DOUGLAS DYNAMICS, INC
Form 10-Q
November 06, 2018
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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, 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 (State or other jurisdiction of incorporation or organization)	134275891 (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 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 6, 2018 was 22,700,991.

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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, 2018 (unaudited)	December 31, 2017 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ -	$ 36,875
Accounts receivable, net	128,164	79,120
Inventories	89,444	71,524
Inventories - truck chassis floor plan	9,495	7,711
Refundable income taxes paid	1,476	-
Prepaid and other current assets	3,562	2,883
Total current assets	232,141	198,113
Property, plant, and equipment, net	54,298	53,962
Goodwill	241,006	241,006
Other intangible assets, net	177,545	186,150
Other long-term assets	7,750	5,945
Total assets	$ 712,740	$ 685,176
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 15,280	$ 16,323
Accrued expenses and other current liabilities	28,360	21,004
Floor plan obligations	9,495	7,711
Income taxes payable	-	2,996
Short term borrowings	38,000	-
Current portion of long-term debt	2,749	32,749
Total current liabilities	93,884	80,783
Retiree health benefit obligation	7,113	6,809

Pension obligation	2,803	9,761
Deferred income taxes	46,447	39,269
Long-term debt, less current portion	273,428	274,872
Other long-term liabilities	14,355	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 September 30, 2018 and December 31, 2017, respectively	227	226
Additional paid-in capital	151,443	147,287
Retained earnings	127,032	115,737
Accumulated other comprehensive loss, net of tax	(3,992)	(6,572)
Total stockholders' equity	274,710	256,678
Total liabilities and stockholders' equity	$ 712,740	$ 685,176

See the accompanying notes to condensed consolidated financial statements.

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Douglas Dynamics, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income

(In thousands, except share and per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2018 (unaudited)	September 30, 2017	September 30, 2018 (unaudited)	September 30, 2017
Net sales	$ 124,832	$ 125,339	$ 372,242	$ 336,958
Cost of sales	89,912	89,284	261,446	238,683
Gross profit	34,920	36,055	110,796	98,275
Selling, general, and administrative expense	16,592	12,914	53,281	44,537
Intangibles amortization	2,868	2,997	8,605	8,532
Income from operations	15,460	20,144	48,910	45,206
Interest expense, net	(4,379)	(4,860)	(12,420)	(14,348)
Litigation proceeds	-	-	-	1,275
Other expense, net	(12)	(203)	(479)	(669)
Income before taxes	11,069	15,081	36,011	31,464
Income tax expense	1,148	5,754	6,802	10,668
Net income	$ 9,921	$ 9,327	$ 29,209	$ 20,796
Weighted average number of common shares outstanding:				
Basic	22,700,991	22,590,897	22,675,450	22,571,560
Diluted	22,726,517	22,604,921	22,697,259	22,582,502
Earnings per common share:				
Basic	$ 0.43	$ 0.41	$ 1.27	$ 0.91
Diluted	$ 0.43	$ 0.40	$ 1.26	$ 0.90
Cash dividends declared and paid per share	$ 0.27	$ 0.24	$ 0.80	$ 0.72
Comprehensive income	$ 10,709	$ 9,396	$ 31,789	$ 20,590

See the accompanying notes to condensed consolidated financial statements.

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Douglas Dynamics, Inc.

Condensed Consolidated Statements of Cash Flows

(In thousands)

	Nine Months Ended	
	September 30, 2018	September 30, 2017
	(unaudited)	
Operating activities		
Net income	$ 29,209	$ 20,796
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	14,215	13,815
Amortization of deferred financing costs and debt discount	911	911
Loss on disposal of fixed assets	185	-
Stock-based compensation	4,180	2,750
Provision for losses on accounts receivable	446	1,424
Deferred income taxes	7,178	4,464
Earnout liability	-	(1,186)
Changes in operating assets and liabilities:		
Accounts receivable	(47,105)	(39,519)
Inventories	(19,795)	(4,929)
Prepaid and refundable income taxes and other assets	(4,093)	(55)
Accounts payable	(872)	(2,556)
Accrued expenses and other current liabilities	4,360	3,069
Benefit obligations and other long-term liabilities	(6,723)	347
Net cash used in operating activities	(17,904)	(669)
Investing activities		
Capital expenditures	(6,302)	(5,216)
Acquisition of business	-	(7,385)
Net cash used in investing activities	(6,302)	(12,601)
Financing activities		
Shares withheld on restricted stock vesting paid for employees’ taxes	(23)	(923)
Payments of financing costs	-	(1,608)
Earnout payment	-	(5,487)
Dividends paid	(18,291)	(16,476)

Net revolver borrowings	38,000	23,000
Repayment of long-term debt	(32,355)	(2,363)
Net cash used in financing activities	(12,669)	(3,857)
Change in cash and cash equivalents	(36,875)	(17,127)
Cash and cash equivalents at beginning of period	36,875	18,609
Cash and cash equivalents at end of period	$ -	$ 1,482
Non-cash operating and financing activities		
Truck chassis inventory acquired through floorplan obligations	$ 30,034	$ 33,271

See the accompanying notes to condensed consolidated financial statements.

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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 September 30, 2018 and the condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2018 and 2017 and condensed cash flows for the nine months ended September 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.

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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 $537 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 nine months ended September 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 increased revenue by $16 and increased revenue by $273 in the three and nine months ended September 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.

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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

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customer-owned upfits based on estimated margin and completion. This change to over time recognition for customer owned vehicles increased revenue by $16 and increased revenue by $273 for the three and nine months ended September 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 September 30, 2018	Work Truck Attachments	Work Truck Solutions	Corporate and Eliminations	Total Revenue
Independent dealer	$ 80,964	$ 18,732	$ -	$ 99,696
Government	12,568	-	-	12,568
Fleet	-	13,955	-	13,955
Other	-	2,017	(3,404)	(1,387)
Total revenue	$ 93,532	$ 34,704	$ (3,404)	$ 124,832

Nine Months Ended September 30, 2018	Work Truck Attachments	Work Truck Solutions	Corporate and Eliminations	Total Revenue
Independent dealer	$ 232,934	$ 58,524	$ -	$ 291,458
Government	35,351	-	-	35,351
Fleet	-	43,501	-	43,501
Other	-	8,538	(6,606)	1,932
Total revenue	$ 268,285	$ 110,563	$ (6,606)	$ 372,242

Revenue by timing of revenue recognition was as follows:

Three Months Ended September 30, 2018	Work Truck Attachments	Work Truck Solutions	Corporate and Eliminations	Total Revenue
Point in time	$ 93,532	$ 13,601	$ (3,404)	$ 103,729
Over time	-	21,103	-	21,103
Total revenue	$ 93,532	$ 34,704	$ (3,404)	$ 124,832

Nine Months Ended September 30, 2018	Work Truck Attachments	Work Truck Solutions	Corporate and Eliminations	Total Revenue
Point in time	$ 268,285	$ 42,501	$ (6,606)	$ 304,180
Over time	-	68,062	-	68,062
Total revenue	$ 268,285	$ 110,563	$ (6,606)	$ 372,242

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Contract Balances

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

Three Months Ended September 30, 2018	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Contract liabilities	$ 3,316	$ 2,434	$ (3,544)	$ 2,206

Nine Months Ended September 30, 2018	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
Contract liabilities	$ 2,048	$ 8,605	$ (8,447)	$ 2,206

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 September 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 for the three and nine months ended September 30, 2018 is driven by an increase in customer payments received in advance of performance.

The Company recognized revenue of $980 and $2,365 during the three and nine months ended September 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 September 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.

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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 September 30, 2018			Nine Months Ended September 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	$ 124,832	$ 124,816	$ 16	$ 372,242	$ 371,969	$ 273
Cost of sales	89,912	89,910	2	261,446	261,276	170

Gross profit	34,920	34,906	14	110,796	110,693	103
Income from operations	15,460	15,446	14	48,910	48,807	103
Income tax expense	1,148	1,144	4	6,802	6,774	28
Net income	$ 9,921	$ 9,911	$ 10	$ 29,209	$ 29,134	$ 75
Earnings per common share:						
Basic	$ 0.43	$ -	$ 0.43	$ 1.27	$ -	$ 1.27
Diluted	$ 0.43	$ -	$ 0.43	$ 1.26	$ -	$ 1.26

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

	As of September 30, 2018		
	As Reported	Balances without adoption of Topic 606	Effect of Change Higher/(Lower)
Assets:			
Accounts Receivable	$ 128,164	$ 126,052	$ 2,112
Inventory	89,444	91,148	(1,704)
Liabilities:			
Deferred tax liability	46,447	46,341	106
Shareholder's Equity:			
Retained Earnings	127,032	126,654	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 ($70) and $418 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 nine months ended September 30, 2017, respectively, which includes an accrual reversal for estimated transaction-related expenses.

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
Prepaids 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 nine months ended September 30, 2018, the Arrowhead assets contributed $2,583 and $8,324 of revenues and $220 and $791 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).

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, 2018	Fair Value at December 31, 2017
Assets:		
Other long-term assets (a)	$ 5,762	$ 4,840
Interest rate swaps (b)	935	-
Total Assets	$ 6,697	$ 4,840
Liabilities:		
Interest rate swaps (b)	$ -	$ 2,178
Long term debt (c)	280,860	312,384
Earnout - Henderson (d)	413	529
Earnout - Dejana (e)	3,100	3,100
Total Liabilities	$ 284,373	$ 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 $7 and $942 at September 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 $213 and $200, respectively, at September 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 $111 and $442, respectively, at September 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:

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	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Beginning Balance	$ 444	$ 529	$ 580	$ 636
Additions	—	—	—	—
Adjustments to fair value	—	—	—	—
Payment to former owners	(31)	(116)	(27)	(83)
Ending balance	$ 413	$ 413	$ 553	$ 553

(e) Included in Other long term liabilities in the amount of $3,100 at September 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 Other long term liabilities in the amount of $3,700 at September 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 September 30, 2018	Nine Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Beginning Balance	$ 3,100	$ 3,100	$ 4,886	$ 10,373
Additions	—	—	—	—
Adjustments to fair value	—	—	(1,186)	(1,186)
Payment to former owners	—	—	—	(5,487)
Ending balance	$ 3,100	$ 3,100	$ 3,700	$ 3,700

5.Inventories

Inventories consist of the following:

	September 30, 2018	December 31, 2017
Finished goods	$ 43,480	$ 35,547
Work-in-process	8,704	7,774
Raw material and supplies	37,260	28,203
	$ 89,444	$ 71,524

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

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upon delivery. At September 30, 2018 and December 31, 2017, the Company had $9,495 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.

6.Property, plant and equipment

Property, plant and equipment are summarized as follows:

	September 30, 2018	December 31, 2017
Land	$ 2,378	$ 2,378
Land improvements	4,357	4,357
Leasehold improvements	4,080	4,183
Buildings	27,134	26,846
Machinery and equipment	48,847	44,618
Furniture and fixtures	14,470	13,681
Mobile equipment and other	4,750	4,576
Construction-in-process	4,598	4,320
Total property, plant and equipment	110,614	104,959
Less accumulated depreciation	(56,316)	(50,997)
Net property, plant and equipment	$ 54,298	$ 53,962

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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
September 30, 2018			
Indefinite-lived intangibles:			
Trademark and tradenames	$ 77,600	$ -	$ 77,600
Amortizable intangibles:			
Dealer network	80,000	58,000	22,000
Customer relationships	80,920	15,281	65,639
Patents	21,136	11,662	9,474
Noncompete agreements	8,640	7,671	969
Trademarks	5,459	3,596	1,863
Backlog	1,900	1,900	-
License	20	20	-
Amortizable intangibles, net	198,075	98,130	99,945
Total	$ 275,675	$ 98,130	$ 177,545

	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 $2,868 and $2,997 for the three months ended September 30, 2018 and 2017, respectively. Amortization expense for intangible assets was $8,605 and $8,532 for the nine months ended

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

2018	$ 2,869
2019	10,954
2020	10,932
2021	10,670
2022	10,520
2023	10,520

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8.Long-Term Debt

Long-term debt is summarized below:

	September 30, 2018	December 31, 2017
Term Loan, net of debt discount of $1,269 and $1,562 at September 30, 2018 and December 31, 2017, respectively	$ 278,769	$ 310,830
Less current maturities	2,749	32,749
Long term debt before deferred financing costs	276,020	278,081
Deferred financing costs, net	2,592	3,209
Long term debt, net	$ 273,428	$ 274,872

At September 30, 2018, the Company had outstanding borrowings under the Term Loan Credit Agreement of $278,769, outstanding borrowings on the Revolving Credit Agreement of $38,000, and remaining borrowing availability of $61,420. 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 September 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

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differential between 2.793% and LIBOR. The interest rate swaps' positive fair value at September 30, 2018 was $935, of which $7 and $942 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 September 30, 2018 by $3,652, such amount has been included in Accrued expenses and other current liabilities in the "Other" category below. Accrued expenses and other current liabilities are summarized as follows:

	September 30, 2018	December 31, 2017
Payroll and related costs	$ 10,195	$ 6,923
Employee benefits	5,347	4,701
Accrued warranty	3,431	3,262
Other	9,387	6,118
	$ 28,360	$ 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 $5,754 at September 30, 2018, of which $2,323 is included in Other long term liabilities and $3,431 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		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Balance at the beginning of the period	$ 5,176	$ 5,575	$ 5,677	$ 6,160
Establish warranty provision for Arrowhead	-	-	-	65
Warranty provision	1,050	615	2,821	2,178
Claims paid/settlements	(472)	(373)	(2,744)	(2,586)
Balance at the end of the period	$ 5,754	$ 5,817	$ 5,754	$ 5,817

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11. Employee Retirement Plans

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Component of net periodic pension cost:				
Service cost	$ 102	$ 89	$ 306	$ 267
Interest cost	389	403	1,167	1,209
Expected return on plan assets	(475)	(448)	(1,425)	(1,344)
Amortization of net loss	176	181	528	543
Net periodic pension cost	$ 192	$ 225	$ 576	$ 675

The Company estimates its total required minimum contributions to its pension plans in 2018 will be $72. Through September 30, 2018, the Company has made $7,047 of cash contributions to the pension plans versus $655 through the same period in 2017. This payment includes a $7,000 discretionary payment to its pension plans related to the 2017 plan year made on September 14, 2018.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017

Component of periodic other postretirement benefit cost:				
Service cost	$ 47	$ 51	$ 141	$ 153
Interest cost	58	70	174	210
Amortization of net gain	(52)	(27)	(156)	(81)
Net periodic other postretirement benefit cost	$ 53	$ 94	$ 159	$ 282

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.

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Basic earnings per common share				
Net income	$ 9,921	$ 9,327	$ 29,209	$ 20,796
Less income allocated to participating securities	131	117	390	268
Net income allocated to common shareholders	$ 9,790			