

DOUGLAS DYNAMICS, INC
Form 10-Q
August 07, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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	134275891
(State or other jurisdiction of incorporation or organization)	(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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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(Do not check if a smaller reporting company)

Emerging growth company

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

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

Number of shares of registrant's common shares outstanding as of August 7, 2018 was 22,700,991.

Table of Contents

DOUGLAS DYNAMICS, INC.

Table of Contents

<u>PART I. FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Unaudited Condensed Consolidated Balance Sheet as of June 30, 2018 and December 31, 2017</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2018 and 2017</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	38
<u>Item 4. Controls and Procedures</u>	39
<u>PART II. OTHER INFORMATION</u>	39
<u>Item 1. Legal Proceedings</u>	39
<u>Item 1A. Risk Factors</u>	39
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 3. Defaults Upon Senior Securities</u>	40
<u>Item 4. Mine Safety Disclosures</u>	40
<u>Item 5. Other Information</u>	40
<u>Item 6. Exhibits</u>	40
<u>Signatures</u>	40

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Douglas Dynamics, Inc.

Condensed Consolidated Balance Sheets

(In thousands except share data)

	June 30, 2018 (unaudited)	December 31, 2017 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ 36,875
Accounts receivable, net	95,038	79,120
Inventories	84,633	71,524
Inventories - truck chassis floor plan	3,658	7,711
Prepaid and other current assets	2,931	2,883
Total current assets	186,260	198,113
Property, plant, and equipment, net	54,126	53,962
Goodwill	241,006	241,006
Other intangible assets, net	180,413	186,150
Other long-term assets	6,882	5,945
Total assets	\$ 668,687	\$ 685,176
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 16,811	\$ 16,323
Accrued expenses and other current liabilities	23,877	21,004
Floor plan obligations	3,658	7,711
Income taxes payable	2,354	2,996
Current portion of long-term debt	2,749	32,749
Total current liabilities	49,449	80,783
Retiree health benefit obligation	7,010	6,809
Pension obligation	9,884	9,761
Deferred income taxes	42,854	39,269

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Long-term debt, less current portion	273,909	274,872
Other long-term liabilities	15,498	17,004
Stockholders' equity:		
Common Stock, par value \$0.01, 200,000,000 shares authorized, 22,700,991 and 22,590,897 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	227	226
Additional paid-in capital	151,428	147,287
Retained earnings	123,208	115,737
Accumulated other comprehensive loss, net of tax	(4,780)	(6,572)
Total stockholders' equity	270,083	256,678
Total liabilities and stockholders' equity	\$ 668,687	\$ 685,176

See the accompanying notes to condensed consolidated financial statements.

Table of Contents

Douglas Dynamics, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income

(In thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2018 (unaudited)	June 30, 2017	June 30, 2018 (unaudited)	June 30, 2017
Net sales	\$ 163,446	\$ 139,371	\$ 247,410	\$ 211,619
Cost of sales	107,597	94,338	171,534	149,399
Gross profit	55,849	45,033	75,876	62,220
Selling, general, and administrative expense	20,543	16,746	36,689	31,623
Intangibles amortization	2,866	2,786	5,737	5,535
Income from operations	32,440	25,501	33,450	25,062
Interest expense, net	(4,096)	(4,192)	(8,041)	(9,488)
Litigation proceeds	-	1,275	-	1,275
Other expense, net	(264)	(230)	(467)	(466)
Income before taxes	28,080	22,354	24,942	16,383
Income tax expense	6,916	7,608	5,654	4,914
Net income	\$ 21,164	\$ 14,746	\$ 19,288	\$ 11,469
Weighted average number of common shares outstanding:				
Basic	22,700,991	22,590,897	22,662,469	22,561,785
Diluted	22,717,592	22,605,208	22,676,641	22,571,352
Earnings per common share:				
Basic	\$ 0.92	\$ 0.64	\$ 0.84	\$ 0.50
Diluted	\$ 0.91	\$ 0.64	\$ 0.83	\$ 0.50
Cash dividends declared and paid per share	\$ 0.27	\$ 0.24	\$ 0.53	\$ 0.48
Comprehensive income	\$ 22,132	\$ 14,505	\$ 21,080	\$ 11,194

See the accompanying notes to condensed consolidated financial statements.

Table of Contents

Douglas Dynamics, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

	Six Months Ended	
	June 30, 2018	June 30, 2017
	(unaudited)	
Operating activities		
Net income	\$ 19,288	\$ 11,469
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,431	9,012
Amortization of deferred financing costs and debt discount	607	607
Stock-based compensation	4,165	2,108
Provision for losses on accounts receivable	314	1,077
Deferred income taxes	3,585	3,046
Changes in operating assets and liabilities:		
Accounts receivable	(13,847)	(1,190)
Inventories	(14,984)	(13,426)
Prepaid and refundable income taxes and other assets	(1,118)	(355)
Accounts payable	709	1,393
Accrued expenses and other current liabilities	2,231	2,351
Benefit obligations and other long-term liabilities	610	(2,755)
Net cash provided by operating activities	10,991	13,337
Investing activities		
Capital expenditures	(4,079)	(3,146)
Acquisition of business	-	(7,600)
Net cash used in investing activities	(4,079)	(10,746)
Financing activities		
Shares withheld on restricted stock vesting paid for employees' taxes	(23)	(923)
Payments of financing costs	-	(932)
Earnout payment	-	(5,487)
Dividends paid	(12,194)	(10,990)
Net revolver borrowings	-	3,000
Repayment of long-term debt	(31,570)	(1,578)
Net cash used in financing activities	(43,787)	(16,910)

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Change in cash and cash equivalents	(36,875)	(14,319)
Cash and cash equivalents at beginning of period	36,875	18,609
Cash and cash equivalents at end of period	\$ -	\$ 4,290
Non-cash operating and financing activities		
Truck chassis inventory acquired through floorplan obligations	\$ 14,884	\$ 26,661

See the accompanying notes to condensed consolidated financial statements.

5

Table of Contents

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 2017 Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission on March 1, 2018.

The Company currently conducts business in two segments: Work Truck Attachments and Work Truck Solutions. Financial information regarding these segments is reported in Note 15 to the Unaudited Condensed Consolidated Financial Statements.

Interim Condensed Consolidated Financial Information

The accompanying condensed consolidated balance sheet as of June 30, 2018 and the condensed consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2018 and 2017 and condensed cash flows for the six months ended June 30, 2018 and 2017 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.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amended guidance, herein referred to as Topic 606, is effective for annual and interim reporting periods beginning after December 15, 2017. The Company adopted Topic 606, effective January 1, 2018, using the modified retrospective transition method. The Company recognized the cumulative effect of applying the new revenue standard as an adjustment to the opening balance of retained earnings at the beginning of 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the period presented. See Note 2 for additional information.

Table of Contents

In March 2017, the FASB issued ASU No. 2017-07, “Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” The standard requires that an employer report the service cost component in the same line items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of operating profit. The standard is effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Prior periods are required to be recast. The Company adopted this standard on January 1, 2018. The impact of this standard was a reclassification of \$179 and \$358 of other components of net periodic benefit cost to Other expense, net on the Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2017, respectively. The Company utilized a practical expedient included in the ASU which allowed the Company to use amounts previously disclosed in its pension and other postretirement benefits note for the prior period as the estimation basis for applying the required retrospective presentation requirements.

2.Revenue Recognition

On January 1, 2018, the Company adopted Topic 606 applying the modified retrospective method to all contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The Company recorded a net increase to opening retained earnings of \$378 as of January 1, 2018 due to the cumulative impact of adopting Topic 606. The implementation of the guidance had no material impact on the measurement or recognition of revenue of prior periods; however, additional disclosures have been added in accordance with the ASU.

The adoption of Topic 606 did not have a significant impact on the Work Truck Attachments segment. In the Work Truck Solutions segment, the standard changed the timing of revenue for truck upfits of customer-owned chassis from a point in time to over time. This change in timing of revenue recognition decreased revenue by \$37 and increased revenue by \$257 in the three and six months ended June 30, 2018, respectively.

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. Additionally, the Company performs upfitting services within the Work Truck Attachments segment. For upfit sales, customers are billed separately for the truck chassis by the chassis manufacturer. The Company only records sales for the amount of the up-fit, excluding the truck chassis. The Company acts as a garage keeper and never takes ownership or title to the truck chassis and does not pay interest associated with the truck chassis while on its premises within the Work Truck Attachments segment.

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.

Table of Contents

The Work Truck Attachments segment has three 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.

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.

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. 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.

Revenues from the sales of the Work Truck Solutions products are generally 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 three revenue streams, as identified below.

Fleet Upfit Sales – The Company enters 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

Table of Contents

customer-owned upfits based on estimated margin and completion. This change to over time recognition for customer owned vehicles decreased revenue by \$37 and increased revenue by \$257 for the three and six months ended June 30, 2018, 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 June 30,2018	Work Truck Attachments	Work Truck Solutions	Corporate and Eliminations	Total Revenue
Independent dealer	\$ 118,332	\$ 19,901	\$ -	\$ 138,233
Government	8,962	-	-	8,962
Fleet	-	15,194	-	15,194
Other	-	2,051	(994)	1,057
Total revenue	\$ 127,294	\$ 37,146	\$ (994)	\$ 163,446
Six Months Ended June 30,2018	Work Truck Attachments	Work Truck Solutions	Corporate and Eliminations	Total Revenue
Independent dealer	\$ 151,970	\$ 39,792	\$ -	\$ 191,762
Government	22,783	-	-	22,783
Fleet	-	29,546	-	29,546
Other	-	6,521	(3,202)	3,319
Total revenue	\$ 174,753	\$ 75,859	\$ (3,202)	\$ 247,410

Revenue by timing of revenue recognition was as follows:

Three Months Ended June 30,2018	Work Truck Attachments	Work Truck Solutions	Corporate and Eliminations	Total Revenue
Point in time	\$ 127,294	\$ 13,524	\$ (994)	\$ 139,824
Over time	-	23,622	-	23,622
Total revenue	\$ 127,294	\$ 37,146	\$ (994)	\$ 163,446
Six Months Ended June 30,2018	Work Truck Attachments	Work Truck Solutions	Corporate and Eliminations	Total Revenue
Point in time	\$ 174,753	\$ 28,900	\$ (3,202)	\$ 200,451
Over time	-	46,959	-	46,959
Total revenue	\$ 174,753	\$ 75,859	\$ (3,202)	\$ 247,410

Table of Contents

Contract Balances

The following table shows the changes in the Company's contract liabilities during the three and six months ended June 30, 2018:

Three Months Ended June 30,2018	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Contract liabilities	\$ 2,219	\$ 4,351	\$ (3,254)	\$ 3,316

Six Months Ended June 30,2018	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Contract liabilities	\$ 2,048	\$ 6,171	\$ (4,903)	\$ 3,316

The Company receives payments from customers based upon contractual billing schedules. Contract assets include amounts related to our contractual right to consideration for completed performance objectives not yet invoiced. There were no contract assets as of June 30, 2018. 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 change in the contract liabilities balance is driven by an increase in customer payments received in advance of performance.

The Company recognized revenue of \$1,106 and \$1,385 during the three and six months ended June 30, 2018, respectively, which amount was included in contract liabilities at the beginning of each period.

Transaction Price Allocated to the Remaining Performance Obligations

Topic 606 requires that the Company disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of June 30, 2018. The guidance provides certain optional exemptions that limit this requirement. The Company has various contracts that meet the following optional exemptions provided by ASC 606:

1. The performance obligation is part of a contract that has an original expected duration of one year or less.

2. Revenue is recognized from the satisfaction of the performance obligations in the amount billable to the customer in accordance with ASC 606-10-55-18.
3. The variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with ASC 606-10-25-14(b), for which the criteria in ASC 606-10-32-40 have been met.

After considering the above optional exemptions, the estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period is immaterial. Specifically, all obligations are expected to be less than one year, revenue is recognized from the satisfaction of the performance obligations and variable consideration is allocated entirely to wholly unsatisfied performance obligations.

Table of Contents

Practical Expedients and Exemptions

As allowed under Topic 606, the Company adopted the following practical expedients and exemptions:

- The Company generally expenses sales commissions when incurred because the amortization period would have been less than one year. The Company records these costs within selling, general and administrative expenses.
- The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.
- The Company does not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer.
- The Company excludes from the transaction price all sales taxes that are assessed by a governmental authority.
- The Company does not adjust the promised amount of consideration for the effects of a significant financing component, as it expects at contract inception that the period between the transfer to a promised good or service to a customer and the customer's payment for the good or service will be one year or less.
- The Company accounts for shipping and handling activities that occur after control of the related good transfers as fulfillment activities instead of assessing such activities as performance obligations.

Impact of New Revenue Guidance on Financial Statement Line Items

In accordance with Topic 606, the disclosure of the impact of adoption to the condensed consolidated statements of operations was as follows:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Balances without adoption of Topic 606	Effect of Change Higher/(Lower)	As Reported	Balances without adoption of Topic 606	Effect of Change Higher/(Lower)
Net sales	\$ 163,446	\$ 163,483	\$ (37)	\$ 247,410	\$ 247,153	\$ 257

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Cost of sales	107,597	107,618	(21)	171,534	171,366	168
Gross profit	55,849	55,865	(16)	75,876	75,787	89
Selling, general, and administrative expense	20,543	20,543	-	36,689	36,689	-
Intangibles amortization	2,866	2,866	-	5,737	5,737	-
Income from operations	32,440	32,456	(16)	33,450	33,361	89
Interest expense, net	(4,096)	(4,096)	-	(8,041)	(8,041)	-
Litigation proceeds	-	-	-	-	-	-
Other expense, net	(264)	(264)	-	(467)	(467)	-
Income before taxes	28,080	28,096	(16)	24,942	24,853	89
Income tax expense	6,916	6,920	(4)	5,654	5,630	24
Net income	\$ 21,164	\$ 21,176	\$ (12)	\$ 19,288	\$ 19,223	\$ 65
Earnings per common share:						
Basic	\$ 0.92	\$ -	\$ 0.92	\$ 0.84	\$ -	\$ 0.84
Diluted	\$ 0.91	\$ -	\$ 0.91	\$ 0.83	\$ -	\$ 0.83

Table of Contents

In accordance with Topic 606, the disclosure of the impact of adoption to the condensed consolidated balance sheet was as follows:

	As of June 30, 2018		Effect of Change Higher/(Lower)
	As Reported	Balances without adoption of Topic 606	
Assets:			
Accounts Receivable	\$ 95,038	\$ 92,910	\$ 2,128
Inventory	84,633	86,339	(1,706)
Liabilities:			
Deferred tax liability	42,854	42,744	110
Shareholder's Equity:			
Retained Earnings	123,208	122,830	378

3.Acquisition

On May 1, 2017, the Company purchased substantially all of the assets of Arrowhead Equipment, Inc. ("Arrowhead"). Total consideration was \$7,385. The acquisition includes Arrowhead's assets acquired at two up-fit locations in Albany and Queensbury, New York that are both being leased by the Company. The assets were acquired with on hand cash and short term borrowings under the Company's Revolving Credit Agreement. The acquired assets are included in the Work Truck Solutions segment and were acquired to expand the geographical footprint of that segment. The Company incurred \$450 and \$488 of transaction expenses related to this acquisition that are included in selling, general and administrative expense in the Condensed Consolidated Statements of Income in the three and six months ended June 30, 2017, respectively.

The following table summarizes the allocation of the purchase price paid and the subsequent working capital adjustment to the fair value of the net assets acquired as of the acquisition date:

Accounts receivable - trade	\$ 852
Inventories	1,547
Prepays and other current assets	6
Property and equipment	624
Goodwill	2,720

Intangible assets	2,700
Accounts payable and other current liabilities	(957)
Unfavorable lease	(107)
Total	\$ 7,385

The goodwill for the acquisition is a result of acquiring and retaining the existing workforces and expected synergies from integrating the operations into the Company. The Company will be able to deduct amortization of goodwill for income tax purposes over a fifteen-year period. The acquisition was accounted for under the acquisition method of accounting, and accordingly, the results of operations are included in the Company's financial statements from the date of acquisition. For the three and six months ended June 30, 2018, the Arrowhead assets contributed \$2,602 and \$5,740 of revenues and \$271 and \$584 of pre-tax operating income to the Company, respectively.

4. Fair Value

Fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Fair value measurements are categorized into one of three levels based on the lowest level of significant input used: Level 1 (unadjusted quoted prices in active markets); Level 2 (observable market inputs available at the measurement date, other than quoted prices included in Level 1); and Level 3 (unobservable inputs that cannot be corroborated by observable market data).

Table of Contents

The following table presents financial assets and liabilities measured at fair value on a recurring basis and discloses the fair value of long-term debt:

	Fair Value at June 30, 2018	Fair Value at December 31, 2017
Assets:		
Other long-term assets (a)	\$ 5,569	\$ 4,840
Total Assets	\$ 5,569	\$ 4,840
Liabilities:		
Interest rate swaps (b)	\$ 3	\$ 2,178
Long term debt (c)	281,552	312,384
Earnout - Henderson (d)	444	529
Earnout - Dejana (e)	3,100	3,100
Total Liabilities	\$ 285,099	\$ 318,191

(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 \$262 and \$259 at June 30, 2018 are included in Accrued expenses and other current liabilities and Other long-term assets, respectively. Interest rate swaps of \$597 and \$1,581 at December 31, 2017 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) Included in Accrued expenses and other current liabilities and Other long term liabilities in the amounts of \$244 and \$200, respectively, at June 30, 2018 is the fair value of an obligation for a portion of the potential earnout acquired in conjunction with the acquisition of Henderson Enterprise Group, Inc. (“Henderson”). Included in Accrued expenses and other current liabilities and Other long term liabilities in the amounts of \$138 and \$442, respectively, at June 30, 2017 is the fair value of an obligation for a portion of the potential earnout acquired in conjunction with the acquisition of Henderson. Fair value is based upon Level 3 discounted cash flow analysis using key inputs of forecasted future sales as well as a growth rate reduced by the market required rate of return. See reconciliation of liability included below:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Beginning Balance	\$ 475	\$ 529	\$ 607	\$ 636
Additions	—	—	—	—
Adjustments to fair value	—	—	—	—
Payment to former owners	(31)	(85)	(27)	(56)
Ending balance	\$ 444	\$ 444	\$ 580	\$ 580

Table of Contents

(e) Included in Other long term liabilities in the amount of \$3,100 at June 30, 2018 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 the Peter Paul Dejana Family Trust dated 12/31/98 (“Dejana”). Included in Accrued expenses and other current liabilities and Other long term liabilities in the amounts of \$3,397 and \$1,489, respectively, at June 30, 2017 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. See reconciliation of liability included below:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Beginning Balance	\$ 3,100	\$ 3,100	\$ 4,886	\$ 10,373
Additions	—	—	—	—
Adjustments to fair value	—	—	—	—
Payment to former owners	—	—	—	(5,487)
Ending balance	\$ 3,100	\$ 3,100	\$ 4,886	\$ 4,886

5. Inventories

Inventories consist of the following:

	June 30, 2018	December 31, 2017
Finished goods	\$ 45,836	\$ 35,547
Work-in-process	7,760	7,774
Raw material and supplies	31,037	28,203
	\$ 84,633	\$ 71,524

The inventories in the table above do not include truck chassis inventory financed through a floor plan financing agreement. The Company takes title to truck chassis upon receipt of the inventory through its floor plan agreement and performs up-fitting service installations to the truck chassis inventory during the installation period. The floor plan obligation is then assumed by the dealer customer upon delivery. At June 30, 2018 and December 31, 2017, the Company had \$3,658 and \$7,711 of chassis inventory and related floor plan financing obligation, respectively. The Company recognizes revenue associated with up-fitting and service installations net of the truck chassis.

Unlike the floor plan agreement, the Company does not record inventory related to the truck chassis acquired through the bailment pool agreement as these truck chassis are held on consignment. Like the revenue recognized on floor plan arrangement, revenue recognized for up-fitting services on chassis acquired through the bailment agreement are also recognized net of the truck chassis.

Table of Contents

6. Property, plant and equipment

Property, plant and equipment are summarized as follows:

	June 30, 2018	December 31, 2017
Land	\$ 2,378	\$ 2,378
Land improvements	4,357	4,357
Leasehold improvements	4,313	4,183
Buildings	27,116	26,846
Machinery and equipment	47,195	44,618
Furniture and fixtures	14,175	13,681
Mobile equipment and other	4,677	4,576
Construction-in-process	4,457	4,320
Total property, plant and equipment	108,668	104,959
Less accumulated depreciation	(54,542)	(50,997)
Net property, plant and equipment	\$ 54,126	\$ 53,962

Table of Contents

7. Other Intangible Assets

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

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
June 30, 2018			
Indefinite-lived intangibles:			
Trademark and tradenames	\$ 77,600	\$ -	\$ 77,600
Amortizable intangibles:			
Dealer network	80,000	57,000	23,000
Customer relationships	80,920	13,956	66,964
Patents	21,136	11,349	9,787
Noncompete agreements	8,640	7,465	1,175
Trademarks	5,459	3,572	1,887
Backlog	1,900	1,900	-
License	20	20	-
Amortizable intangibles, net	198,075	95,262	102,813
Total	\$ 275,675	\$ 95,262	\$ 180,413

	Gross Carrying Amount	Less Accumulated Amortization	Net Carrying Amount
December 31, 2017			
Indefinite-lived intangibles:			
Trademark and tradenames	\$ 77,600	\$ -	\$ 77,600
Amortizable intangibles:			
Dealer network	80,000	55,000	25,000
Customer relationships	80,920	11,304	69,616
Patents	21,136	10,721	10,415
Noncompete agreements	8,640	7,055	1,585
Trademarks	5,459	3,525	1,934
Backlog	1,900	1,900	-
License	20	20	-
Amortizable intangibles, net	198,075	89,525	108,550
Total	\$ 275,675	\$ 89,525	\$ 186,150

Amortization expense for intangible assets was \$2,866 and \$2,786 for the three months ended June 30, 2018 and 2017, respectively. Amortization expense for intangible assets was \$5,737 and \$5,535 for the six months ended

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June 30, 2018 and 2017, respectively. Estimated amortization expense for the remainder of 2018 and each of the succeeding five years is as follows:

2018	\$ 5,738
2019	10,954
2020	10,932
2021	10,670
2022	10,520
2023	10,520

6.

16

Table of Contents

8.Long-Term Debt

Long-term debt is summarized below:

	June 30, 2018	December 31, 2017
Term Loan, net of debt discount of \$1,367 and \$1,562 at June 30, 2018 and December 31, 2017, respectively	\$ 279,456	\$ 310,830
Less current maturities	2,749	32,749
Long term debt before deferred financing costs	276,707	278,081
Deferred financing costs, net	2,798	3,209
Long term debt, net	\$ 273,909	\$ 274,872

At June 30, 2018, the Company had outstanding borrowings under the Term Loan Credit Agreement of \$279,456, no outstanding borrowings on the Revolving Credit Agreement and remaining borrowing availability of \$83,918. At December 31, 2017, the Company had outstanding borrowings under the Term Loan Credit Agreement of \$310,830, no outstanding borrowings on the Revolving Credit Agreement and remaining borrowing availability of \$99,463.

In accordance with the senior credit facilities, the Company is required to make additional principal prepayments over the above scheduled payments under certain conditions. This includes, in the case of the term loan facility, 100% of the net cash proceeds of certain asset sales, certain insurance or condemnation events, certain debt issuances, and, within 150 days of the end of each fiscal year, 50% of consolidated excess cash flow including a deduction for certain distributions (which percentage is reduced to 0% upon the achievement of certain leverage ratio thresholds), for such fiscal year. Consolidated excess cash flow is defined in the senior credit facilities as consolidated adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) plus a consolidated working capital adjustment, less the sum of repayments of debt and capital expenditures (subject to certain adjustments), interest and taxes paid in cash, management fees and certain restricted payments (including certain dividends or distributions). Consolidated working capital adjustment is defined in the senior credit facilities as the change in working capital, defined as current assets, excluding cash and cash equivalents, less current liabilities, excluding the current portion of long term debt. As of June 30, 2018, the Company was not required to make additional excess cash flow payments during fiscal 2018. The Company made a required excess cash flow payment of \$11,279 and a voluntary payment of \$18,721 on January 31, 2018.

The Company entered into interest rate swap agreements on February 20, 2015 to reduce its exposure to interest rate volatility. The three interest rate swap agreements have notional amounts of \$45,000, \$90,000 and \$135,000 effective for the periods December 31, 2015 through March 29, 2018, March 29, 2018 through March 31, 2020 and March 31, 2020 through June 30, 2021, respectively. On February 5, 2018, the Company entered into additional interest rate swap agreements to reduce its exposure to interest rate volatility. The two interest rate swap agreements have notional amounts of \$50,000 and \$150,000 effective for the periods December 31, 2018 through June 30, 2021 and June 30, 2021 through December 10, 2021, respectively. The interest rates swaps are accounted for as cash flow hedges. The Company may have counterparty credit risk resulting from the interest rate swap, which it monitors on an on-going basis. This risk lies with one global financial institution. Under the interest rate swap agreement, effective as of December 31, 2015, the Company either received or made payments on a monthly basis based on the differential between 6.105% and LIBOR plus 3.00% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement, effective as of March 29, 2018, the Company will either receive or make payments on a monthly basis based on the differential between 6.916% and LIBOR plus 3.00% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement, effective as of March 31, 2020, the Company will either receive or make payments on a monthly basis based on the differential between 7.168% and LIBOR plus 3.00% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement effective as of December 31, 2018, the Company will either receive or make payments on a monthly basis based on the differential between 2.613% and LIBOR. Under the interest rate swap agreement effective as of June 30, 2021, the Company will either receive or make payments on a monthly basis based on the

Table of Contents

differential between 2.793% and LIBOR. The interest rate swaps' negative fair value at June 30, 2018 was \$3, of which \$262 and \$259 are included in Accrued expenses and other current liabilities and Other long-term assets on the Condensed Consolidated Balance Sheet, respectively. The interest rate swaps' negative fair value at December 31, 2017 was \$2,178, of which \$597 and \$1,581 are included in Accrued expenses and other current liabilities and Other long-term liabilities on the Condensed Consolidated Balance Sheet, respectively.

9. Accrued Expenses and Other Current Liabilities

As outstanding checks exceeded the cash book balance at June 30, 2018 by \$1,087, such amount has been included in Accrued expenses and other current liabilities. Accrued expenses and other current liabilities are summarized as follows:

	June 30, 2018	December 31, 2017
Payroll and related costs	\$ 7,116	\$ 6,923
Employee benefits	5,833	4,701
Accrued warranty	3,061	3,262
Other	7,867	6,118
	\$ 23,877	\$ 21,004

10. 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. 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 \$5,176 at June 30, 2018, of which \$2,115 is included in Other long term liabilities and \$3,061 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet. The warranty reserve was \$5,677 at December 31, 2017, of which \$2,415 is included in Other long term liabilities and \$3,262 is included in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Balance at the beginning of the period	\$ 4,630	\$ 5,281	\$ 5,677	\$ 6,160
Establish warranty provision for Arrowhead	-	65	-	65
Warranty provision	1,109	937	1,771	1,563
Claims paid/settlements	(563)	(708)	(2,272)	(2,213)
Balance at the end of the period	\$ 5,176	\$ 5,575	\$ 5,176	\$ 5,575

Table of Contents

11. Employee Retirement Plans

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Component of net periodic pension cost:				
Service cost	\$ 102	\$ 89	\$ 204	\$ 178
Interest cost	389	403	778	806
Expected return on plan assets	(475)	(448)	(950)	(896)
Amortization of net loss	176	181	352	362
Net periodic pension cost	\$ 192	\$ 225	\$ 384	\$ 450

The Company estimates its total required minimum contributions to its pension plans in 2018 will be \$72. Through June 30, 2018, the Company has made \$31 of cash contributions to the pension plans versus \$655 through the same period in 2017.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017

Component of periodic other postretirement benefit cost:

Service cost	\$ 47	\$ 51	\$ 94	\$ 102
Interest cost	58	70	116	140
Amortization of net gain	(52)	(27)	(104)	(54)
Net periodic other postretirement benefit cost	\$ 53	\$ 94	\$ 106	\$ 188

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

12.Earnings per Share

Basic earnings per share of common stock is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed by dividing net income by the weighted average number of common shares, using the two-class method. As the Company has granted restricted stock units (“RSUs”) that both participate in dividend equivalents and do not participate in dividend equivalents, the Company has calculated earnings per share pursuant to the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. Diluted net earnings per share is calculated by dividing net income attributable to common stockholders as adjusted for the effect of dilutive non-participating securities, by the weighted average number of common stock and

dilutive common stock outstanding during the period. Potential common shares in the diluted net earnings per share computation are excluded to the extent that they would be anti-dilutive.

Table of Contents

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Basic earnings per common share				
Net income	\$ 21,164	\$ 14,746	\$ 19,288	\$ 11,469
Less income allocated to participating securities	294	187	268	150
Net income allocated to common shareholders	\$ 20,870	\$ 14,559	\$ 19,020	\$ 11,319
Weighted average common shares outstanding	22,700,991	22,590,897	22,662,469	22,561,785
	\$ 0.92	\$ 0.64	\$ 0.84	\$ 0.50
Earnings per common share assuming dilution				
Net income	\$ 21,164	\$ 14,746	\$ 19,288	\$ 11,469
Less income allocated to participating securities	294	187	268	150
Net income allocated to common shareholders	\$ 20,870	\$ 14,559	\$ 19,020	\$ 11,319
Weighted average common shares outstanding	22,700,991	22,590,897	22,662,469	22,561,785
Incremental shares applicable to non-participating RSUs	16,601	14,311	14,172	9,567
Weighted average common shares assuming dilution	22,717,592	22,605,208	22,676,641	22,571,352
	\$ 0.91	\$ 0.64	\$ 0.83	\$ 0.50

13. Employee Stock Plans

2010 Stock Incentive Plan

In May 2010, the Company's Board of Directors and stockholders adopted the 2010 Stock Incentive Plan (the "2010 Plan"). The 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. For the 2018 equity grants, the retirement provision also stipulates that the employee remain employed by the Company for six months after the first day of the fiscal year of the grant. As the retirement provision does not qualify as a substantive service condition, the Company incurred \$2,226 and \$0 in the three months ended June 30, 2018 and 2017, respectively, and \$2,968 and \$619 in the six months ended June 30, 2018 and 2017, 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 quarter of 2018 that are subject to performance conditions over a three year performance period for the years ending 2018 through 2020. 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 prior years, upon meeting the

Table of Contents

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 \$37.40. The Company recognized \$1,442 and \$520 of compensation expense related to the awards in the three months ended June 30, 2018 and 2017, respectively. The Company recognized \$1,932 and \$671 of compensation expense related to the awards in the six months ended June 30, 2018 and 2017, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of June 30, 2018, expected to be earned through the requisite service period was approximately \$601 and is expected to be recognized through 2021.

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 for executives that participate in dividend equivalents, and a second for non-executives that do not participate in dividend equivalents. Each RSU represents the right to receive one share of the Company's common stock and is subject to time based vesting restrictions. Participants are not required to pay any consideration to the Company at either the time of grant of a RSU or upon vesting.

A summary of RSU activity for the six months ended June 30, 2018 is as follows:

	Shares	Weighted Average Grant Date Fair value	Weighted Average Remaining Contractual Term
Unvested at December 31, 2017	47,542	\$ 23.95	0.84 years
Granted	134,585	\$ 35.71	0.57 years
Vested	(96,034)	\$ 30.54	
Cancelled and forfeited	-	\$ -	

Unvested at June 30, 2018	86,093	\$ 34.98	0.96 years
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Expected to vest in the future at June 30, 2018	86,093	\$ 34.98	0.96 years
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The Company recognized \$1,303 and \$238 of compensation expense related to the RSU awards in the three months ended June 30, 2018 and 2017, respectively. The Company recognized \$2,233 and \$1,437 of compensation expense related to the RSU awards in the six months ended June 30, 2018 and 2017, respectively. The unrecognized compensation expense, calculated under the fair value method for shares that were, as of June 30, 2018, expected to be earned through the requisite service period was approximately \$1,266 and is expected to be recognized through 2021.

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.

Table of Contents

14. Commitments and Contingencies

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

15. Segments

The Company operates through two operating segments for which separate financial information is available, and for which operating results are evaluated regularly by the Company's chief operating decision maker in determining resource allocation and assessing performance. The Company's two current reportable business segments are described below.

Work Truck Attachments. The Work Truck Attachments segment includes snow and ice management attachments sold under the FISHER®, WESTERN®, HENDERSON® and SNOWEX® brands. This segment consists of our operations that, prior to the Company's acquisition of Dejana, were the Company's single operating segment, consisting of the manufacture and sale of snow and ice control products.

Work Truck Solutions. The Work Truck Solutions segment, which was created as a result of the Dejana acquisition, includes the up-fit of market leading attachments and storage solutions for commercial work vehicles under the DEJANA® brand and its related sub-brands.

Table of Contents

Segment performance is evaluated based on segment net sales and operating income. Items not allocated to segment operating income include corporate administrative expenses and certain other amounts. 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.

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net sales				
Work Truck Attachments	\$ 127,294	\$ 105,508	\$ 174,753	\$ 149,086
Work Truck Solutions	37,146	34,865	75,859	64,524
Corporate & Eliminations	(994)	(1,002)	(3,202)	(1,991)
	\$ 163,446	\$ 139,371	\$ 247,410	\$ 211,619
Selling, general, and administrative expense				
Work Truck Attachments	\$ 8,317	\$ 8,453	\$ 15,330	\$ 15,402
Work Truck Solutions	5,756	4,540	10,814	8,312
Corporate & Eliminations	6,470	3,753	10,545	7,909
	\$ 20,543	\$ 16,746	\$ 36,689	\$ 31,623
Income (loss) from operations				
Work Truck Attachments	\$ 38,787	\$ 27,089	\$ 42,883	\$ 29,081
Work Truck Solutions	500	2,541	1,853	3,359
Corporate & Eliminations	(6,847)	(4,129)	(11,286)	(7,378)
	\$ 32,440	\$ 25,501	\$ 33,450	\$ 25,062
Depreciation Expense				
Work Truck Attachments	\$ 1,406	\$ 1,342	\$ 2,777	\$ 2,719
Work Truck Solutions	439	363	867	678
Corporate & Eliminations	19	36	50	80
	\$ 1,864	\$ 1,741	\$ 3,694	\$ 3,477
Assets				
Work Truck Attachments	\$ 450,916	\$ 446,670		
Work Truck Solutions	210,536	215,602		
Corporate & Eliminations	7,235	11,237		
	\$ 668,687	\$ 673,509		
Capital Expenditures				
Work Truck Attachments	\$ 2,523	\$ 1,217	\$ 2,883	\$ 2,090
Work Truck Solutions	1,046	623	1,196	1,056
	\$ 3,569	\$ 1,840	\$ 4,079	\$ 3,146

All intersegment sales are eliminated in consolidation.

16. Income Taxes

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. The Company's effective tax rate was 24.6% and 34.0% for the three months ended June 30, 2018 and 2017, respectively. The Company's effective tax rate was 22.7% and 30.0% for the six months ended June 30, 2018 and 2017, respectively. The effective tax rate for the three and six months ended June 30, 2018 was lower when compared to the same periods in 2017 due to the lower corporate tax rate resulting from the passage of the Tax Cuts and Jobs Act ("Tax Act") that went into effect December 22, 2017. Offsetting this decrease was an increase due to the prior year release of the reserve for uncertain tax positions of \$556 in the three months ended June 30, 2017. For the six months ended June 30, 2018 and 2017, the Company recognized a discrete tax benefit related to excess tax benefits

Table of Contents

from stock compensation of \$530 and \$616, respectively. The Company continues to analyze the different aspects of the Tax Act which could potentially affect the provisional estimates that were recorded at December 31, 2017.

17.Changes in Accumulated Other Comprehensive Loss by Component

Changes to accumulated other comprehensive loss by component for the six months ended June 30, 2018 are as follows:

	Unrealized Net Loss on Interest Rate Swap	Retiree Health Benefit Obligation	Pension Obligation	Total
Balance at December 31, 2017	\$ (1,328)	\$ 1,392	\$ (6,636)	\$ (6,572)
Other comprehensive loss before reclassifications	1,460	—	—	1,460
Amounts reclassified from accumulated other comprehensive loss: (1)	149	(77)	260	332
Balance at June 30, 2018	\$ 281	\$ 1,315	\$ (6,376)	\$ (4,780)
(1) Amounts reclassified from accumulated other comprehensive loss:				
Amortization of Other Postretirement Benefit items:				
Actuarial gains (a)	(104)			
Tax expense	27			
Reclassification net of tax	\$ (77)			
Amortization of pension items:				
Actuarial losses (a)	352			
Tax benefit	(92)			
Reclassification net of tax	\$ 260			
Realized losses on interest rate swaps reclassified to interest expense	201			
Tax benefit	(52)			
Reclassification net of tax	\$ 149			

(a) These components are included in the computation of benefit plan costs in Note 11.

Table of Contents

Changes to accumulated other comprehensive loss by component for the six months ended June 30, 2017 are as follows:

	Unrealized Net Loss on Interest Rate Swap	Retiree Health Benefit Obligation	Pension Obligation	Total
Balance at December 31, 2016	\$ (1,195)	\$ 937	\$ (6,414)	\$ (6,672)
Other comprehensive loss before reclassifications	(586)	-	-	(586)
Amounts reclassified from accumulated other comprehensive loss: (1)	120	(33)	224	311
Balance at June 30, 2017	\$ (1,661)	\$ 904	\$ (6,190)	\$ (6,947)
(1) Amounts reclassified from accumulated other comprehensive loss:				
Amortization of Other Postretirement Benefit items:				
Actuarial gains (a)	(54)			
Tax expense	21			
Reclassification net of tax	\$ (33)			
Amortization of pension items:				
Actuarial losses (a)	362			
Tax benefit	(138)			
Reclassification net of tax	\$ 224			
Realized losses on interest rate swaps reclassified to interest expense	194			
Tax benefit	(74)			
Reclassification net of tax	\$ 120			

(a) These components are included in the computation of benefit plan costs in Note 11.

18. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 Leases: Amendments to the FASB Accounting Standards Codification. ASU 2016-02 increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning on January 1, 2019. In July 2018, the FASB issued ASU No. 2018-11 Leases: Targeted Improvements which allows entities to apply the new lease standard at the adoption date, rather than at the earliest period presented. In transition, lessees and lessors are required to recognize and measure leases using a modified retrospective approach. The Company is in the process of analyzing the impact of the guidance on its inventory of lease contracts and currently intends to adopt the standard in the first quarter of fiscal 2019. The Company expects this ASU to have a material impact on its consolidated financial statements upon recognition of the lease liability and right-of-use asset for lease contracts which are currently accounted for as operating leases.

In February 2018, the FASB issued ASU No. 2018-02 Income Statement – Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recorded. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact of this standard, and does not expect a material impact on the financial statements.

Table of Contents

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," "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; (ii) a significant decline in economic conditions; (iii) our ability to maintain good relationships with our distributors; (iv) our inability to maintain good relationships with the original equipment manufacturers with whom we currently do significant business; (v) lack of available or favorable financing options for our end-users, distributors or customers; (vi) 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; (vii) increases in the price of fuel; (viii) the inability of our suppliers and original equipment manufacturer partners to meet our volume or quality requirements; (ix) inaccuracies in our estimates of future demand for our products; (x) our inability to protect or continue to build our intellectual property portfolio; (xi) the effects of laws and regulations and their interpretations on our business and financial condition; (xii) our inability to develop new products or improve upon existing products in response to end-user needs; (xiii) losses due to lawsuits arising out of personal injuries associated with our products; (xiv) factors that could impact the future declaration and payment of dividends; (xv) our inability to compete effectively against competition; and (xvi) our inability to achieve the projected financial performance with the business of Henderson, which we acquired in 2014, the assets of Dejana, which we acquired in 2016 or the assets of Arrowhead Equipment, Inc., which we acquired in 2017 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 operates through two reportable business segments as described below.

Work Truck Attachments. The Work Truck Attachments segment includes snow and ice management attachments sold under the FISHER®, WESTERN®, HENDERSON® and SNOWEX® brands. This segment consists of our operations that, prior to our acquisition of Dejana, were our single operating segment, consisting of the manufacture and sale of 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.

Table of Contents

Work Truck Solutions. The Work Truck Solutions segment, which was created as a result of the Dejana acquisition, includes the premier truck up-fit of market leading attachments and storage solutions for commercial work vehicles under the DEJANA® brand and its related sub-brands.

Overview

Effective January 1, 2018, we adopted Topic 606, “Revenue from Contracts with Customers”, using the modified retrospective approach. The adoption of Topic 606 did not have a significant impact on the Work Truck Attachments segment. In the Work Truck Solutions segment, the standard changed the timing of revenue for truck upfits of customer-owned chassis from a point in time to over time. This change in timing of revenue recognition increased revenue by \$0.0 million and \$0.3 million in the three and six months ended June 30, 2018, respectively.

The following table sets forth, for the three and six months ended June 30, 2018 and 2017, the consolidated statements of operations of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the table below and throughout this “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” consolidated statements of operations data for the three and six months ended June 30, 2018 and 2017 have been derived from our unaudited consolidated financial statements. The information contained in the table below should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q.

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
	(in thousands)		(in thousands)	
Net sales	\$ 163,446	\$ 139,371	\$ 247,410	\$ 211,619
Cost of sales	107,597	94,338	171,534	149,399
Gross profit	55,849	45,033	75,876	62,220
Selling, general, and administrative expense	20,543	16,746	36,689	31,623
Intangibles amortization	2,866	2,786	5,737	5,535
Income from operations	32,440	25,501	33,450	25,062
Interest expense, net	(4,096)	(4,192)	(8,041)	(9,488)
Litigation proceeds	-	1,275	-	1,275
Other expense, net	(264)	(230)	(467)	(466)

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Income before taxes	28,080	22,354	24,942	16,383
Income tax expense	6,916	7,608	5,654	4,914
Net income	\$ 21,164	\$ 14,746	\$ 19,288	\$ 11,469

27

Table of Contents

The following table sets forth for the three and six months ended June 30, 2018 and 2017, the percentage of certain items in our condensed consolidated statement of operations, relative to net sales:

	Three Months Ended		Six Months Ended			
	June 30, 2018 (unaudited)	June 30, 2017	June 30, 2018 (unaudited)	June 30, 2017		
Net sales	100.0	% 100.0	% 100.0	% 100.0	%	%
Cost of sales	65.8	% 67.7	% 69.3	% 70.6	%	%
Gross profit	34.2	% 32.3	% 30.7	% 29.4	%	%
Selling, general, and administrative expense	12.6	% 12.0	% 14.8	% 15.1	%	%
Intangibles amortization	1.9	% 2.0	% 2.3	% 2.6	%	%
Income from operations	19.7	% 18.3	% 13.6	% 11.7	%	%
Interest expense, net	(2.5)	% (3.0)	% (3.3)	% (4.5)	%	%
Litigation proceeds	-	% 0.9	% -	% 0.6	%	%
Other expense, net	(0.2)	% (0.2)	% -	% (0.1)	%	%
Income before taxes	17.0	% 16.0	% 10.3	% 7.7	%	%
Income tax expense	4.2	% 5.4	% 2.3	% 2.3	%	%
Net income	12.8	% 10.6	% 8.0	% 5.4	%	%

Net Sales

Net sales were \$163.4 million for the three months ended June 30, 2018 compared to \$139.4 million in the three months ended June 30, 2017, an increase of \$24.0 million, or 17.2%. Net sales were \$247.4 million for the six months ended June 30, 2018 compared to \$211.6 million in the six months ended June 30, 2017, an increase of \$35.8 million, or 16.9%. Overall, sales increased due to the return of average levels of snowfall in the snow season ended March 31, 2018 compared to below average snowfall in the snow season ended March 31, 2017, as well as overall increased demand. See below for a discussion of net sales for each of our segments.

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net sales				

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Work Truck Attachments	\$ 127,294	\$ 105,508	\$ 174,753	\$ 149,086
Work Truck Solutions	37,146	34,865	75,859	64,524
Corporate & Eliminations	(994)	(1,002)	(3,202)	(1,991)
	\$ 163,446	\$ 139,371	\$ 247,410	\$ 211,619