

DOUGLAS DYNAMICS, INC
Form 10-Q
August 06, 2013
[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, 2013

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 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

Edgar Filing: DOUGLAS DYNAMICS, INC - Form 10-Q

Number of shares of registrant's common shares outstanding as of August 6, 2013 was 22,223,454

Table of Contents

DOUGLAS DYNAMICS, INC.

Table of Contents

<u>PART I. FINANCIAL INFORMATION</u>	1
<u>Item 1. Financial Statements</u>	1
<u>Unaudited Consolidated Balance Sheet as of June 30, 2013 and audited Consolidated Balance Sheet as of December 31, 2012</u>	1
<u>Unaudited Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2013 and 2012</u>	2
<u>Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012</u>	3
<u>Notes to Unaudited Consolidated Financial Statements</u>	4
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>Item 4. Controls and Procedures</u>	24
<u>PART II. OTHER INFORMATION</u>	25
<u>Item 1. Legal Proceedings</u>	25
<u>Item 1A. Risk Factors</u>	25
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
<u>Item 3. Defaults Upon Senior Securities</u>	25
<u>Item 4. Mine Safety Disclosures</u>	25
<u>Item 5. Other Information</u>	25
<u>Item 6. Exhibits</u>	26
<u>Signatures</u>	27

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Douglas Dynamics, Inc.****Consolidated Balance Sheets****(In thousands except share data)**

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,084	\$ 24,136
Accounts receivable, net	38,497	25,425
Inventories	42,407	30,292
Refundable income taxes paid	5,492	4,870
Deferred income taxes	3,659	3,710
Prepaid and other current assets	1,110	1,149
Total current assets	93,249	89,582
Property, plant, and equipment, net	25,168	19,887
Assets held for sale	1,085	1,732
Goodwill	114,044	107,222
Other intangible assets, net	125,712	116,548
Deferred financing costs, net	2,505	2,794
Other long-term assets	1,145	606
Total assets	\$ 362,908	\$ 338,371
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 3,701	\$ 5,370
Accrued expenses and other current liabilities	12,058	10,329
Short term borrowings	28,000	
Current portion of long-term debt	971	971
Total current liabilities	44,730	16,670
Retiree health benefit obligation	6,496	6,541
Pension obligation	14,428	14,401
Deferred income taxes	35,603	33,805
Deferred compensation	658	756
Long-term debt, less current portion	110,509	110,995
Other long-term liabilities	1,829	1,471
Stockholders equity:		
Common Stock, par value \$0.01, 200,000,000 shares authorized, 22,223,454 and 22,130,996 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	222	221
Additional paid-in capital	134,370	133,072

Edgar Filing: DOUGLAS DYNAMICS, INC - Form 10-Q

Retained earnings		20,738		27,523
Accumulated other comprehensive loss, net of tax		(6,675)		(7,084)
Total stockholders' equity		148,655		153,732
Total liabilities and stockholders' equity	\$	362,908	\$	338,371

See the accompanying notes to consolidated financial statements

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

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(unaudited)		(unaudited)	
Net sales	\$ 55,156	\$ 65,499	\$ 69,297	\$ 74,059
Cost of sales	36,278	42,439	46,093	49,180
Gross profit	18,878	23,060	23,204	24,879
Selling, general, and administrative expense	6,097	5,707	12,007	10,337
Intangibles amortization	1,397	1,301	2,695	2,601
Impairment of assets held for sale			647	
Income from operations	11,384	16,052	7,855	11,941
Interest expense, net	(2,077)	(2,178)	(4,060)	(4,223)
Other expense, net	(46)	(155)	(77)	(233)
Income before taxes	9,261	13,719	3,718	7,485
Income tax expense	3,352	4,747	1,213	2,780
Net income	\$ 5,909	\$ 8,972	\$ 2,505	\$ 4,705
Less net income attributable to participating securities	88	94	34	32
Net income attributable to common shareholders	\$ 5,821	\$ 8,878	\$ 2,471	\$ 4,673
Weighted average number of common shares outstanding:				
Basic	22,038,161	21,906,622	22,004,793	21,866,662
Diluted	22,064,053	21,962,098	22,049,996	21,985,974
Earnings per common share:				
Basic	\$ 0.26	\$ 0.41	\$ 0.11	\$ 0.21
Diluted	\$ 0.26	\$ 0.40	\$ 0.11	\$ 0.21
Cash dividends declared and paid per share	\$ 0.21	\$ 0.21	\$ 0.42	\$ 0.41
Comprehensive income	\$ 6,279	\$ 8,971	\$ 2,914	\$ 4,693

See the accompanying notes to consolidated financial statements.

Table of Contents**Douglas Dynamics, Inc.****Consolidated Statements of Cash Flows**

(in thousands)

	Six Months Ended	
	June 30, 2013	June 30, 2012
	(unaudited)	
Operating activities		
Net income	\$ 2,505	\$ 4,705
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	4,149	4,003
Amortization of deferred financing costs and debt discount	378	565
Loss recognized on impairment of assets held for sale	647	
Stock-based compensation	1,459	906
Provision for losses on accounts receivable	98	227
Deferred income taxes	1,849	2,539
Changes in operating assets and liabilities:		
Accounts receivable	(12,566)	(16,821)
Inventories	(7,985)	(8,820)
Prepaid and other assets and prepaid income taxes	(1,091)	(610)
Accounts payable	(2,449)	(527)
Accrued expenses and other current liabilities	583	(3,430)
Deferred compensation	(156)	(156)
Benefit obligations and other long-term liabilities	749	375
Net cash used in operating activities	(11,830)	(17,044)
Investing activities		
Capital expenditures	(1,463)	(1,016)
Proceeds from sale of equipment		80
Acquisition of Trynex	(26,734)	
Net cash used in investing activities	(28,197)	(936)
Financing activities		
Shares withheld on restricted stock vesting paid for employees' taxes	(160)	
Dividends paid	(9,290)	(9,087)
Revolver borrowings	28,000	2,000
Repayment of long-term debt	(575)	(10,575)
Net cash provided by (used in) financing activities	17,975	(17,662)
Change in cash and cash equivalents	(22,052)	(35,642)
Cash and cash equivalents at beginning of period	24,136	39,432
Cash and cash equivalents at end of period	\$ 2,084	\$ 3,790

See the accompanying notes to consolidated financial statements.

Table of Contents

Douglas Dynamics, Inc.

Notes to Unaudited 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 2012 Form 10-K (Commission File No. 1-34728) filed with the Securities and Exchange Commission on March 12, 2013.

We operate as a single business unit.

Interim Consolidated Financial Information

The accompanying consolidated balance sheet as of June 30, 2013 and the consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2013 and 2012 and cash flows for the six months ended June 30, 2013 and 2012 have been prepared by the Company and have not been audited.

The Company is a counterparty to an interest-rate swap agreement to hedge against the potential impact on earnings from increases in market interest rates. Under the interest rate swap agreement, effective as of July 18, 2011 the Company either receives or makes payments on a monthly basis based on the differential between 6.335% and LIBOR plus 4.25% (with a LIBOR floor of 1.5%). The negative fair value of the interest rate swap, net of tax, of (\$261) at June 30, 2013 is included in Accumulated other comprehensive loss on the balance sheet. This fair value was determined using Level 2 inputs as defined in Accounting Standards Codification Topic (ASC) 820. The interest rate swap contract on \$50,000 notional amount of the term loan expires in December 2014. Additionally, other comprehensive income (loss) includes the net income of the Company plus the Company's adjustments for its defined benefit retirement plans based on the measurement date as of the Company's year-end. For further disclosure, refer to Note 14 to the Unaudited Consolidated Financial Statements.

The Company's business is seasonal and consequently its results of operations and financial condition vary from quarter-to-quarter. Because of this seasonality, the Company's results of operations for any quarter may not be indicative of results of operations that may be achieved for a subsequent quarter or the full year, and may not be similar to results of operations experienced in prior years. 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 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 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 Company's end-users prefer to wait until the beginning of a snow season to purchase new equipment and as the Company's distributors sell off 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 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.

On May 6, 2013, the Company acquired substantially all of the assets of Trynex, Inc. ("Trynex").The acquired assets include the Trynex's full line of product offerings, including its SnowEx, TurfEx and SweepEx brands, and access to Trynex's network of authorized dealers. All intercompany balances and transactions have been eliminated in consolidation. For further information related to the acquisition, refer to Note 15 to the Unaudited Consolidated Financial Statements.

2. 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

Table of Contents

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 June 30, 2013		Fair Value at 12/31/2012	
Assets:				
Other long-term assets (a)	\$	1,029	\$	491
Total Assets	\$	1,029	\$	491
Liabilities:				
Long term debt (b)	\$	111,201	\$	110,566
Other long-term liabilities-Interest rate swaps (c)		410		544
Total Liabilities	\$	111,611	\$	111,110

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

(b) 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, as disclosed on face of the balance sheet.

(c) 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.

3. Inventories

Inventories consist of the following:

**June 30,
2013**

**December 31,
2012**

Edgar Filing: DOUGLAS DYNAMICS, INC - Form 10-Q

Finished goods and work-in-process	\$	39,157	\$	29,119
Raw material and supplies		3,250		1,173
	\$	42,407	\$	30,292

Table of Contents**4. Property, plant and equipment**

Property, plant and equipment are summarized as follows:

	June 30, 2013	December 31, 2012
Land	\$ 1,160	\$ 960
Land improvements	2,677	1,768
Buildings	15,852	12,852
Machinery and equipment	24,846	24,286
Furniture and fixtures	8,160	7,465
Mobile equipment and other	1,270	1,138
Construction-in-process	1,495	351
Total property, plant and equipment	55,460	48,820
Less accumulated depreciation	(30,292)	(28,933)
Net property, plant and equipment	\$ 25,168	\$ 19,887

5. Long-Term Debt

Long-term debt is summarized below:

	June 30, 2013	December 31, 2012
Term Loan, net of debt discount of \$857 and \$946 at June 30, 2013 and December 31, 2012, respectively	\$ 111,480	\$ 111,966
Less current maturities	971	971
	\$ 110,509	\$ 110,995

The Company's senior credit facilities consist of a \$125,000 term loan facility and an \$80,000 revolving credit facility with a group of banks. The agreement for the term loan (the Term Loan Credit Agreement) provides for a senior secured term loan facility in the aggregate principal amount of \$125,000 and generally bears interest at (at the Company's election) either (i) 3.25% per annum plus the greatest of (a) the Prime Rate (as defined in the Term Loan Credit Agreement) in effect on such day, (b) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers plus 0.50% and (c) 1.00% plus the greater of (1) the London Interbank Offered Rate for a one month interest period multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (2) 1.50% or (ii) 4.25% per annum plus the greater of (a) the London Interbank Offered Rate for the applicable interest period multiplied by the Statutory Reserve Rate and (b) 1.50%. The revolving credit facility provides that the Company has the option to select whether borrowings will bear interest at either (i) 1.75% per annum plus the London Interbank Offered Rate for the applicable interest period multiplied by the Statutory Reserve Rate or (ii) 1.25% per annum plus the greatest of (a) the Prime Rate in effect on such day, (b) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers plus 0.50% and (c) the London Interbank Offered Rate for a one month interest period multiplied by the Statutory Reserve Rate plus 1%. The maturity date for the Company's revolving credit facility is April 17, 2017, and the Company's term loan amortizes in nominal amounts quarterly with the balance

payable on April 18, 2018.

The term loan was issued at a \$1,250 discount which is being amortized over the term of the term loan.

At June 30, 2013, the Company had \$28,000 in outstanding borrowings on the revolving credit facility and remaining borrowing availability of \$26,654.

The Company's senior credit facilities include certain negative and operating covenants, including restrictions on its ability to pay dividends, and other customary covenants, representations and warranties and events of default. The senior credit facilities entered into and recorded by the Company's subsidiaries significantly restrict its subsidiaries from paying dividends and otherwise transferring assets to Douglas Dynamics, Inc. The terms of the Company's revolving credit facility specifically restrict subsidiaries from paying dividends if a minimum availability under the revolving credit facility is not maintained, and both senior credit facilities restrict subsidiaries from paying dividends above certain levels or at all if an event of default has occurred. These restrictions would affect the Company indirectly since the Company relies principally on distributions from its subsidiaries to have funds available for the payment of dividends. In addition, the Company's revolving credit facility includes a requirement that, subject to certain exceptions, capital expenditures may not exceed \$10,000 in any calendar year and, if certain minimum availability under the revolving credit facility is not maintained, that the Company comply with a monthly minimum fixed charge coverage ratio test of 1.0:1.0. Compliance with the fixed charge coverage ratio test is subject to certain cure rights under the Company's revolving credit facility. At June 30, 2013, the Company was in compliance with the respective covenants. The credit facilities are collateralized by substantially all assets of the Company.

Table of Contents

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 the fiscal year, 50% of excess cash flow, as defined, including a deduction for certain distributions (which percentage is reduced to 25% or 0% upon the achievement of certain leverage ratio thresholds), for any fiscal year. Excess cash flow is defined in the senior credit facilities as consolidated adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) plus a 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 dividends or distributions). 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 current portion of long term debt. As of June 30, 2013, the Company was not required to make an excess cash flow payment.

Each of the senior secured facilities includes a hedge provision, which required the Company to enter into an interest rate hedge commencing 90 days after the closing date. The hedging provision requires the Company to hedge the interest rate on at least 25% of the aggregate outstanding principal amount of the term loans. The purpose of the interest rate swap is to reduce the Company's exposure to interest rate volatility. Effective June 20, 2011, the Company entered into an interest rate swap agreement with a notional amount of \$50,000. The interest rate swap negative fair value at June 30, 2013 of \$410 is included in other long-term liabilities on the Consolidated Balance Sheet. The Company has 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 July 18, 2011, the Company either receives or makes payments on a monthly basis based on the differential between 6.335% and LIBOR plus 4.25% (with a LIBOR floor of 1.5%). The interest rate swap contract on the term loan expires in December 2014.

6. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities are summarized as follows:

	June 30, 2013	December 31, 2012
Payroll and related costs	\$ 3,115	\$ 1,429
Employee benefits	2,565	2,731
Accrued warranty	3,568	3,628
Other	2,810	2,541
	\$ 12,058	\$ 10,329

7. 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 is included in Accrued Expenses and Other Current Liabilities in the accompanying consolidated balance sheets.

Table of Contents

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

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Balance at the beginning of the period	\$ 2,859	\$ 3,506	\$ 3,628	\$ 4,188
Establish warranty provision for Trynex	600		600	
Warranty provision	518	643	643	773
Claims paid/settlements	(409)	(184)	(1,303)	(996)
Balance at the end of the period	\$ 3,568	\$ 3,965	\$ 3,568	\$ 3,965

8. Employee Retirement Plans

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

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Component of net periodic pension cost:				
Service cost	\$ 62	\$ 67	\$ 123	\$ 134
Interest cost	362	370	724	740
Expected return on plan assets	(352)	(318)	(704)	(636)
Amortization of net loss	302	192	603	384
Net periodic pension cost	\$ 374	\$ 311	\$ 746	\$ 622

The Company estimates its total required minimum contributions to its pension plans in 2013 will be \$827. Through June 30, 2013, the Company has made \$584 of cash contributions to the pension plans versus \$838 through the same period in 2012.

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

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Components of net periodic other postretirement benefit cost				
Service cost	\$ 63	\$ 70	\$ 125	\$ 140
Interest cost	61	90	122	180
Amortization of net gain	(43)	(4)	(86)	(8)
Net periodic other postretirement benefit cost	\$ 81	\$ 156	\$ 161	\$ 312

9. Earnings per Share

Basic earnings per share of common stock is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed by dividing net income (loss) by the weighted average number of common shares and common stock equivalents related to the assumed exercise of stock options, using the two-class method. Stock options for which the exercise price exceeds the average fair value have an anti-dilutive effect on earnings per share and are excluded from the calculation.

Table of Contents

As restricted shares and restricted stock units both participate in dividends, in accordance with ASC 260, 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.

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<i>Basic earnings per common share</i>				
Net income	\$ 5,909	\$ 8,972	\$ 2,505	\$ 4,705
Less income allocated to participating securities	88	94	34	32
Net income allocated to common shareholders	\$ 5,821	\$ 8,878	\$ 2,471	\$ 4,673
Weighted average common shares outstanding	22,038,161	21,906,622	22,004,793	21,866,662
	\$ 0.26	\$ 0.41	\$ 0.11	\$ 0.21
<i>Earnings per common share assuming dilution</i>				
Net income	\$ 5,909	\$ 8,972	\$ 2,505	\$ 4,705
Less income allocated to participating securities	88	94	34	32
Net income allocated to common shareholders	\$ 5,821	\$ 8,878	\$ 2,471	\$ 4,673
Weighted average common shares outstanding	22,038,161	21,906,622	22,004,793	21,866,662
Incremental shares applicable to stock based compensation	25,892	55,476	45,203	119,312
Weighted average common shares assuming dilution	22,064,053	21,962,098	22,049,996	21,985,974
	\$ 0.26	\$ 0.40	\$ 0.11	\$ 0.21

10. Employee Stock Plans***Amended and Restated 2004 Stock Incentive Plan***

As of June 30, 2013, 37,240 shares of common stock are reserved for issuance upon the exercise of outstanding options under the Company's Amended and Restated 2004 Stock Incentive Plan (the "A&R 2004 Plan"). All outstanding options are fully vested. All options expire 10 years from the date of grant. No further awards are permitted to be issued under the A&R 2004 Plan.

There were no stock options exercised with respect to the Company's stock under the A&R 2004 Plan for either the three or six months ended June 30, 2013.

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 2010 Plan provides for the issuance of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock awards and restricted stock units, 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.

Table of Contents**Restricted Stock Share Awards**

A summary of restricted stock activity for the six months ended June 30, 2013 is as follows:

	Shares (In thousands)	Weighted Average Grant Date Fair value	Weighted Average Remaining Contractual Term
Unvested at December 31, 2012	208,823	\$ 12.63	1.94 years
Granted	44,022	\$ 14.78	2.50 years
Vested	(82,942)	\$ 12.97	
Cancelled and forfeited			
Unvested at June 30, 2013	169,903	\$ 13.03	1.84 years
Expected to vest in the future at June 30, 2013	163,786	\$ 13.03	1.84 years

The fair value of the Company's restricted stock awards is the closing stock price on the date of grant. The Company recognized \$281 and \$567 of compensation expense related to restricted stock awards granted for the three and six months ended June 30, 2013, respectively. The unrecognized compensation expense calculated under the fair value method for shares expected to vest as of June 30, 2013 was approximately \$1,747 and is expected to be recognized over a weighted average period of 1.84 years.

Performance Share Unit Awards

The Company granted performance share units as performance based awards under the 2010 Plan in the first quarter of 2013 that are subject to performance conditions. Upon meeting the prescribed performance conditions, in the first quarter of the year subsequent to grant, employees will be issued restricted stock units (RSUs) that will be 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 \$14.40. The Company recognized \$164 and \$180 of compensation expense related to the awards in the three and six months ended June 30, 2013, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of June 30, 2013, expected to be earned through the requisite service period was approximately \$592 and is expected to be recognized through 2016.

Restricted Stock Unit Awards

RSUs are granted to both non-employee directors and management. Prior to 2013, RSUs were only issued to directors, however, in 2013, the Company changed the timing and form of management's annual stock grants. For both management and non-employee directors, RSUs carry dividend equivalent rights but do not carry voting rights. 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.

The Company's compensation committee approved a retirement provision for RSUs issued to management. The retirement provision provides that 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 RSUs upon retirement. As the retirement provision does not qualify as a substantive service condition, the Company incurred \$261 in additional expense in the first quarter of 2013 as a result of accelerated stock based compensation expense for employees who meet the thresholds of the retirement provision. 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 RSUs 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.

Table of Contents

A summary of RSU activity for the six months ended June 30, 2013 is as follows:

	Shares (In thousands)	Weighted Average Grant Date Fair value	Weighted Average Remaining Contractual Term
Unvested at December 31, 2012	26,046	\$ 14.73	0.72 years
Granted	69,736	\$ 14.52	1.11 years
Vested	(53,022)	\$ 14.68	
Cancelled and forfeited			
Unvested at June 30, 2013	42,760	\$ 14.46	2.08 years
Expected to vest in the future at June 30, 2013	41,721	\$ 14.46	2.08 years

The Company recognized \$72 and \$712 of compensation expense related to the RSU awards in the three and six months ended June 30, 2013, respectively. The unrecognized compensation expense, net of expected forfeitures, calculated under the fair value method for shares that were, as of June 30, 2013, expected to be earned through the requisite service period was approximately \$477 and is expected to be recognized through 2016.

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. Meanwhile, 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.

11. 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.

12. 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 estimates that the annual effective tax rate for 2013 will be approximately 38%. The Company's effective tax rate was 36.2% and 4.6% for the three months ended June 30, 2013 and 2012, respectively.

The Company's effective tax rate for the six months ended June 30, 2013 and 2012 was 32.6% and 37.1%, respectively. The effective tax rate for the three months ended June 30, 2013 was higher than the corresponding period in 2012 due to the Company having a larger state tax provision due to the Trynex acquisition, which occurred during the second quarter of 2013. The effective rate for the six months ended June 30, 2013 was lower than the corresponding period in 2012 due to the Company recognizing less income.

13. Impairment of Assets Held For Sale

During the first quarter of 2013, the Company lowered the asking price for its assets held for sale. The Company recorded assets held for sale on its balance sheet in conjunction with the closure of the Johnson City, Tennessee location in 2010. The land and building have been held for sale since the closure. In an effort to stimulate sales activity, the Company lowered the listed sale price which caused the Company to reassess the fair value of the assets held for sale. The Company valued the fair value of the assets held for sale based upon Level 2 market price inputs for similar assets. The Company used comparable properties sold and held for sale in the Johnson City, TN industrial real estate market to determine an appropriate fair value. Consequently, the Company incurred a \$647 loss recognized on the impairment of assets held for sale and is included in Impairment of assets held for sale on the Consolidated Statements of Operations and Comprehensive Income.

Table of Contents**14. Changes in Accumulated Other Comprehensive Loss by Component**

Changes to accumulated other comprehensive loss by component for the six months ended June 30, 2013 are as follows:

	(dollars in thousands)			
	Unrealized Net Loss on Interest Rate Swap	Other Postretirement Benefit Liability	Pension Liability	Total
Balance at December 31, 2012	\$ (344)	\$ 1,063	\$ (7,803)	\$ (7,084)
Other comprehensive earnings (loss) before reclassifications	(8)			(8)
Amounts reclassified from accumulated other comprehensive loss: (1)	91	(54)	380	417
Balance at June 30, 2013	\$ (261)	\$ 1,009	\$ (7,423)	\$ (6,675)

(1) Amounts reclassified from accumulated other comprehensive loss:

Amortization of Other Postretirement

Benefit items:

Actuarial gains

(86)

Tax expense

32

Reclassification net of tax

\$ (54)

Amortization of pension items:

Actuarial losses

\$ 603

Tax benefit

(223)

Reclassification net of tax

\$ 380

Realized losses on interest rate swaps

reclassified to interest expense

145

Tax benefit

(54)

Reclassification net of tax

\$ 91

15. Acquisition

On May 6, 2013, the Company acquired substantially all of the assets of Trynex for the purpose of expanding its current market presence in the snow and ice segment. Total consideration paid was \$26,734 including an estimated working capital adjustment. The acquisition was financed with \$28,000 of revolver borrowings under the Company's credit facility discussed in Note 5. The Company incurred \$1,180 of transaction expenses related to this acquisition that are included in selling, general and administrative expense in the Consolidated Statements of Operations and Comprehensive Income.

The Trynex purchase agreement includes contingent consideration in the form of an earnout capped at \$7,000. Under the earnout Trynex is entitled to receive a payment contingent on the revenue growth and financial performance of the acquired business and continued employment for fiscal years 2014-2016.

Table of Contents

The following table summarizes the preliminary allocation of the purchase price paid to the fair value of the net assets acquired as of the acquisition date:

Accounts receivable	604
Inventories	4,130
Other current assets	29
Property and equipment	5,272
Goodwill	6,822
Intangible assets	11,859
Accounts payable and other liabilities	(1,982)
Total	\$ 26,734

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. Due to the limited amount of time since the acquisition of the assets of Trynex, the initial purchase price allocation is preliminary as of June 30, 2013 as the Company has not completed its analysis of the fair value of inventories, property and equipment, intangible assets and income tax liabilities. The Company expects to be able to deduct amortization of goodwill for income tax purposes over a fifteen-year period.

The acquisition, other than the earnout, was accounted for under the purchase method, and accordingly, the results of operations are included in the Company's financial statements from the date of acquisition. From the date of acquisition through June 30, 2013, the Trynex assets contributed \$843 of revenues and (\$714) of pre-tax operating losses to the Company.

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 consolidated financial statements and related notes which are included in Item 1 of this Quarterly Report on Form 10-Q, as well as the information contained in our Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements include information relating to future events, product demand, the payment of dividends, future financial performance, strategies, expectations, competitive environment, regulation and availability of financial resources. These statements are often identified by use of words such as anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will and similar expressions and include references to assumptions and relate to our future prospects, developments and business strategies. Such statements involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: (i) weather conditions, particularly lack of or reduced levels of snowfall and timing of such snowfall; (ii) a significant decline in economic conditions; (iii) our inability to maintain good relationships with our distributors; (iv) lack of available or favorable financing options for our end-users or distributors; (v) increases in the price of steel or other materials necessary for the production of our products that cannot be passed on to our distributors; (vi) increases in the price of fuel; (vii) the inability of our suppliers to meet our volume or quality requirements; (viii) inaccuracies in our estimates of future demand for our products; (ix) our inability to protect or continue to build our intellectual property portfolio; (x) the effects of laws and regulations and their interpretations on our business and financial condition; (xi) our inability to develop new products or improve upon existing products in response to end-user needs; (xii) losses due to lawsuits arising out of personal injuries associated with our products; (xiii) factors that could impact the future declaration and payment of dividends; (xiv) our inability to compete effectively against our competitors; (xv) our inability to achieve the projected

Table of Contents

financial performance with the Trynex assets; and (xvi) unexpected costs or liabilities related to the acquisition of the Trynex assets, 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*Overview*

During the three months ended June 30, 2013 and 2012, we sold 13,668 and 16,486 units of snow and ice control equipment, respectively, and during the six months ended June 30, 2013 and 2012 we sold 15,788 and 18,100 units of snow and ice control equipment, respectively. The following table shows our sales of snow and ice control equipment and related parts and accessories as a percentage of net sales for the three and six months ended June 30, 2013 and 2012.

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Equipment	88%	91%	82%	89%
Parts and accessories	12%	9%	18%	11%

Table of Contents

The following table sets forth, for the three and six months ended June 30, 2013 and 2012, 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, 2013 and 2012 have been derived from our unaudited consolidated financial statements. The information contained in the table below should be read in conjunction with our 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, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(unaudited)		(unaudited)	
	(in thousands)		(in thousands)	
Net sales	\$ 55,156	\$ 65,499	\$ 69,297	\$ 74,059
Cost of sales	36,278	42,439	46,093	49,180
Gross profit	18,878	23,060	23,204	24,879
Selling, general, and administrative expense	6,097	5,707	12,007	10,337
Intangibles amortization	1,397	1,301	2,695	2,601
Impairment of assets held for sale			647	
Income from operations	11,384	16,052	7,855	11,941
Interest expense, net	(2,077)	(2,178)	(4,060)	(4,223)
Other expense, net	(46)	(155)	(77)	(233)
Income before taxes	9,261	13,719	3,718	7,485
Income tax expense	3,352	4,747	1,213	2,780
Net income	\$ 5,909	\$ 8,972	\$ 2,505	\$ 4,705

The following table sets forth for the three and six months ended June 30, 2013 and 2012, the percentage of certain items in our consolidated statement of operations, relative to net sales:

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(unaudited)		(unaudited)	
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	65.8%	64.8%	66.5%	66.4%
Gross profit	34.2%	35.2%	33.5%	33.6%
Selling, general, and administrative expense	11.1%	8.7%	17.4%	14.0%
Intangibles amortization	2.5%	2.0%	3.9%	3.5%
Impairment of assets held for sale	0.0%	0.0%	0.9%	0.0%
Income from operations	20.6%	24.5%	11.3%	16.1%

Edgar Filing: DOUGLAS DYNAMICS, INC - Form 10-Q

Interest expense, net	(3.8)%	(3.3)%	(5.8)%	(5.7)%
Other expense, net	0.0%	(0.2)%	(0.1)%	(0.3)%
Income before taxes	16.8%	21.0%	5.4%	10.1%
Income tax expense	6.1%	7.2%	1.8%	3.8%
Net income	10.7%	13.8%	3.6%	6.3%

Table of Contents

Net Sales

Net sales were \$55.2 million for the three months ended June 30, 2013 compared to \$65.5 million in the three months ended June 30, 2012, a decrease of \$10.3 million, or 15.8%. Net sales were \$69.3 million for the six months ended June 30, 2013 compared to \$74.1 million in the six months ended June 30, 2012, a decrease of \$4.8 million, or 6.4%. The decreases in net sales for the three and six months ended June 30, 2013 were driven by 17.1% and 12.8% decreases in unit sales of snow and ice control equipment, respectively. Management believes that the decreases in equipment unit sales are a result of delayed shipments due to the record number of new product launches staggered throughout 2013. Slightly offsetting decreases in equipment unit sales was an increase in parts and accessories sales for the three and six months ended June 30, 2013 compared to the corresponding period in 2012 of 16.9% and 48.6%, respectively. Parts and accessories sales increased as a result of late and slightly above average snowfall levels in the six-month snow season ending March 31, 2013 as compared to the historic low snowfall levels in the six month snow season ending March 31, 2012.

Cost of Sales

Cost of sales was \$36.3 million for the three months ended June 30, 2013 compared to \$42.4 million for the three months ended June 30 2012, a decrease of \$6.2 million, or 14.5%. Cost of sales was \$46.1 million for the six months ended June 30, 2013 compared to \$49.2 million in the six months ended June 30, 2012, a decrease of \$3.1 million, or 6.3%. The decreases in cost of sales for the three and six months ended June 30, 2013 compared to the corresponding period in 2012 were driven by decreases in equipment unit volume as discussed above under *Net Sales*. The Company experienced higher cost of sales as a percent of sales of 65.8% for the three-month period ended June 30, 2013 compared to 64.8% for the three month period ended June 30, 2012. This increase in cost of sales as a percentage of sales is due to slightly higher unit costs resulting from lower sales volumes. Meanwhile, the Company's cost of sales as a percentage of sales remained relatively flat, 66.5% compared to 66.4% for the six-month periods ending June 30, 2013 and June 30, 2012, respectively. As a percentage of cost of sales, fixed and variable costs were approximately 17% and 83%, respectively, for the three months ended June 30, 2013 versus approximately 14% and 86%, respectively for the three months ended June 30, 2012, and approximately 20% and 80%, respectively, for the six months ended June 30, 2013 versus approximately 16% and 84%, respectively, for the six months ended June 30, 2012.

Gross Profit

Gross profit was \$18.9 million for the three months ended June 30, 2013 compared to \$23.1 million in the three months ended June 30, 2012, a decrease of \$4.2 million, or 18.1%. Gross profit was \$23.2 million for the six months ended June 30, 2013 compared to \$24.9 million in the six months ended June 30, 2012, a decrease of \$1.7 million, or 6.7%. Gross profit decreased for the three and six month periods due to decreases in equipment units sold. As a percentage of net sales, gross profit decreased from 35.2% for the three months ended June 30, 2012 to 34.2% for the corresponding period in 2013. As a percentage of net sales, gross profit remained relatively constant decreasing slightly from 33.6% for the six months ended June 30, 2012 to 33.5% for the corresponding period in 2013.

Selling, General and Administrative Expense

Edgar Filing: DOUGLAS DYNAMICS, INC - Form 10-Q

Selling, general and administrative expenses, including intangibles amortization, were \$7.5 million for the three months ended June 30, 2013, compared to \$7.0 million for the three months ended June 30, 2012, an increase of \$0.5 million, or 6.9%. The increase was partially due to \$0.4 million in ongoing expenses incurred in connection with the Trynex assets in the second quarter of 2013 after the acquisition date. Additionally, the Company incurred \$1.2 million in expenses related to the Trynex acquisition. Partially offsetting these expenses in the three months ended June 30, 2013 was the Company's receipt of insurance proceeds of \$0.7 million related to the previously disclosed legal settlement between Northern Star Industries, Inc. (Northern Star) and the Company's subsidiary, Douglas Dynamics L.L.C. (DD LLC), resolving claims by Northern Star that DD LLC had violated the Lanham Act. The Company had incurred expenses of \$0.7 million in the three months ended June 30, 2012 related to the settlement with Northern Star. Selling, general and administrative expenses, including intangibles amortization, were \$14.7 million for the six months ended June 30, 2013, compared to \$12.9 million for the six months ended June 30, 2012, an increase of \$1.8 million, or 13.6%. For the six month period, in addition to the additional expenses incurred related to Trynex and insurance settlement noted above, the Company incurred \$0.6 million of stock based compensation expense related to the retirement provision approved by the Company's compensation committee in the first quarter of 2013. The remainder of the increases are mostly attributed to returning to normal spending as cost saving measures were taken in 2012 following the record low snowfall.

Table of Contents

Impairment of assets held for sale

In an effort to stimulate sales activity, with respect to land and a building at the Johnson City, Tennessee location held by the Company for sale, the Company lowered the listed sale price of the assets which caused the Company to reassess the fair value of the assets held for sale. Consequently, the Company recorded an impairment charge of \$0.6 million in the first quarter of 2013 that is included in the six months ended June 30, 2013 results.

Interest Expense

Interest expense was \$2.1 million for the three months ended June 30, 2013 which was slightly less than the \$2.2 million in the same period in the prior year. Interest expense was \$4.1 million for the six months ended June 30, which was slightly less than the \$4.2 million in the same period in the prior year.

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 estimates that the annual effective tax rate for 2013 will be approximately 38%. The Company's effective tax rate was 36.2% and 4.6% for the three months ended June 30, 2013 and 2012, respectively. The Company's effective tax rate for the six months ended June 30, 2013 and 2012 was 32.6% and 37.1%, respectively. The effective tax rate for the three months ended June 30, 2013 was higher than the corresponding period in 2012 due to the Company having a larger state tax provision due to the Trynex acquisition, which occurred during the second quarter of 2013. The effective rate for the six months ended June 30, 2013 was lower than the corresponding period in 2012 due to the Company recognizing less income.

Net Income

Net income for the three months ended June 30, 2013 was \$5.9 million compared to net income of \$9.0 million for the corresponding period in 2012, a decrease in net income of \$3.1 million, or 34.1%. Net income for the six months ended June 30, 2013 was \$2.5 million compared to net income of \$4.7 million for the corresponding period in 2012, a decrease in net income of \$2.2 million, or 46.8%. The decrease in net income was driven by the factors described above under Net Sales, Cost of Net Sales, Selling, General and Administrative Expense and Impairment of Assets Held for Sale. As a percentage of net sales, net income was 10.7% for the three months ended June 30, 2013 compared to 13.8% for the three months ended June 30, 2012. As a percentage of net sales, net income was 3.6% for the six months ended June 30, 2013 compared to 6.3% for the six months ended June 30, 2012.

Adjusted EBITDA

Adjusted EBITDA for the three months ended June 30, 2013 was \$14.4 million compared to \$19.6 million in the corresponding period in 2012, a decrease of \$5.2 million. Adjusted EBITDA for the six months ended June 30, 2013 was \$14.6 million compared to \$17.7 million in the corresponding period in 2012, a decrease of \$3.1 million. For the three and month periods ended June 30, 2013 the decrease in Adjusted EBITDA is primarily attributable to decreased unit sales of snow and ice control equipment slightly offset by increase in sales of parts and accessories.

Free Cash Flow

Free cash flow for the three months ended June 30, 2013 was (\$5.3) million compared to (\$7.6) million in the corresponding period in 2012, a decrease in cash used of \$2.3 million, or 30.2%. The increase in free cash flow is primarily a result of lower cash used in operating activities of \$2.3 million, as discussed below under Liquidity and Capital Resources. Meanwhile, acquisitions of property and equipment was \$0.6 million for both three months ended June, 30, 2013 and June 30, 2012. Free cash flow for the six months ended June 30, 2013 was (\$13.3) million compared to (\$18.1) million in the corresponding period in 2012, a decrease in cash used of \$4.8 million, or 26.4%. The increase in free cash flow is primarily a result of lower cash used in operating activities of \$5.2 million, as discussed below under Liquidity and Capital Resources. Meanwhile, acquisitions of property and equipment increased from \$1.0 million for the six months ended June 30, 2012 to \$1.5 million for the six months ended June, 30, 2013. Capital expenditures increased \$0.5 million as the Company returned to normal spending in 2013 following the cost and cash flow savings measures taken following the historic low snowfall season ending March 31, 2012.

Table of Contents*Non-GAAP Financial Measures*

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

These non-GAAP measures include:

- Free cash flow;
- Adjusted net income; and
- Adjusted EBITDA.

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

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

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

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(In Thousands)		(In Thousands)	
Net cash used in operating activities	\$ (4,682)	\$ (7,015)	\$ (11,830)	\$ (17,044)
Acquisition of property and equipment	(620)	(579)	(1,463)	(1,016)
Free cash flow	\$ (5,302)	\$ (7,594)	\$ (13,293)	\$ (18,060)

Adjusted net income represents net income as determined under GAAP, excluding a loss recognized on impairment of assets held for sale. We believe that the presentation of adjusted net income for the three and six months ended June 30, 2013 and June 30, 2012 allows investors to make meaningful comparisons of our operating performance between periods and to view our business from the same perspective as our management. Because the excluded item is not predictable or consistent, management does not consider it when evaluating our performance or when making decisions regarding allocation of resources.

Edgar Filing: DOUGLAS DYNAMICS, INC - Form 10-Q

The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to adjusted net income for the three and six months ended June 30, 2013 and June 30, 2012.

(in millions)	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net income - (GAAP)	\$ 5.9	\$ 9.0	\$ 2.5	\$ 4.7
Addback expenses, net of tax at 38.0% for 2013:				
-Loss recognized on impairment of assets held for sale			0.4	
Adjusted net income - (Non-GAAP)	\$ 5.9	\$ 9.0	\$ 2.9	\$ 4.7

Table of Contents

Adjusted EBITDA represents net income before interest, taxes, depreciation and amortization, as further adjusted for certain charges related to certain unrelated legal fees and consulting fees, impairment on assets held for sale and stock based compensation. We use, and we believe our investors benefit from the presentation of Adjusted EBITDA in evaluating our operating performance because it provides us and our investors with additional tools to compare our operating performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our core operations. In addition, we believe that Adjusted EBITDA is useful to investors and other external users of our consolidated financial statements in evaluating our operating performance as compared to that of other companies, because it allows them to measure a company's operating performance without regard to items such as interest expense, taxes, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets and liabilities, capital structure and the method by which assets were acquired. Our management also uses Adjusted EBITDA for planning purposes, including the preparation of our annual operating budget and financial projections. Management also uses Adjusted EBITDA to evaluate our ability to make certain payments, including dividends, in compliance with our senior credit facilities, which is determined based on a calculation of Consolidated Adjusted EBITDA that is substantially similar to Adjusted EBITDA.

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

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

The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to Adjusted EBITDA as well as the resulting calculation of Adjusted EBITDA for the three and six months ended June 30, 2013 and 2012:

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net income	\$ 5,909	\$ 8,972	\$ 2,505	\$ 4,705
Interest expense - net	2,077	2,178	4,060	4,223
Income taxes	3,352	4,747	1,213	2,780
Depreciation expense	737	701	1,454	1,402

Edgar Filing: DOUGLAS DYNAMICS, INC - Form 10-Q

Amortization	1,397	1,301	2,695	2,601
EBITDA	13,472	17,899	11,927	15,711
Stock based compensation	524	541	1,459	906
Other charges (1)	374	1,110	1,220	1,122
Adjusted EBITDA	\$ 14,370	\$ 19,550	\$ 14,606	\$ 17,739

(1) Reflects expenses of \$374 and \$1,110 for one time, unrelated legal and consulting fees for the three months ended June 30, 2013 and June 30, 2012, respectively; expenses of \$573 and \$1,122 for one time, unrelated legal and consulting fees for the six months ended June 30, 2013 and June 30, 2012, respectively; and a write down of asset held for sale of \$647 for the six months ended June 30, 2013.

Table of Contents

Discussion of Critical Accounting Policies

For a discussion of our critical accounting policies, please see the disclosure included in our Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission, under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operation - Critical Accounting Policies."

New Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU No. 2013-02 sets requirements for presentation for significant items reclassified out of accumulated other comprehensive income to net income in reporting periods presented. ASU 2013-02 is effective prospectively beginning with the quarter ended March 31, 2013. The adoption of this guidance did not have an impact on the company's financial condition or results of operations but required additional disclosure in the notes to the company's financial statements. The company has complied with the disclosure requirements of ASU 2013-02.

Table of Contents**Liquidity and Capital Resources**

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

Our primary uses of cash are to provide working capital, meet debt service requirements, finance capital expenditures, pay dividends under our dividend policy and support our growth, including through acquisitions such as the Trynex acquisition and other potential acquisitions, and for other general corporate purposes. For a description of the seasonality of our working capital rates see [Seasonality and Year-To-Year Variability](#).

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

As of June 30, 2013, we had \$28.7 million of total liquidity, comprised of \$2.1 million in cash and cash equivalents and borrowing availability of \$26.7 million under our revolving credit facility, compared with total liquidity as of December 31, 2012 of approximately \$85 million, comprised of approximately \$24 million in cash and cash equivalents and borrowing availability of approximately \$61 million under our revolving credit facility. The decrease in our total liquidity from December 31, 2012 is primarily due to our draw down of \$28.0 million on our revolving credit facility to fund the Trynex acquisition. Borrowing availability under our revolving credit facility is governed by a borrowing base, the calculation of which includes cash on hand. Accordingly, use of cash on hand may also result in a reduction in the amount available for borrowing under our revolving credit facility. Furthermore, our revolving credit facility requires us to maintain at least \$10.5 million of borrowing availability and 15% of the aggregate revolving commitments at the time of determination. We expect that cash on hand and cash we generate from operations, as well as available credit under our senior credit facilities, will provide adequate funds for the purposes described above for at least the next 12 months.

The following table shows our cash and cash equivalents and inventories in thousands at June 30, 2013, December 31, 2012 and June 30, 2012.

	June 30, 2013	As of December 31, 2012	June 30, 2012
Cash and cash equivalents	\$ 2,084	\$ 24,136	\$ 3,790
Inventories	42,407	30,292	32,825

We had cash and cash equivalents of \$2.1 million at June 30, 2013 compared to cash and cash equivalents of \$24.1 million and \$3.8 million at December 31, 2012 and June 30, 2012, respectively. The table below sets forth a summary of the significant sources and uses of cash for the periods presented in thousands.

Edgar Filing: DOUGLAS DYNAMICS, INC - Form 10-Q

Cash Flows (in thousands)	Six months ended June 30,		Change	% Change
	2013	2012		
Net cash used in operating activities	\$ (11,830)	\$ (17,044)	\$ (5,214)	30.6%
Net cash used in investing activities	(28,197)	(936)	27,261	(2,912.5)%
Net cash provided by (used in) financing activities	17,975	(17,662)	35,637	(201.8)%
Decrease in cash	\$ (22,052)	\$ (35,642)	\$ 13,590	(38.1)%

Net cash used in operating activities decreased \$5.2 million from the six months ended June 30, 2012 to the six months ended June 30, 2013. The decrease in cash used in operating activities was primarily due to favorable changes in working capital, notably \$4.3 million in accounts receivables. Slightly offsetting the favorable working capital changes was a \$0.7 million decrease in net income adjusted for reconciling items.

Table of Contents

Net cash used in investing activities increased \$27.3 million for the six months ended June 30, 2013, compared to the corresponding period in 2012. This increase was primarily due to the \$26.7 million acquisition of the Trynex assets. Of the remaining \$0.6 million increase, most can be attributed to higher capital expenditures in 2013 compared to 2012.

Net cash provided by (used in) financing activities increased \$35.6 million for the six months ended June 30, 2013 compared to the corresponding period in 2012. The increase in cash provided was primarily a result of making a draw on our revolving credit facility of \$28.0 million to fund the Trynex acquisition compared to having \$2.0 million in outstanding revolver borrowings at June 30, 2012. Partially offsetting this increase in cash provided by financing activities in the six months ended June 30, 2012 was a \$10.0 million voluntary payment on our term loan in 2012.

Contractual Obligations

There have been no material changes to our contractual obligations in the six months ended June 30, 2013.

Off-Balance Sheet Arrangements

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

Seasonality and Year-to-Year Variability

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

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

Edgar Filing: DOUGLAS DYNAMICS, INC - Form 10-Q

purchasing replacement snow and ice control equipment during the current season rather than delaying purchases until after the season is over when most purchases are typically made by end-users.

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

Table of Contents

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

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

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

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

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

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

We do not use financial instruments for speculative trading purposes, and do not hold any derivative financial instruments that could expose us to significant market risk. Our primary market risk exposures are changes in interest rates and steel price fluctuations.

Interest Rate Risk

We are exposed to market risk primarily from changes in interest rates. Our borrowings, including our term loan and any revolving borrowings under our senior credit facilities, are at variable rates of interest and expose us to interest rate risk. A portion of our interest rate risk associated

with our term loan is mitigated through an interest rate swap as discussed in Note 5 to the Consolidated Financial Statements, above. In addition, the interest rate on any revolving borrowings is subject to an increase in the interest rate based on our average daily availability under our revolving credit facility.

As of June 30, 2013, we had outstanding borrowings under our term loan of \$111.5 million. A hypothetical interest rate change of 1%, 1.5% and 2% on our term loan would have changed interest incurred for the three months ended June 30, 2013 by \$0.0 million, \$0.1 million and \$0.2 million, respectively. We have entered into an interest rate swap, which became effective beginning July 2011 and matures December 2014, to hedge the variability in future cash flows associated with our variable-rate term loans. The swap fixes the adjusting rate on \$50.0 million of our term loan to an interest rate of 2.085%. As of June 30, 2013, we had outstanding borrowings under our revolving credit facility of \$28.0 million. A hypothetical interest rate change of 1%, 1.5% and 2% on our revolving credit facility would have changed interest incurred for the three months ended June 30, 2013 by \$0.1 million, \$0.1 million and \$0.1 million, respectively.

Commodity Price Risk

In the normal course of business, we are exposed to market risk related to our purchase of steel, the primary commodity upon which our manufacturing depends. Our steel purchases as a percentage of revenue were 11.3% and 16.9% for the three months and six months ended June 30, 2013 compared to 11.7% and 20.5% for the three months and six months ended June 30, 2012, respectively. While steel is typically available from numerous suppliers, the price of steel is a commodity subject to fluctuations that apply across broad spectrums of the steel market. We do not use any derivative or hedging instruments to manage steel price risk. If the price of steel increases, our variable costs could also increase. While historically we have successfully mitigated these increased costs through the implementation of either permanent price increases and/or temporary invoice surcharges, in the future we may not be able to successfully mitigate these costs, which could cause our gross margins to decline. If our costs for steel were to increase by \$1.00 in a period where we are not able to pass any of this increase onto our distributors, our gross margins would decline by \$1.00 in the period in which such inventory was sold.

Table of Contents

Item 4. *Controls And Procedures*

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

Table of Contents

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

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

Item 1A. *Risk Factors*

There have been no significant changes in our risk factors from those described in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

Unregistered Sales of Equity Securities

During the three months ended June 30, 2013, the Company sold no securities that were not registered under the Securities Act of 1933, as amended.

Purchases of Equity Securities

In May 2013, the Company withheld approximately 1,596 shares of the Company's common stock from employees to satisfy minimum tax withholding obligations that arose upon vesting of restricted stock granted pursuant to the Company's shareholder-approved equity incentive plan.

Dividend Payment Restrictions

Edgar Filing: DOUGLAS DYNAMICS, INC - Form 10-Q

The Company's senior credit facilities include certain restrictions on its ability to pay dividends. The senior credit facilities also restrict the Company's subsidiaries from paying dividends and otherwise transferring assets to Douglas Dynamics, Inc. For additional detail regarding these restrictions, see Note 5 to the notes to the consolidated financial statements.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

None.

Item 5. *Other Information*

None.

Table of Contents

Item 6. Exhibits

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

Exhibit Numbers	Description
2.1	Asset Purchase Agreement, dated May 6, 2013, by and between Acquisition Tango LLC, Trynex, Inc. and shareholders of Trynex, Inc. named therein [Incorporated by reference to Exhibit 2.1 to Douglas Dynamics, Inc. s Current Report on Form 8-K filed on May 6, 2013 (File No. 001-34728)].
10.1	Real Estate Purchase and Sale Agreement, dated May 6, 2013, by and between Dynamex Properties LLC and Acquisition Tango LLC [Incorporated by reference to Exhibit 10.1 to Douglas Dynamics, Inc. s Current Report on Form 8-K filed on May 6, 2013 (File No. 001-34728)].
31.1*	Certification of the Company s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Company s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the quarterly report on Form 10-Q of Douglas Dynamics, Inc. for the quarter ended June 30, 2013, filed on August 6, 2013, formatted in XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; and (iv) the Notes to the Consolidated Financial Statements

* Filed herewith.

Table of Contents

SIGNATURES

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

DOUGLAS DYNAMICS, INC.

By: */s/ ROBERT MCCORMICK*
Robert McCormick
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

Dated: August 6, 2013

Table of Contents

Exhibit Index to Form 10-Q for the Period Ended June 30, 2013

Exhibit Numbers	Description
2.1	Asset Purchase Agreement, dated May 6, 2013, by and between Acquisition Tango LLC, Trynex, Inc. and shareholders of Trynex, Inc. named therein [Incorporated by reference to Exhibit 2.1 to Douglas Dynamics, Inc. s Current Report on Form 8-K filed on May 6, 2013 (File No. 001-34728)].
10.1	Real Estate Purchase and Sale Agreement, dated May 6, 2013, by and between Dynamex Properties LLC and Acquisition Tango LLC [Incorporated by reference to Exhibit 10.1 to Douglas Dynamics, Inc. s Current Report on Form 8-K filed on May 6, 2013 (File No. 001-34728)].
31.1*	Certification of the Company s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Company s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the quarterly report on Form 10-Q of Douglas Dynamics, Inc. for the quarter ended June 30, 2013, filed on August 6, 2013, formatted in XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows; and (iv) the Notes to the Consolidated Financial Statements

* Filed herewith.