activities	$ (27,082)	$ (21,169)	$ (5,913)	27.9 %
Net cash used in investing activities	(9,465)	(7,801)	(1,664)	21.3 %
Net cash provided by financing activities	15,167	6,020	9,147	151.9 %
Change in cash	$ (21,380)	$ (22,950)	$ 1,570	6.8 %

Net cash used in operating activities increased $5.9 million from the nine months ended September 30, 2019 to the nine months ended September 30, 2020. The increase in cash used in operating activities was due to a $32.0 million decrease in net income (loss) adjusted for reconciling items as a result of the higher net loss in the nine months ended September 30, 2020 from less favorable operating results, partially offset by favorable changes in working capital of $26.1 million. The largest favorable change in working capital was a decrease in accounts receivable due to entering 2020 with a higher accounts receivable balance when compared to the prior year, as well as lower sales in the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. Partially offsetting this favorable change in working capital were unfavorable changes related to the buildup of inventory in the current year in anticipation of supply chain constraints related to the COVID-19 pandemic.

Net cash used in investing activities increased $1.7 million for the nine months ended September 30, 2020 compared to the corresponding period in 2019 due to an increase in capital expenditures.

Net cash provided by financing activities increased $9.1 million for the nine months ended September 30, 2020 as compared to the corresponding period in 2019. The increase was primarily a result of the debt refinancing that occurred on June 8, 2020, which increased the net borrowings on our long-term debt. The increase was somewhat offset by decreases from payments of financing costs of $1.0 million related to the debt refinancing in the nine months ended September 30, 2020, and there being $12.0 million in outstanding borrowings under our revolving credit facility at September 30, 2020 compared to $57.0 million in short term borrowings at September 30, 2019. Additionally, we made a voluntary debt prepayment of $30.0 million during the first quarter of 2019, compared to a voluntary prepayment of $20.0 million in the first quarter of 2020.

Free Cash Flow

Free cash flow for the three months ended September 30, 2020 was ($25.5) million compared to ($23.2) million in the corresponding period in 2019, a decrease of $2.3 million. Free cash flow for the nine months ended September 30, 2020 was ($36.5) million compared to ($29.0) million in the corresponding period in 2019, a decrease of $7.5 million. The decrease in free cash flow for the nine months ended September 30, 2020 is primarily a result of higher cash used in operating activities of $5.9 million and an increase in capital expenditures of $1.7 million, as discussed above under "Liquidity and Capital Resources."

Non-GAAP Financial Measures

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

These non-GAAP measures include:

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

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

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(In Thousands)		(In Thousands)	
Net cash used in operations	$ (21,058)	$ (20,849)	$ (27,082)	$ (21,169)
Acquisition of property and equipment	(4,417)	(2,350)	(9,465)	(7,801)
Free cash flow	$ (25,475)	$ (23,199)	$ (36,547)	$ (28,970)

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

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

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness;

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

The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to Adjusted EBITDA as well as the resulting calculation of Adjusted EBITDA for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(in thousands)		*(in thousands)*	
Net income (loss)	$ 9,230	$ 12,429	$ (104,715)	$ 37,606
Interest expense, net	5,007	4,271	15,709	12,610
Income tax expense (benefit)	3,234	3,113	(17,484)	10,949
Depreciation expense	2,170	1,991	6,490	6,118
Amortization	2,737	2,737	8,214	8,217
EBITDA	22,378	24,541	(91,786)	75,500
Stock-based compensation expense	199	525	2,768	3,061
Impairment charges	-	-	127,872	-
Debt modification expense	237	-	3,429	-
COVID-19 (1)	157	-	1,322	-
Purchase accounting (2)	-	-	(2,017)	(217)
Other charges (3)	101	-	101	(149)
Adjusted EBITDA	$ 23,072	$ 25,066	$ 41,689	$ 78,195

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

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Adjusted EBITDA				
Work Truck Attachments	$ 20,155	$ 18,673	$ 38,527	$ 59,423
Work Truck Solutions	2,917	6,393	3,162	18,772
	$ 23,072	$ 25,066	$ 41,689	$ 78,195

Adjusted EBITDA at our Work Truck Attachments segment was $20.2 million for the three months ended September 30, 2020 compared to $18.7 million in the three months ended September 30, 2019, an increase of $1.5 million. The change in the three months ended September 30, 2020 from the corresponding period in 2019 is primarily due to higher volumes. Adjusted EBITDA at our Work Truck Attachments segment was $38.5 million for the nine months ended September 30, 2020 compared to $59.4 million in the nine months ended September 30, 2019, a decrease of $20.9 million. The change in the nine months ended September 30, 2020 from the corresponding period in 2019 is primarily due to lower volumes resulting from well-below average snowfall for the snow season ended March 31, 2020. In addition, Adjusted EBITDA was lower in the current year due to additional costs and inefficiencies related to the COVID-19 pandemic.

Adjusted EBITDA at our Work Truck Solutions segment was $2.9 million for the three months ended September 30, 2020 compared to $6.4 million in the three months ended September 30 2019, a decrease of $3.5 million. The change in the three months ended September 30, 2020 is primarily due to chassis availability constraints. Adjusted EBITDA at our Work Truck Solutions segment was $3.2 million for the nine months ended September 30, 2020 compared to $18.8 million in the nine months ended September 30 2019, a decrease of $15.6 million. The change in the nine months ended September 30, 2020 is primarily due to lower volumes from the effect of the COVID-19 pandemic and chassis availability constraints, as well as additional costs and inefficiencies related to the pandemic.

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

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, 2020 and 2019:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(in thousands)		*(in thousands)*	
Net income (loss) (GAAP)	$ 9,230	$ 12,429	$ (104,715)	$ 37,606
Adjustments:				
- Stock-based compensation	199	525	2,768	3,061
- Impairment charges	-	-	127,872	-
- Debt modification expense	237	-	3,429	-
- COVID-19 (1)	157	-	1,322	-
- Purchase accounting (2)	-	-	(2,017)	(217)
- Adjustments on derivative not classified as hedge (3)	76	-	3,133	-
- Other charges (4)	101	-	101	(149)
Tax effect on adjustments	(192)	(131)	(22,202)	(674)
Adjusted net income (loss) (non-GAAP)	$ 9,808	$ 12,823	$ 9,691	$ 39,627
Weighted average common shares outstanding assuming dilution	22,878,002	22,832,170	22,866,909	22,808,722
Adjusted earnings (loss) per common share - dilutive	$ 0.42	$ 0.55	$ 0.41	$ 1.70
GAAP diluted earnings (loss) per share	$ 0.39	$ 0.53	$ (4.60)	$ 1.61
Adjustments net of income taxes:				
- Stock-based compensation	0.01	0.02	0.09	0.10
- Impairment charges	-	-	4.72	-
- Debt modification expense	0.01	-	0.11	-
- COVID-19 (1)	0.01	-	0.05	-
- Purchase accounting (2)	-	-	(0.07)	(0.01)
- Adjustments on derivative not classified as hedge (3)	-	-	0.11	-
- Other charges (4)	-	-	-	-
Adjusted diluted earnings (loss) per share (non-GAAP)	$ 0.42	$ 0.55	$ 0.41	$ 1.70

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

Contractual Obligations

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

(Dollars in thousands)	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt (1)	$ 269,886	$ 1,972	$ 3,944	$ 3,944	$ 260,026
Interest on long-term debt (2)	73,045	3,266	25,831	25,309	18,639
Total contracted cash obligations related to long-term debt	$ 342,931	$ 5,238	$ 29,775	$ 29,253	$ 278,665

(1) Long-term debt obligation is presented net of discount of $4.4 million at September 30, 2020.
(2) Assumes all debt will remain outstanding until maturity. Interest payments were calculated using interest rates in effect as of September 30, 2020.

Off-Balance Sheet Arrangements

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

Seasonality and Year-to-Year Variability

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

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

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

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

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

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

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

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

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

We do not use financial instruments for speculative trading purposes, and do not hold any derivative financial instruments that could expose us to significant market risk. 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, 2020, we had outstanding borrowings under our term loan of $269.9 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, 2020 by $0.4 million, $0.6 million and $0.8 million, respectively.

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

As of September 30, 2020, we had $12.0 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, 2020 by $0.0 million, $0.0 million and $0.0 million, respectively.

Commodity Price Risk

In the normal course of business, we are exposed to market risk related to our purchase of steel, the primary commodity upon which our manufacturing depends. Our steel purchases as a percentage of revenue were 8.9% and 9.9% for the three and nine months ended September 30, 2020 compared to 10.1% and 10.8% for the three and nine months ended September 30, 2019. While steel is typically available from numerous suppliers, the price of steel is a commodity subject to fluctuations that apply across broad spectrums of the steel market. We do not use any derivative or hedging instruments to manage steel price risk. If the price of steel increases, our variable costs could also increase. While historically we have successfully mitigated these increased costs through the implementation of either permanent price increases and/or temporary invoice surcharges, in the future we may not be able to successfully mitigate these costs, which could cause our gross margins to decline. If our costs for steel were to increase by $1.00 in a period where we are not able to pass any of this increase onto our distributors, our gross margins would decline by $1.00 in the period in which such inventory was sold.

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

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

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

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

Item 1A. ***Risk Factors***

There have been no significant changes in our risk factors from those described in our Annual Report on Form 10-K for the year ended December 31, 2019, other than those discussed below.

The COVID-19 pandemic has had and could continue to have an adverse effect on our business, financial condition, results of operations and cash flows

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

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

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

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

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

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

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

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

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

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

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

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

Unregistered Sales of Equity Securities

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

Purchase of Equity Securities

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

Dividend Payment Restrictions

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

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

None.

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

None.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

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

Exhibit Numbers	Description
31.1*	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following financial statements from the quarterly report on Form 10-Q of Douglas Dynamics, Inc. for the quarter ended September 30, 2020, filed on November 2, 2020, formatted in inline XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss); (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Shareholders' Equity; and (v) the Notes to the Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).

* Filed herewith.

SIGNATURES

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

DOUGLAS DYNAMICS, INC.

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

Dated: November 2, 2020

Exhibit 31.1

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, 2020

Exhibit 31.2

Section 302 Certification

I, Sarah Lauber, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

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

Dated: November 2, 2020

Exhibit 32.1

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, 2020 as filed with the U.S. Securities and Exchange Commission on the date hereof, or Report, and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of the Company certifies that:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Robert McCormick
Robert McCormick
President and Chief Executive Officer

Dated: November 2, 2020

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

Dated: November 2, 2020

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