

SOHU COM INC
Form 10-Q
August 08, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

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 0-30961

Sohu.com Inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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Delaware
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)
Level 12, Sohu.com Internet Plaza

98-0204667
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

No. 1 Unit Zhongguancun East Road, Haidian District

Beijing 100084

People's Republic of China

(011) 8610-6272-6666

(Address, including zip code, of registrant's principal executive offices
and 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 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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| Class | Outstanding at June 30, 2011 |
|--------------------------------|------------------------------|
| Common stock, \$.001 par value | 38,306,145 |

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SOHU.COM INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)****(In thousands, except par value)**

| | As of | |
|--|------------------|----------------------|
| | June 30, 2011 | December 31, 2010 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 718,055 | \$ 678,389 |
| Short-term investments | 16,070 | 0 |
| Investment in debt securities | 77,280 | 75,529 |
| Accounts receivable, net | 85,998 | 62,603 |
| Prepaid and other current assets (including nil and \$4,983, respectively, shareholder loan to an equity investee) | 27,124 | 19,646 |
| Total current assets | 924,527 | 836,167 |
| Fixed assets, net | 134,297 | 120,627 |
| Goodwill | 176,562 | 67,761 |
| Intangible assets, net | 67,021 | 17,308 |
| Prepaid non-current assets | 151,412 | 137,999 |
| Other assets | 6,487 | 7,728 |
| Total assets | \$ 1,460,306 | \$ 1,187,590 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 25,177 | \$ 5,940 |
| Accrued liabilities | 75,923 | 65,229 |
| Receipts in advance and deferred revenue | 57,392 | 51,513 |
| Accrued salary and benefits | 39,210 | 35,409 |
| Taxes payable | 26,154 | 31,719 |
| Other short-term liabilities | 25,376 | 21,862 |
| Contingent consideration | 13,978 | 0 |
| Total current liabilities | 263,210 | 211,672 |
| Long-term accounts payable | 1,727 | 0 |
| Deferred tax liabilities | 4,718 | 0 |
| Contingent consideration | 15,646 | 1,359 |
| Total long-term liabilities | 22,091 | 1,359 |
| Total liabilities | 285,301 | 213,031 |

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| | | |
|---|---------------------|---------------------|
| Commitments and contingencies | | |
| MEZZANINE EQUITY | 53,577 | 0 |
| SHAREHOLDERS EQUITY | | |
| Sohu.com Inc. shareholders equity: | | |
| Common stock: \$0.001 par value per share (75,400 shares authorized; 38,306 shares and 38,284 shares, respectively, issued and outstanding) | 44 | 43 |
| Additional paid-in capital | 340,201 | 338,033 |
| Treasury stock (5,389 shares) | (114,690) | (114,690) |
| Accumulated other comprehensive income | 54,260 | 38,228 |
| Retained earnings | 623,575 | 534,503 |
| Total Sohu.com Inc. shareholders equity | 903,390 | 796,117 |
| Noncontrolling interest | 218,038 | 178,442 |
| Total shareholders equity | 1,121,428 | 974,559 |
| Total liabilities, mezzanine equity and shareholders equity | \$ 1,460,306 | \$ 1,187,590 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**SOHU.COM INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)****(In thousands, except per share data)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | |
| Online brand advertising | \$ 67,728 | \$ 53,162 | \$ 124,881 | \$ 92,674 |
| Online game | 101,531 | 77,721 | 196,461 | 149,793 |
| Sogou search and start-up page | 13,613 | 3,872 | 21,592 | 6,696 |
| Wireless | 11,645 | 11,073 | 23,349 | 24,361 |
| Others | 4,188 | 269 | 6,791 | 2,027 |
| Total revenues | 198,705 | 146,097 | 373,074 | 275,551 |
| Cost of revenues: | | | | |
| Online brand advertising | 25,781 | 22,256 | 48,226 | 39,539 |
| Online game | 9,950 | 7,008 | 18,918 | 12,392 |
| Sogou search and start-up page | 6,104 | 3,343 | 10,981 | 6,096 |
| Wireless | 7,109 | 5,810 | 14,001 | 12,721 |
| Others | 4,220 | 504 | 6,890 | 999 |
| Total cost of revenues | 53,164 | 38,921 | 99,016 | 71,747 |
| Gross profit | 145,541 | 107,176 | 274,058 | 203,804 |
| Operating expenses: | | | | |
| Product development | 24,858 | 16,881 | 47,640 | 32,399 |
| Sales and marketing | 38,316 | 29,606 | 68,493 | 52,615 |
| General and administrative | 12,982 | 9,384 | 24,980 | 19,267 |
| Amortization of intangible assets | 597 | 139 | 789 | 247 |
| Total operating expenses | 76,753 | 56,010 | 141,902 | 104,528 |
| Operating profit | 68,788 | 51,166 | 132,156 | 99,276 |
| Other income /(expense) | 1,479 | (330) | 1,989 | (355) |
| Interest income and exchange difference | 1,621 | 958 | 3,914 | 2,157 |
| Income before income tax expense | 71,888 | 51,794 | 138,059 | 101,078 |
| Income tax expense | 10,281 | 6,329 | 21,283 | 14,292 |
| Net income | 61,607 | 45,465 | 116,776 | 86,786 |
| Less: Net income attributable to the mezzanine classified noncontrolling interest shareholders | 361 | 0 | 361 | 0 |
| Net income attributable to the noncontrolling interest shareholders | 16,981 | 12,012 | 27,343 | 23,142 |
| Net income attributable to Sohu.com Inc. | \$ 44,265 | \$ 33,453 | \$ 89,0726,819 | 19,195 20,527 |

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| | | | | |
|--|------------|------------|------------|------------|
| Intangibles amortization | 1,300 | 1,541 | 3,901 | 4,621 |
| Management fees-related party | 11 | 57 | 37 | 6,370 |
| Income from operations | 8,648 | 6,810 | 28,769 | 10,750 |
| Interest expense, net | (2,332) | (2,334) | (6,678) | (9,038) |
| Loss on extinguishment of debt | | | (673) | (7,967) |
| Other expense, net | (25) | (12) | (202) | (7) |
| Income (loss) before taxes | 6,291 | 4,464 | 21,216 | (6,262) |
| Income tax expense (benefit) | 2,324 | 2,279 | 8,326 | (2,803) |
| Net income (loss) | \$ 3,967 | \$ 2,185 | \$ 12,890 | \$ (3,459) |
| Less net income attributable to participating securities | 51 | | 271 | |
| Net income (loss) attributable to common shareholders | \$ 3,916 | \$ 2,185 | \$ 12,619 | \$ (3,459) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 21,760,753 | 21,158,573 | 21,609,810 | 17,963,720 |
| Diluted | 21,838,062 | 21,546,767 | 21,755,552 | 17,963,720 |
| Earnings (loss) per common share: | | | | |
| Basic | \$ 0.18 | \$ 0.10 | \$ 0.59 | \$ (0.19) |
| Diluted | \$ 0.18 | \$ 0.10 | \$ 0.57 | \$ (0.19) |
| Cash dividends declared and paid per share | \$ 0.20 | \$ 0.18 | \$ 0.97 | \$ 0.18 |

See the accompanying notes to consolidated financial statements.

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

(in thousands)

| | Nine Months Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 |
| | (unaudited) | |
| Operating activities | | |
| Net income (loss) | \$ 12,890 | \$ (3,459) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 6,146 | 9,448 |
| Amortization of deferred financing costs | 527 | 741 |
| Loss on extinguishment of debt | 673 | 7,967 |
| Amortization of debt discount | 100 | |
| Stock-based compensation | 1,210 | 3,158 |
| Provision for losses on accounts receivable | 454 | 281 |
| Deferred income taxes | 7,660 | 3,374 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (46,420) | (50,446) |
| Inventories | (3,586) | 2,222 |
| Prepaid and other assets and prepaid income taxes | (821) | (6,069) |
| Accounts payable | 985 | 1,375 |
| Accrued expenses and other current liabilities | 2,480 | (7,268) |
| Deferred compensation | (120) | 187 |
| Benefit obligations and other long-term liabilities | (368) | 54 |
| Net cash used in operating activities | (18,190) | (38,435) |
| Investing activities | | |
| Capital expenditures | (1,585) | (2,414) |
| Proceeds from sale of equipment | 67 | 212 |
| Net cash used in investing activities | (1,518) | (2,202) |
| Financing activities | | |
| Stock repurchases | | (2) |
| Proceeds from exercise of stock options | 1,277 | |
| Payment of call premium and post payoff interest on senior notes redemption | | (3,876) |
| Collection of stockholders' notes receivable | 482 | 535 |
| Payments of financing costs | (3,454) | (2,605) |
| Dividends paid | (21,275) | (3,867) |
| Revolver borrowings | 24,000 | 37,000 |
| Proceeds from public offering, net | | 63,938 |
| Borrowings on long-term debt | 123,750 | 40,000 |
| Repayment of long-term debt | (122,137) | (150,838) |

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| | | |
|---|----------|----------|
| Net cash provided by (used in) financing activities | 2,643 | (19,715) |
| Change in cash and cash equivalents | (17,065) | (60,352) |
| Cash and cash equivalents at beginning of period | 20,149 | 69,073 |
| Cash and cash equivalents at end of period | \$ 3,084 | \$ 8,721 |

See the accompanying notes to consolidated financial statements.

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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 Form 10-K (Commission File No. 1-34728) filed with the Securities and Exchange Commission.

We operate as a single business unit.

Secondary Public Offering

On May 20, 2011, certain of the stockholders of Douglas Dynamics, Inc. (the Company), including affiliates of Aurora Capital Group and Ares Management, closed a registered secondary offering of 5,750,000 shares (the Shares) of the Company's common stock. The Company did not receive any proceeds from the sale of its stock by the selling stockholders in the offering.

Capitalization summary upon closing of the secondary offering:

| | |
|---|------------|
| Common stock issued and outstanding prior to secondary offering: | 21,848,947 |
| Shares issued for options exercised in connection with offering: | 154,965 |
| Common stock issued and outstanding subsequent to secondary offering: | 22,003,912 |

Interim Consolidated Financial Information

The accompanying consolidated balance sheet as of September 30, 2011 and the consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010 and cash flows for the nine months ended September 30, 2011 and 2010 have been prepared by the Company and have not been audited.

As required by the new debt agreement the Company entered into in the second quarter of 2011, the Company entered into 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 starting July 18, 2011, which is one month from the date the interest rate swap agreement was entered into, based on the differential between 6.335% and LIBOR plus 4.25% (with a LIBOR floor of 1.5%). The tax effected negative fair market value of the interest rate swap of (\$382) is included in Accumulated other comprehensive loss at September 30, 2011 on the balance sheet. This fair value was determined using level 2 inputs as defined in Accounting Standards Codification (ASC) 820. The interest rate swap contract on \$50,000 notional amount of the term loan expires in December 2014. The Company does not expect to record any unrecognized loss into earnings in the next twelve months. Additionally, other comprehensive income (loss) includes the net income (loss) 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. Other comprehensive income (loss) was \$3,649 and \$12,508 for the three and nine months ended September 30, 2011, respectively. Other comprehensive income (loss) was \$2,185 and (\$3,322) for the three and nine months ended September 30, 2010, respectively.

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.

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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 9/30/2011 | Fair Value at 12/31/2010 |
|-------------------------------|----------------------------|-----------------------------|
| Assets: | | |
| Assets (a) | \$ | \$ |
| Total Assets | \$ | \$ |
| Liabilities: | | |
| Long term debt (b) | 119,375 | 120,397 |
| Other non-current liabilities | | |
| Interest rate swaps(c) | 615 | |
| Total Liabilities | \$ 119,990 | \$ 120,397 |

(a) The Company does not have any financial assets that are required to be measured at fair value on a recurring basis.

(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:

| | September 30, 2011 | | December 31, 2010 |
|------------------------------------|-------------------------------|----|------------------------------|
| Finished goods and work-in-process | \$ 25,568 | \$ | 21,896 |
| Raw material and supplies | 1,499 | | 1,585 |
| | \$ 27,067 | \$ | 23,481 |

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

Property, plant and equipment are summarized as follows:

| | September 30, 2011 | December 31, 2010 |
|-------------------------------------|-----------------------|----------------------|
| Land | \$ 960 | \$ 960 |
| Land improvements | 1,768 | 1,768 |
| Buildings | 12,591 | 12,554 |
| Machinery and equipment | 22,420 | 22,343 |
| Furniture and fixtures | 6,714 | 6,482 |
| Mobile equipment and other | 1,216 | 1,019 |
| Construction-in-process | 1,400 | 422 |
| Total property, plant and equipment | 47,069 | 45,548 |
| Less accumulated depreciation | (25,787) | (23,586) |
| Net property, plant and equipment | \$ 21,282 | \$ 21,962 |

5. Long-Term Debt

Long-term debt is summarized below:

| | September 30, 2011 | December 31, 2010 |
|-------------------------|-----------------------|----------------------|
| Term Loan | \$ 123,205 | \$ 121,154 |
| Total long-term debt | 123,205 | 121,154 |
| Less current maturities | 1,071 | 1,183 |
| | \$ 122,134 | \$ 119,971 |

On April 18, 2011, the Company amended its senior credit facilities to, among other things, (i) increase the borrowing ability under the revolving credit agreement by \$10,000, and (ii) amend certain of the provisions in its senior credit facilities which govern the Company's ability to pay dividends. Consequently, as of April 18, 2011, the Company's senior credit facilities consisted of a \$125,000 term loan facility and a \$70,000 revolving credit facility with a group of banks. Prior to the April 2011 changes to the Company's senior credit facilities, the interest on the original \$85,000 term loan facility was (at the Company's option) either the base rate (which shall be no less than 3%) plus 3.5% or the eurodollar rate (which shall be no less than 2%) plus 4.5%. The interest for the additional \$40,000 in the Company's term loan facility was an interest rate equal to (at the Company's option) either the base rate (which shall be no less than 3%) plus 4% or the eurodollar rate (which shall be no less than 2%) plus 5%. Under the previous revolving credit facility, the margin for base rate loans was either 0.25% or 0.50% and the margin for eurodollar rate loans was either 1.25% or 1.50%, in each case determined based on the Company's leverage ratio from time to time. The previous term loans consisted of an initial term loan of \$85,000 and a tack on of \$40,000. These were replaced by a term loan of \$125,000. The \$60,000 revolving credit facility was amended and restated to provide for borrowings of up to \$70,000. The agreement for the new 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

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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 as amended and restated (the Revolving Credit Agreement) provides that the Company has the option to select whether borrowings will bear interest at either (i) 2.25% 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 amended and restated revolving credit facility is April 18, 2016, and the Company s new term loan amortizes in nominal amounts quarterly with the balance payable on April 18, 2018.

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The new term loan entered into in the second quarter of 2011 was issued at a \$1,250 discount which is being amortized over the term of the new term loan.

The Company's entry into the new term loan facility resulted in a significant modification of the Company's debt which resulted in the write off of unamortized capitalized deferred financing costs of \$335 and write off of unamortized debt discount of \$338 which in total resulted in a loss on extinguishment of debt of \$673 in the Consolidated Statement of Operations during the nine months ended September 30, 2011.

At September 30, 2011, the Company had borrowings of \$24,000 on the revolving credit facility and remaining borrowing availability of \$45,964.

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 September 30, 2011, the Company was in compliance with the respective covenants. The credit facilities are collateralized by substantially all assets of the Company.

In accordance with the senior credit facilities, the Company is required to make additional principal prepayments over the above scheduled payments under certain conditions. This includes, in the case of the term loan facility, 100% of the net cash proceeds of certain asset sales, certain insurance or condemnation events, certain debt issuances, and, within 150 days of the end of 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 September 30, 2011, the Company was not required to make an excess cash flow payment.

Each of the senior secured facilities entered into in the second quarter of 2011 includes a hedge provision, which requires 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 September 30, 2011 of \$615 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.

Table of Contents**6. Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities are summarized as follows:

| | September 30, 2011 | December 31, 2010 |
|---------------------------|-----------------------|----------------------|
| Payroll and related costs | \$ 2,558 | \$ 2,993 |
| Employee benefits | 3,294 | 2,334 |
| Accrued warranty | 3,776 | 3,399 |
| Other | 4,446 | 3,197 |
| | \$ 14,074 | \$ 11,923 |

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.

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

| | Three months ended | | Nine months ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Balance at the beginning of the period | \$ 3,070 | \$ 2,489 | \$ 3,399 | \$ 3,040 |
| Warranty provision | 890 | 721 | 2,521 | 1,775 |
| Claims paid/settlements | (184) | (171) | (2,144) | (1,776) |
| Balance at the end of the period | \$ 3,776 | \$ 3,039 | \$ 3,776 | \$ 3,039 |

8. Employee Retirement Plans

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

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| | Three months ended | | Nine months ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Component of net periodic pension cost: | | | | |
| Service cost | \$ 240 | \$ 200 | \$ 720 | \$ 600 |
| Interest cost | 385 | 358 | 1,155 | 1,074 |
| Expected return on plan assets | (339) | (290) | (1,017) | (870) |
| Amortization of net loss | 113 | 81 | 339 | 243 |
| Net periodic pension cost | \$ 399 | \$ 349 | \$ 1,197 | \$ 1,047 |

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The Company estimates its total required minimum contributions to its pension plans in 2011 will be \$1,917. Through September 30, 2011, the Company has made \$1,570 of cash contributions to the pension plans in 2011 versus \$711 through the same period in 2010.

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

| | Three months ended | | Nine months ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Components of net periodic other postretirement benefit cost | | | | |
| Service cost | \$ 66 | \$ 71 | \$ 197 | \$ 237 |
| Interest cost | 102 | 107 | 306 | 348 |
| Amortization of net gain | (15) | | (46) | (7) |
| Curtailment gain - Johnson City closing | | | | (667) |
| Net periodic other postretirement benefit cost | \$ 153 | \$ 178 | \$ 457 | \$ (89) |

9. Dividends

Cash dividends declared and paid on a per share basis were as follows:

| | Three months ended | | Nine months ended | |
|--------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Dividends declared | \$ 0.20 | \$ 0.18 | \$ 0.97 | \$ 0.18 |
| Dividends paid | \$ 0.20 | \$ 0.18 | \$ 0.97 | \$ 0.18 |

10. 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. There were 299,408 shares excluded from diluted earnings per share for the nine months ended September 30, 2010 as the shares would be anti-dilutive for that period as the Company incurred a net loss.

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As restricted shares 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.

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| | Three months ended | | Nine months ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Basic earnings (loss) per common share | | | | |
| Net income (loss) | \$ 3,967 | \$ 2,185 | \$ 12,890 | \$ (3,459) |
| Less income allocated to participating securities | 51 | | 271 | |
| Net income (loss) allocated to common shareholders | \$ 3,916 | \$ 2,185 | \$ 12,619 | \$ (3,459) |
| Weighted average common shares outstanding | 21,760,753 | 21,158,573 | 21,609,810 | 17,963,720 |
| | \$ 0.18 | \$ 0.10 | \$ 0.59 | \$ (0.19) |
| Earnings (loss) per common share assuming dilution | | | | |
| Net income (loss) | \$ 3,967 | \$ 2,185 | \$ 12,890 | \$ (3,459) |
| Less income allocated to participating securities | 51 | | 271 | |
| Net income (loss) allocated to common shareholders | \$ 3,916 | \$ 2,185 | \$ 12,619 | \$ (3,459) |
| Weighted average common shares outstanding | 21,760,753 | 21,158,573 | 21,609,810 | 17,963,720 |
| Incremental shares applicable to stock based compensation | 77,309 | 388,194 | 145,742 | |
| Weighted average common shares assuming dilution | 21,838,062 | 21,546,767 | 21,755,552 | 17,963,720 |
| | \$ 0.18 | \$ 0.10 | \$ 0.57 | \$ (0.19) |

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

In connection with the Company's initial public offering (IPO), in May 2010, the Company's Board of Directors and stockholders amended and restated the Company's 2004 Stock Incentive Plan (as amended and restated, the A&R 2004 Plan) and certain outstanding award agreements thereunder, to among other things, eliminate the ability of the holders thereunder to use a promissory note to pay any portion of the exercise price of the options, to provide that the use of net exercises to pay any portion of the exercise price of the options shall be at the sole discretion of the committee administering the A&R 2004 Plan, and to effect certain ministerial changes under the A&R 2004 Plan. In addition, in connection with the IPO, the Board of Directors also resolved not to issue any further awards under the A&R 2004 Plan. As of September 30, 2011, 53,022 shares of common stock are reserved for issuance upon the exercise of outstanding options under the A&R 2004 Plan. All outstanding options are fully vested. Previously unvested shares vested upon the completion of the secondary offering in May 2011. All options expire ten years from the date of grant.

2010 Stock Incentive Plan

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In connection with the IPO, 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.

The following summarizes restricted stock grants under the 2010 Plan:

- **May 2010** - An aggregate of 208,130 shares of restricted stock were granted to certain officers and employees under the 2010 Plan. The restricted stock awards were time-based and vest over a five-year period in equal annual installments of 20% per year, commencing on the first anniversary of the grant date. The first tranche of 41,621 shares vested and thus converted from participating securities to common shares in May 2011.
- **October 2010**- An aggregate of 33,954 shares of restricted stock were granted to certain officers and employees under the 2010 Plan. The restricted stock awards were time based and vest over a three-year period in equal annual installments. The first tranche vested upon issuance in January 2011 and the remaining two tranches will vest in January 2012 and 2013, contingent on the continuous employment through the applicable vesting date.
- **January 2011**- An aggregate of 4,500 shares of restricted stock were granted to certain employees under the 2010 Plan. The restricted stock awards are time based and vest over a three-year period in equal annual installments commencing on January 1, 2012.

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- March 2011- An aggregate of 38,190 shares of restricted stock were granted to certain officers and employees under the 2010 Plan. The restricted stock awards are time based and vest over a three-year period in equal annual installments commencing on January 1, 2012.

The restricted stock does not carry voting rights until the stock vests. However, restricted stock holders do participate in dividends.

In March 2011, long-term incentive awards relating to an aggregate of 57,305 shares of unrestricted stock were granted to certain officers and employees under the 2010 Plan. These awards are performance based and the shares underlying the units will be issued as unrestricted stock in March 2012 if performance targets for the 2009-2011 performance period are achieved. The Company recognized \$249 and \$580 of compensation expense related to unrestricted stock awards granted for the three and nine months ended September 30, 2011. The awards do not carry voting rights or participate in dividends until the underlying stock is issued.

As of September 30, 2011, the Company had 1,801,214 shares of common stock available for future issuance of awards under the 2010 Plan. The shares of common stock to be issued under the 2010 Plan will be made available from authorized and unissued Company common stock.

Stock Options

The following table summarizes information with respect to the Company's stock option activity under the A&R 2004 Plan for the nine months ended September 30, 2011. Certain of the Company's stockholders exercised 303,616 stock options during the nine months ended September 30, 2011, of which 182,082 options were exercised utilizing a broker assisted cashless exercise for the nine month period. The options exercised were granted under APB 25 with an exercise price equal to fair value at date of grant, and accordingly so, no compensation expense was recorded at the time of grant. The Company did not bear the risk and rewards of the options and thus, did not record stock based compensation expense. The option holders paid the Company the required exercise price for the remaining options at the time of exercise and therefore did not record any stock based compensation expense. The following is a rollforward of stock option activity for the periods presented.

| | Three months ended September 30, 2011 | Nine months ended September 30, 2011 |
|-------------------------------------|--|---|
| Stock options - beginning of period | 53,022 | 356,638 |
| Options exercised | | 303,616 |
| Stock options end of period | 53,022 | 53,022 |

Restricted Stock Awards

A summary of restricted stock activity for the nine months ended September 30, 2011 is as follows:

| Weighted | Weighted Average |
|-----------------|-----------------------------|
|-----------------|-----------------------------|

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| | Shares (In thousands) | Average Grant Date Fair value | Remaining Contractual Term |
|--|--------------------------|-------------------------------------|----------------------------------|
| Unvested at December 31, 2010 | 242,084 | \$ 11.68 | 4.01 years |
| Granted | 42,690 | \$ 15.00 | 2.25 years |
| Vested | (50,111) | \$ 11.77 | |
| Cancelled and forfeited | | | |
| Unvested at September 30, 2011 | 234,663 | \$ 12.27 | 3.09 years |
| Expected to vest in the future at September 30, 2011 | 226,215 | \$ 12.27 | 3.09 years |

The fair value of the Company's restricted stock awards is the closing stock price on the date of grant. The Company recognized \$215 and \$630 of compensation expense related to restricted stock awards granted for the three and nine months ended September 30, 2011, respectively. The unrecognized compensation expense calculated under the fair value method for shares expected to vest as of September 30, 2011 was approximately \$2,360 and is expected to be recognized over a weighted average period of 3.09 years.

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12. 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.

13. 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 combined federal and state tax rate for 2011 will be approximately 39%. The Company's effective tax rate was 36.9% and 51.1% for the three months ended September 30, 2011 and 2010, respectively. The Company's effective tax rate for the nine months ended September 30, 2011 and 2010 was 39.2% and (44.8%), respectively. The effective tax rate (benefit) for the nine months ended September 30, 2011 was lower than the corresponding period in 2010 due to adjusting the Company's net deferred tax liabilities to the higher estimated federal rate for 2011 compared to the actual rate incurred in 2010.

14. Related Party Transactions

The Company is party to a Joint Management Services Agreement with Aurora Management Partners, LLC (AMP) and ACOF Management, LP (ACOF), affiliates of its principal stockholders. Prior to the IPO, this agreement obligated the Company to pay an annual management fee of \$1,250 per annum, to AMP and ACOF, pro rata in accordance with their respective holdings, plus reimbursement of reasonable out-of-pocket expenses, in exchange for consultation and advice in fields such as financial services, accounting, general business management, acquisitions, dispositions and banking.

In connection with the Company's IPO, the Company amended and restated the terms of its Joint Management Services Agreement to, among other things, (i) extend the term of service until the earlier of (A) the fifth anniversary of the consummation of the Company's IPO, (B) such time as AMP and ACOF, together with their affiliates, collectively hold less than 5% of the Company's outstanding common stock and (C) such time as all parties mutually agree in writing, while eliminating all other termination events (other than termination for cause); (ii) eliminate the annual management fee, as well as the provision obligating the Company to pay AMP and ACOF a transaction fee in the event of an acquisition or any sale or disposition of the Company or any of its divisions or any sale of substantially all Company assets or similar transactions in exchange for a one-time fee of \$5,800 upon the consummation of the IPO, pro rata in accordance with their respective holdings; and (iii) modify the expense reimbursement provisions to include reimbursement for out-of-pocket expenses incurred in connection with SEC and other legally required filings made by each of AMP and ACOF with respect to the Company's securities and certain other expenses.

In connection with the registered secondary offering of 5,750,000 shares of the Company's common stock by certain of the Company's stockholders, including Aurora Equity Partners II L.P., Aurora Overseas Equity Partners II, L.P. and Ares Corporate Opportunities Fund, L.P., on May 20, 2011, the Company paid \$1,046 in expenses pursuant to the requirements of that certain Second Amended and Restated Securityholders Agreement, dated June 30, 2004, among the Company and certain stockholders, related entities and executives and directors of the Company.

During the three month periods ended September 30, 2011 and 2010, the Company recognized management fees and related expenses of \$11 and \$57, respectively, and during the nine month periods ended September 30, 2011 and 2010, the Company recognized management fees and related expenses of \$37 and \$6,370, respectively, relating to the Joint Management Service Agreement.

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.

Table of Contents**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 or the 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) our inability to protect or continue to build our intellectual property portfolio; (ix) our inability to develop new products or improve upon existing products in response to end-user needs; (x) losses due to lawsuits arising out of personal injuries associated with our products; (xi) factors that could impact the future declaration and payment of dividends; and (xii) our inability to compete effectively against competition, as well as those discussed in the section entitled Risk Factors, set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q. 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 September 30, 2011 and 2010, we sold 13,824 and 13,085 units of snow and ice control equipment, respectively, and during the nine months ended September 30, 2011 and 2010 we sold 35,835 and 32,491 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 nine months ended September 30, 2011 and 2010.

| | Three months ended | | Nine months ended | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Equipment | 89% | 91% | 84% | 87% |
| Parts and accessories | 11% | 9% | 16% | 13% |

The following table sets forth, for the three and nine months ended September 30, 2011 and 2010, the consolidated statements of operations of Douglas Dynamics, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the table below and throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, consolidated statements of operations data for the three and nine months ended September 30, 2011 and 2010 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.

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| | Three Months Ended | | Nine Months Ended | |
|--|-------------------------------|-----------------------|-------------------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| | (unaudited) (in thousands) | | (unaudited) (in thousands) | |
| Net sales | \$ 53,495 | \$ 47,448 | \$ 148,541 | \$ 128,338 |
| Cost of sales | 37,001 | 32,221 | 96,639 | 86,070 |
| Gross profit | 16,494 | 15,227 | 51,902 | 42,268 |
| Selling, general, and administrative expense | 6,535 | 6,819 | 19,195 | 20,527 |
| Intangibles amortization | 1,300 | 1,541 | 3,901 | 4,621 |
| Management fees-related party | 11 | 57 | 37 | 6,370 |
| Income from operations | 8,648 | 6,810 | 28,769 | 10,750 |
| Interest expense, net | (2,332) | (2,334) | (6,678) | (9,038) |
| Loss on extinguishment of debt | | | (673) | (7,967) |
| Other expense, net | (25) | (12) | (202) | (7) |
| Income (loss) before taxes | 6,291 | 4,464 | 21,216 | (6,262) |
| Income tax expense (benefit) | 2,324 | 2,279 | 8,326 | (2,803) |
| Net income (loss) | \$ 3,967 | \$ 2,185 | \$ 12,890 | \$ (3,459) |

The following table sets forth for the three and nine months ended September 30, 2011 and 2010, the percentage of certain items in our consolidated statement of operations, relative to net sales:

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| | (unaudited) | | (unaudited) | |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 69.2% | 67.9% | 65.1% | 67.1% |
| Gross profit | 30.8% | 32.1% | 34.9% | 32.9% |
| Selling, general, and administrative expense | 12.2% | 14.4% | 12.9% | 16.0% |
| Intangibles amortization | 2.4% | 3.2% | 2.6% | 3.6% |
| Management fees-related party | 0.0% | 0.1% | 0.0% | 4.9% |
| Income from operations | 16.2% | 14.4% | 19.4% | 8.4% |
| Interest expense, net | (4.4)% | (5.0)% | (4.5)% | (7.1)% |
| Loss on extinguishment of debt | 0.0% | 0.0% | (0.5)% | (6.2)% |
| Other expense, net | (0.0)% | 0.0% | (0.1)% | 0.0% |
| Income (loss) before taxes | 11.8% | 9.4% | 14.3% | (4.9)% |
| Income tax expense (benefit) | 4.3% | 4.8% | 5.6% | (2.2)% |
| Net income (loss) | 7.5% | 4.6% | 8.7% | (2.7)% |

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Net Sales

Net sales were \$53.5 million for the three months ended September 30, 2011 compared to \$47.4 million in the three months ended September 30, 2010, an increase of \$6.1 million, or 12.7%. Net sales were \$148.5 million for the nine months ended September 30, 2011 compared to \$128.3 million in the nine months ended September 30, 2010, an increase of \$20.2 million, or 15.7%. The increase in net sales for the three and nine months ended September 30, 2011 was driven by a 5.6% and 10.3% increase in unit sales of snow and ice control equipment, respectively. In addition to the increase in unit sales of snow and ice control equipment was an increase in parts and accessories sales for the three and nine months ended September 30, 2011 compared to the corresponding period in 2010 of 33.9%, and 40.1%, respectively. The Company attributes the increases in both equipment and parts and accessories to the above average snowfall during the October 1, 2010 to March 31, 2011 snow season.

Cost of Sales

Cost of sales was \$37.0 million for the three months ended September 30, 2011 compared to \$32.2 million for the three months ended September 30, 2010, an increase of \$4.8 million, or 14.9%. Cost of sales was \$96.6 million for the nine months ended September 30, 2011 compared to \$86.1 million in the nine months ended September 30, 2010, an increase of \$10.5 million, or 12.2%. The increases in cost of sales for the three and nine months ended September 30, 2011 compared to the corresponding periods in 2010 were primarily driven by increases in volume as discussed above under *Net Sales*. In addition, the Company experienced slightly higher cost of sales as a percentage of sales of 69.2% for the three months ended September 30, 2011 compared to 67.9% for the three-month period ended September 30, 2010. Increase in cost of sales as a percentage of sales is due primarily to increases in target market programming and increases in raw material costs. Meanwhile the Company experienced lower cost of sales as a percentage of sales of 65.1% compared to 67.1% for the nine-month periods ending September 30, 2011 and September 30, 2010, respectively. The decrease in cost of sales as a percentage of net sales for the nine month period was in part due to the decreases in non-recurring accelerated depreciation, as the Company incurred costs for the nine month period ended September 30, 2010 totaling \$1.9 million, associated with reassessing the useful lives of the Company's manufacturing facilities and certain equipment at our Johnson City plant. As a percentage of cost of sales, fixed and variable costs were approximately 16% and 84%, respectively, for both the three months ended September 30, 2011 and the three months ended September 30, 2010, and approximately 15% and 85%, respectively, for the nine months ended September 30, 2011 versus approximately 20% and 80%, respectively, for the nine months ended September 30, 2010.

Gross Profit

Gross profit was \$16.5 million for the three months ended September 30, 2011 compared to \$15.2 million in the three months ended September 30, 2010, an increase of \$1.3 million, or 8.6%. Gross profit was \$51.9 million for the nine months ended September 30, 2011 compared to \$42.3 million in the nine months ended September 30, 2010, an increase of \$9.6 million, or 22.7%. The increase in gross profit for the three and nine months ended September 30, 2011 was due primarily to the increased unit sales of snow and ice control equipment described above under *Net Sales*. As a percentage of net sales, gross profit decreased from 32.1% for the three months ended September 30, 2010 to 30.8% for the corresponding period in 2011 and increased from 32.9% for the nine months ended September 30, 2010 to 34.9% for the corresponding period in 2011, primarily as a result of the factors discussed above under *Net Sales* and *Cost of Sales*.

Selling, General and Administrative Expense

Selling, general and administrative expenses, including intangibles amortization and management fees, were \$7.8 million for the three months ended September 30, 2011, compared to \$8.4 million for the three months ended September 30, 2010, a decrease of \$0.6 million, or 7.1%. This decrease was partially due to lower amortization expense of \$0.2 million, which was the result of certain intangible assets becoming fully amortized. Selling, general and administrative expenses, including intangibles amortization and management fees, were \$23.1 million for the nine months ended September 30, 2011, compared to \$31.5 million for the nine months ended September 30, 2010, a decrease of \$8.4 million, or 26.7%. The decrease for the nine months ended September 30, 2011 over the corresponding period in 2010 was primarily attributable to non-recurring expenses incurred at the time of the Company's IPO in 2010 totaling \$8.5 million, which consisted of the buyout of the management services agreement at \$5.8 million, compensation expense associated with net exercises of stock options totaling \$1.7 million and the expense and payment of cash bonuses under the Company's liquidity bonus plan of \$1.0 million.. Additionally, in 2010 the company incurred non-recurring legal expenses of \$1.2 million for the nine-month period ending September 30, 2010. There was also a decrease for the nine months ended September 30, 2011 over the corresponding period in 2010 due to lower amortization expense of \$0.7 million which was the result of certain intangible assets becoming fully amortized. Partially offsetting these decreases was stock based compensation expense of \$1.2 million and offering costs of \$1.1 million for the nine-month period ended September 30, 2011.

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Interest Expense

Interest expense was \$2.3 million for the three months ended September 30, 2011 unchanged from the same period in the prior year. Interest expense was \$6.7 million for the nine months ended September 30, 2011 compared to \$9.0 million in the corresponding period in 2010, a decrease of \$2.3 million, or 25.6%. This decrease in interest expense for the nine months ended September 30, 2011 was due to the redemption of the Company's 7.75% senior notes due January 15, 2012 (the Senior Notes) in 2010 with proceeds from the IPO, additional borrowings under the Company's senior credit facilities and cash on hand.

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 combined federal and state tax rate for 2011 will be approximately 39%. The Company's effective tax rate was 36.9% and 51.1% for the three months ended September 30, 2011 and 2010, respectively. The Company's effective tax rate for the nine months ended September 30, 2011 and 2010 was 39.2% and (44.8%), respectively. The effective tax rate (benefit) for the nine months ended September 30, 2011 was lower than the corresponding period in 2010 due to adjusting the Company's net deferred tax liabilities to the higher estimated federal rate for 2011 compared to the actual rate incurred in 2010.

Net Income (Loss)

Net income for the three months ended September 30, 2011 was \$4.0 million compared to net income of \$2.2 million for the corresponding period in 2010, an increase in net income of \$1.8 million. Net income for the nine months ended September 30, 2011 was \$12.9 million compared to net loss of (\$3.5) million for the corresponding period in 2010, an increase in net income of \$16.4 million. This increase in net income was driven by the factors described above. As a percentage of net sales, net income was 7.5% for the three months ended September 30, 2011 compared to 4.6% for the three months ended September 30, 2010. As a percentage of net sales, net income (loss) was 8.7% for the nine months ended September 30, 2011 compared to (2.7%) for the nine months ended September 30, 2010.

Adjusted EBITDA

Adjusted EBITDA (as defined below) for the three months ended September 30, 2011 was \$12.1 million compared to \$11.6 million in the corresponding period in 2010, an increase of \$0.5 million, or 4.6%. Adjusted EBITDA for the nine months ended September 30, 2011 was \$38.1 million compared to \$32.1 million in the corresponding period in 2010, an increase of \$6.0 million, or 18.7%. As a percentage of net sales, Adjusted EBITDA decreased from 24.4% for the three months ended September 30, 2010 to 22.6% for the three months ended September 30, 2011, and increased from 25.0% for the nine months ended September 30, 2010 to 25.6% for the nine months ended September 30, 2011. For the three-month period ended September 30, 2011 Adjusted EBITDA remained relatively constant compared to the three-month period ending September 30, 2010. For the nine-month period ending September 30, 2011, the increase in Adjusted EBITDA is primarily attributable to increased unit sales of snow and ice control equipment in addition to increases in parts and accessories compared to the corresponding period of 2010. Both above average snowfall in the October 1, 2010 to March 31, 2011 snow season and a slight improvement in overall macro-economic environment drove the increase in pre-season orders in the second quarter of 2011.

Free Cash Flow

Free cash flow (as defined below) for the three months ended September 30, 2011 was (\$16.1) million compared to (\$14.3) million in the corresponding period in 2010, an increase in cash used of \$1.8 million, or 12.6%. Free cash flow for the nine months ended September 30, 2011 was (\$19.8) million compared to (\$40.8) million in the corresponding period in 2010, a decrease in cash used of \$21.0 million, or 51.5%. For the three month period, the increase in cash used is primarily a result of \$1.6 million more cash used by operating activities, while for the nine month period, the decrease in cash used is primarily a result of \$20.2 million less cash used by operating activities, each as discussed below under Liquidity and Capital Resources. In addition to the changes in cash used by operating activities, capital expenditures increased for the three month period ending September 30, 2011 compared to the same period in 2010 by \$0.2 million and decreased by \$0.8 million for the nine-month period ending September 30, 2011 compared to the corresponding period in 2010. In 2010, there were higher capital expenditures to accommodate the increased production demands in Milwaukee and Rockland because of the closure of our Johnson City, TN manufacturing plant in the first half of the year.

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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 flows;
- 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 provided by operating activities, a GAAP measure, to free cash flow, a non-GAAP measure.

| | Three months ended | | Nine months ended | |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| | (In Thousands) | | (In Thousands) | |
| Net cash used in operating activities | \$ (15,323) | \$ (13,727) | \$ (18,190) | \$ (38,435) |
| Acquisition of property and equipment | (745) | (560) | (1,585) | (2,414) |
| Free cash flow | \$ (16,068) | \$ (14,287) | \$ (19,775) | \$ (40,849) |

Adjusted net income represents net income as determined under GAAP, excluding certain expenses incurred at the time of our IPO in 2010 (namely the buyout of our management services agreement, loss on extinguishment of debt, stock based compensation expense associated with the net exercise of stock options and the payment of cash bonuses under our liquidity bonus plan); certain expenses incurred at the time of our secondary offering in 2011; costs incurred to pursue acquisitions and a loss on extinguishment of debt incurred in 2011. We believe that the presentation of adjusted net income for the three and nine months ended September 30, 2011 and September 30, 2010 allows investors to make

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meaningful comparisons of our operating performance between periods and to view our business from the same perspective as our management. Because the excluded items are not predictable or consistent, management does not consider them when evaluating our performance or when making decisions regarding allocation of resources.

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The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to adjusted net income for the three and nine months ended September 30, 2011 and September 30, 2010.

| (in millions) | Three months ended | | Nine months ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Net income (loss) - (GAAP) | \$ 4.0 | \$ 2.2 | \$ 12.9 | \$ (3.5) |
| Addback non-recurring expenses, net of tax at 39.0% and 38.0% for 2011 and 2010, respectively: | | | | |
| -Buyout of management service agreement | | | | 3.6 |
| -Loss on extinguishment of debt | | | 0.4 | 4.9 |
| -Liquidity bonus payment | | | | 0.6 |
| - Non-recurring stock based compensation expense | | 0.8 | | 1.9 |
| - Acquisition costs | 0.5 | | 0.5 | |
| - Offering costs | | | 0.7 | |
| Adjusted Net Income - (Non-GAAP) | \$ 4.5 | \$ 3.0 | \$ 14.5 | \$ 7.5 |

Adjusted EBITDA represents net income before interest, taxes, depreciation and amortization, as further adjusted for certain non-recurring charges related to the closure of our Johnson City, Tennessee manufacturing facility and certain non-recurring legal and consulting fees, as well as management fees paid by us to affiliates of our principal stockholders, stock based compensation, payment of cash bonuses under our liquidity bonus plan, loss on extinguishment of debt and offering costs. 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;

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- 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.

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The following table presents a reconciliation of net income (loss), the most comparable GAAP financial measure, to Adjusted EBITDA as well as the resulting calculation of Adjusted EBITDA for the three and nine months ended September 30, 2011 and 2010 (in thousands):

| | Three months ended | | Nine months ended | |
|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Net income (loss) | \$ 3,967 | \$ 2,185 | \$ 12,890 | \$ (3,459) |
| Interest expense - net | 2,332 | 2,334 | 6,678 | 9,038 |
| Income taxes | 2,324 | 2,279 | 8,326 | (2,803) |
| Depreciation expense | 744 | 1,262 | 2,245 | 4,827 |
| Amortization | 1,300 | 1,541 | 3,901 | 4,621 |
| EBITDA | 10,667 | 9,601 | 34,040 | 12,224 |
| Management fees | 11 | 57 | 37 | 6,370 |
| Stock based compensation | 464 | 1,337 | 1,210 | 3,158 |
| Loss on extinguishment of debt | | | 673 | 7,967 |
| Liquidity bonus plan | | | | 1,003 |
| Offering costs | 78 | | 1,113 | |
| Other non-recurring charges (1) | 876 | 565 | 999 | 1,383 |
| Adjusted EBITDA | \$ 12,096 | \$ 11,560 | \$ 38,072 | \$ 32,105 |

(1) Reflects severance and one-time, non-recurring expenses for costs related to the closure of our Johnson City facility of (\$1) and \$828 for the three and nine months ended September 30, 2010, respectively, unrelated legal and consulting fees of \$566 and \$1,222 for the three and nine months ended September 30, 2010 respectively, and \$876 and \$999 for the three and nine months ended September 30, 2011, respectively, and \$667 gain on other post employment benefit plan curtailment related to the Johnson City plant closure for the nine months ended September 30, 2010 .

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

For the three and nine months ended September 30, 2011, the Company did not adopt any new accounting pronouncements that had a significant impact to the Company's consolidated financial statements.

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. As of September 30, 2011, our senior credit facilities consisted of a \$70 million senior secured revolving credit facility, entered into by our subsidiaries, Douglas Dynamics, L.L.C., Douglas Dynamics Finance Company and Fisher, LLC, as borrowers and a \$125 million senior secured term loan facility, entered into by Douglas Dynamics, L.L.C., as borrower, each on April 18, 2011.

We expect that our primary uses of cash will be to provide working capital, meet debt service requirements, finance capital expenditures, pay dividends under our dividend policy and support our growth, including through potential acquisitions, and for other general corporate purposes. For a description of the seasonality of our working capital rates see Seasonality and Year-To-Year Variability.

Our Board of Directors adopted a dividend policy, reflecting an intention to distribute to our stockholders a regular quarterly cash dividend, in equal quarterly installments. The annual rate for the dividend is \$0.80 per share, or \$0.20 per quarter. The declaration and payment of these dividends to holders of our common stock will be at the discretion of our Board of Directors and will depend upon many factors, including our financial condition and earnings, legal requirements, taxes and other factors our Board of

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Directors may deem to be relevant. The terms of our indebtedness also restricts us from paying cash dividends on our common stock under certain circumstances. As a result of this dividend policy, we may not have significant cash available to meet any large unanticipated liquidity requirements. As a result, we may not retain a sufficient amount of cash to fund our operations or to finance unanticipated capital expenditures or growth opportunities, including acquisitions. Our Board of Directors may, however, amend, revoke or suspend our dividend policy at any time and for any reason.

As of September 30, 2011, we had \$49.1 million of total liquidity, comprised of \$3.1 million in cash and cash equivalents and borrowing availability of \$46.0 million under our revolving credit facility. 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, 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 September 30, 2011, December 31, 2010 and September 30, 2010.

| | As of | | |
|---------------------------|-----------------------|-------------------|-----------------------|
| | September 30, 2011 | December 31, 2010 | September 30, 2010 |
| Cash and cash equivalents | \$ 3,084 | \$ 20,149 | \$ 8,721 |
| Inventories | 27,067 | 23,481 | 24,475 |

We had cash and cash equivalents of \$3.1 million at September 30, 2011 compared to cash and cash equivalents of \$20.1 million and \$8.7 million at December 31, 2010 and September 30, 2010, respectively. The table below sets forth a summary of the significant sources and uses of cash for the periods presented in thousands.

| Cash Flows (in thousands) | Nine months ended September 30, | | Change | % Change |
|---|---------------------------------|-------------|-----------|----------|
| | 2011 | 2010 | | |
| Net cash (used in) operating activities | \$ (18,190) | \$ (38,435) | \$ 20,245 | (52.7)% |
| Net cash (used in) investing activities | (1,518) | (2,202) | 684 | (31.1)% |
| Net cash provided by (used in) financing activities | 2,643 | (19,715) | 22,358 | (113.4)% |
| Decrease in cash | \$ (17,065) | \$ (60,352) | \$ 43,287 | (71.7)% |

Net cash used in operating activities decreased \$20.2 million from the nine months ended September 30, 2010 to the nine months ended September 30, 2011. This decrease was driven mainly by non-recurring costs incurred at the time of the Company's IPO in 2010, namely the buyout of the management services agreement totaling \$5.8 million, and the payment of cash bonuses under the Company's liquidity bonus plan totaling \$1.0 million. The remainder of decrease in cash used was driven by working capital changes.

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Net cash used in investing activities decreased \$0.7 million for the nine months ended September 30, 2011, compared to the corresponding period in 2010. This decrease was due to higher capital expenditures in 2010 to accommodate the increased production demands in Milwaukee and Rockland because of the closure of our Johnson City, TN manufacturing plant.

Net cash provided by (used in) financing activities increased \$22.4 million for the nine months ended September 30, 2011 compared to the corresponding period in 2010. Lower cash used in the nine month period of 2011 as compared to 2010 was principally the result of the net impact of financing activities associated with our IPO in 2010, namely the redemption of the Senior Notes, including the redemption premium and accrued interest thereon totaling \$153.9 million, partially offset by an increase in our term loan of \$40.0 million and net proceeds from the IPO of \$63.9 million. We also paid dividends of \$21.3 million in the nine months ended September 30, 2011, compared to dividends of \$3.9 million in the nine months ended September 30, 2010. As we refinanced our term loan in 2011 there was a net impact of \$2.2 million in cash provided to us as we borrowed \$125 million less a \$1.3 million discount, offset by debt repayments of \$121.5 million. As part of the refinancing in 2011, we also incurred \$3.5 million in financing costs that are being amortized over the life of the facility. Finally, there was also a decrease in revolver borrowings of \$13.0 million as borrowings were \$37.0 million at September 30, 2010 as compared to \$24.0 million at September 30, 2011.

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Contractual Obligations

There have been no material changes to our contractual obligations in the nine months ended September 30, 2011. However, on April 18, 2011, we entered into a new senior secured credit facility, comprised of an amended revolving credit facility and a new term loan. See Note 5 to the notes to our financial statements.

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 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. During 2010 and 2011, sales during this period have shifted from traditional patterns to be more heavily weighted toward the second quarter versus the third quarter. By

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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.

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.

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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 September 30, 2011, we had outstanding borrowings under our term loan of \$123.2 million. A hypothetical interest rate change of 1%, 1.5% and 2% on our term loan would have changed interest incurred for the three months ended September 30, 2011 by \$0.6 million, \$0.6 million and \$0.7 million, respectively. We have entered into an interest rate swap, which became effective beginning July 2011 and matures

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December 2014, to hedge the variability in future cash flows associated with our variable-rate term loans. The swap converts \$50.0 million of our term loan to a fixed interest rate of 2.085%. As of September 30, 2011, we had outstanding borrowings under our revolving credit facility of \$24.0 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 September 30, 2011 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 12.9% and 15.8% for the three months and nine months ended September 30, 2011 compared to 13.0% and 15.5% for the three months and nine months ended September 30, 2010, 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.

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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.

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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

The Company operates in an environment that involves numerous known and unknown risks and uncertainties. Our business, prospects, financial condition and operating results could be materially adversely affected by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. The risks described below highlight some of the factors that have affected, and in the future could affect our operations.

Our results of operations depend primarily on the level, timing and location of snowfall. As a result, a decline in snowfall levels in multiple regions for an extended time could cause our results of operations to decline and adversely affect our ability to pay dividends.

As a manufacturer of snow and ice control equipment for light trucks, and related parts and accessories, our sales depend primarily on the level, timing and location of snowfall in the regions in which we offer our products. A low level or lack of snowfall in any given year in any of the snowbelt regions in North America (primarily the Midwest, East and Northeast regions of the United States as well as all provinces of Canada) will likely cause sales of our products to decline in such year as well as the subsequent year, which in turn may adversely affect our results of operations and ability to pay dividends. See Management's Discussion and Analysis of Financial Condition and Results of Operations Seasonality and Year-to-Year Variability. A sustained period of reduced snowfall events in one or more of the geographic regions in which we offer our products could cause our results of operations to decline and adversely affect our ability to pay dividends.

The year-to-year variability of our business can cause our results of operations and financial condition to be materially different from year-to-year; whereas the seasonality of our business can cause our results of operations and financial condition to be materially different from quarter-to-quarter.

Because our business depends on the level, timing and location of snowfall, our results of operations vary from year-to-year. Additionally, because the annual snow season typically only runs from October 1 through March 31, our distributors typically purchase our products during the second and third quarters. As a result, we operate in a seasonal business. We not only experience seasonality in our sales, but also experience seasonality in our working capital needs. For example, our average monthly working capital net of cash, accrued interest, income taxes payable, deferred tax assets and prepaid management fees was approximately \$58.9 million from 2008 to 2010 with an average monthly peak in the third quarter of approximately \$90 million. Excluding such adjustments, our average monthly working capital during this period was approximately

\$84.4 million. Consequently, our results of operations and financial condition can vary from year-to-year, as well as from quarter-to-quarter, which could affect our ability to pay dividends. If we are unable to effectively manage the seasonality and year-to-year variability of our business, our results of operations, financial condition and ability to pay dividends may suffer.

If economic conditions in the United States continue to remain weak or deteriorate further, our results of operations, financial condition and ability to pay dividends may be adversely affected.

Historically, demand for snow and ice control equipment for light trucks has been influenced by general economic conditions in the United States, as well as local economic conditions in the snowbelt regions in North America. During the last few years, economic conditions throughout the United States have been extremely weak, and may not improve in the foreseeable future. Weakened economic conditions may cause our end-users to delay purchases of replacement snow and ice control equipment and instead repair their existing equipment, leading to a decrease in our sales of new equipment. Weakened economic conditions may also cause our end-users to delay their purchases of new light trucks. Because our end-users tend to purchase new snow and ice control equipment concurrent with their purchase of new light trucks, their delay in purchasing new light trucks can also result in the deferral of their purchases of new snow and ice control equipment. The deferral of new equipment purchases during periods of weak economic conditions may negatively affect our results of operations, financial condition and ability to pay dividends.

Weakened economic conditions may also cause our end-users to consider price more carefully in selecting new snow and ice control equipment. Historically, considerations of quality and service have outweighed considerations of price, but in a weak economy, price may become a more important factor. Any refocus away from quality in favor of cheaper equipment could cause end-users to shift away from our products to less expensive competitor products, or to shift away from our more profitable products to our less profitable products, which in turn would adversely affect our results of operations and our ability to pay dividends.

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Our failure to maintain good relationships with our distributors, the loss or consolidation of our distributor base or the actions or inactions of our distributors could have an adverse effect on our results of operations and our ability to pay dividends.

We depend on a network of truck equipment distributors to sell, install and service our products. Nearly all of these sales and service relationships are at will, and less than 1% of our distributors have agreed not to offer products that compete with our products. As a result, almost all of our distributors could discontinue the sale and service of our products at any time, and those distributors that primarily sell our products may choose to sell competing products at any time. Further, difficult economic or other circumstances could cause any of our distributors to discontinue their businesses. Moreover, if our distributor base were to consolidate or if any of our distributors were to discontinue their business, competition for the business of fewer distributors would intensify. If we do not maintain good relationships with our distributors, or if we do not provide product offerings and pricing that meet the needs of our distributors, we could lose a substantial amount of our distributor base. A loss of a substantial portion of our distributor base could cause our sales to decline significantly, which would have an adverse effect on our results of operations and ability to pay dividends.

In addition, our distributors may not provide timely or adequate service to our end-users. If this occurs, our brand identity and reputation may be damaged, which would have an adverse effect on our results of operations and ability to pay dividends.

Lack of available financing options for our end-users or distributors may adversely affect our sales volumes.

Our end-user base is highly concentrated among professional snowplowers, who comprise over 50% of our end-users, many of whom are individual landscapers who remove snow during the winter and landscape during the rest of the year, rather than large, well-capitalized corporations. These end-users often depend upon credit to purchase our products. If credit is unavailable on favorable terms or at all, our end-users may not be able to purchase our products from our distributors, which would in turn reduce sales and adversely affect our results of operations and ability to pay dividends.

In addition, because our distributors, like our end-users, rely on credit to purchase our products, if our distributors are not able to obtain credit, or access credit on favorable terms, we may experience delays in payment or nonpayment for delivered products. Further, if our distributors are unable to obtain credit or access credit on favorable terms, they could experience financial difficulties or bankruptcy and cease purchases of our products altogether. Thus, if financing is unavailable on favorable terms or at all, our results of operations and ability to pay dividends would be adversely affected.

The price of steel, a commodity necessary to manufacture our products, is highly variable. If the price of steel increases, our gross margins could decline.

Steel is a significant raw material used to manufacture our products. During 2008, 2009 and 2010, our steel purchases were approximately 15%, 18% and 13% of our revenue, respectively. The steel industry is highly cyclical in nature, and steel prices have been volatile in recent years and may remain volatile in the future. Steel prices are influenced by numerous factors beyond our control, including general economic conditions domestically and internationally, the availability of raw materials, competition, labor costs, freight and transportation costs, production costs, import duties and other trade restrictions. Steel prices are volatile and may increase as a result of increased demand from the automobile and consumer durable sectors. If the price of steel increases, our variable costs may increase. We may not be able to mitigate these increased costs

through the implementation of permanent price increases or temporary invoice surcharges, especially if economic conditions remain weak and our distributors and end-users become more price sensitive. If we are unable to successfully mitigate such cost increases in the future, our gross margins could decline.

If petroleum prices increase, our results of operations could be adversely affected.

Petroleum prices have fluctuated significantly in recent years. Prices and availability of petroleum products are subject to political, economic and market factors that are outside our control. Political events in petroleum-producing regions as well as hurricanes and other weather-related events may cause the price of fuel to increase. If the price of fuel increases, the demand for our products may decline, which would adversely affect our financial condition and results of operations.

We depend on outside suppliers who may be unable to meet our volume and quality requirements, and we may be unable to obtain alternative sources.

We purchase certain components essential to our snowplows and sand and salt spreaders from outside suppliers, including off-shore sources. Most of our key supply arrangements can be discontinued at any time and are not covered by written contracts. A supplier may encounter delays in the production and delivery of such products and components or may supply us with products and

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components that do not meet our quality, quantity or cost requirements. Additionally, a supplier may be forced to discontinue operations. Any discontinuation or interruption in the availability of quality products and components from one or more of our suppliers may result in increased production costs, delays in the delivery of our products and lost end-user sales, which could have an adverse effect on our business and financial condition. During 2010, our top ten suppliers accounted for approximately 54% of our raw material and component purchasing.

In addition, we have begun to increase the number of our off-shore suppliers. Our increased reliance on off-shore sourcing may cause our business to be more susceptible to the impact of natural disasters, war and other factors that may disrupt the transportation systems or shipping lines used by our suppliers, a weakening of the dollar over an extended period of time and other uncontrollable factors such as changes in foreign regulation or economic conditions. In addition, reliance on off-shore suppliers may make it more difficult for us to respond to sudden changes in demand because of the longer lead time to obtain components from off-shore sources. We may be unable to mitigate this risk by stocking sufficient materials to satisfy any sudden or prolonged surges in demand for our products. If we cannot satisfy demand for our products in a timely manner, our sales could suffer as distributors can cancel purchase orders without penalty until shipment.

We do not sell our products under long-term purchase contracts, and sales of our products are significantly impacted by factors outside of our control; therefore, our ability to estimate demand is limited.

We do not enter into long-term purchase contracts with our distributors and the purchase orders we receive may be cancelled without penalty until shipment. Therefore, our ability to accurately predict future demand for our products is limited. Nonetheless, we attempt to estimate demand for our products for purposes of planning our annual production levels and our long-term product development and new product introductions. We base our estimates of demand on our own market assessment, snowfall figures, quarterly field inventory surveys and regular communications with our distributors. Because wide fluctuations in the level, timing and location of snowfall, economic conditions and other factors may occur, each of which is out of our control, our estimates of demand may not be accurate. Underestimating demand could result in procuring an insufficient amount of materials necessary for the production of our products, which may result in increased production costs, delays in product delivery, missed sale opportunities and a decrease in customer satisfaction. Overestimating demand could result in the procurement of excessive supplies, which could result in increased inventory and associated carrying costs.

If we are unable to enforce, maintain or continue to build our intellectual property portfolio, or if others invalidate our intellectual property rights, our competitive position may be harmed.

Our patents relate to snowplow mounts, assemblies, hydraulics, electronics and lighting systems as well as sand and salt spreader assemblies and our patent applications relate to each of the foregoing except for hydraulics and sand and salt spreader assemblies. When granted, each patent has a 17 year duration. The duration of the patents we currently possess range between one year and 14 years of remaining life. Our patent applications date back to as far as 2001 and as recent as 2010.

We rely on a combination of patents, trade secrets and trademarks to protect certain of the proprietary aspects of our business and technology. We hold approximately 20 U.S. registered trademarks (including the trademarks WESTERN®, FISHER® and BLIZZARD®), 5 Canadian registered trademarks, 28 U.S. issued patents and 15 Canadian patents. Although we work diligently to protect our intellectual property rights, monitoring the unauthorized use of our intellectual property is difficult, and the steps we have taken may not prevent unauthorized use by others. We believe that our trademarks are of great value and that the loss of any one or all of our trademark rights could lower sales and increase our costs. In addition, in the event a third party challenges the validity of our intellectual property rights, a court may determine that our intellectual property rights may not be valid or enforceable. An adverse determination with respect to our intellectual property rights may harm our business prospects and reputation. Third parties may design around our patents or may independently develop technology similar to our trade secrets. The

failure to adequately build, maintain and enforce our intellectual property portfolio could impair the strength of our technology and our brands, and harm our competitive position. Although we have no reason to believe that our intellectual property rights are vulnerable, previously undiscovered intellectual property could be used to invalidate our rights.

If we are unable to develop new products or improve upon our existing products on a timely basis, it could have an adverse effect on our business and financial condition.

We believe that our future success depends, in part, on our ability to develop on a timely basis new technologically advanced products or improve upon our existing products in innovative ways that meet or exceed our competitors' product offerings. Continuous product innovation ensures that our consumers have access to the latest products and features when they consider buying snow and ice control equipment. Maintaining our market position will require us to continue to invest in research and development and sales and marketing. Product development requires significant financial, technological and other resources. From 1992 to 2010, we invested approximately \$64 million to support our manufacturing strategy and to maintain our competitive strength in the product

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manufacturing process. We may be unsuccessful in making the technological advances necessary to develop new products or improve our existing products to maintain our market position. Industry standards, end-user expectations or other products may emerge that could render one or more of our products less desirable or obsolete. If any of these events occur, it could cause decreases in sales, a failure to realize premium pricing and an adverse effect on our business and financial condition.

We face competition from other companies in our industry, and if we are unable to compete effectively with these companies, it could have an adverse effect on our sales and profitability. Price competition among our distributors could negatively affect our market share.

We primarily compete with regional manufacturers of snow and ice control equipment for light trucks. While we are the most geographically diverse company in our industry, we may face increasing competition in the markets in which we operate. In saturated markets, price competition may lead to a decrease in our market share or a compression of our margins, both of which would affect our profitability. Moreover, current or future competitors may grow their market share and develop superior service and may have or may develop greater financial resources, lower costs, superior technology or more favorable operating conditions than we maintain. As a result, competitive pressures we face may cause price reductions for our products, which would affect our profitability or result in decreased sales and operating income. Additionally, saturation of the markets in which we compete or channel conflicts among our brands and shifts in consumer preferences may increase these competitive pressures or may result in increased competition among our distributors and affect our sales and profitability. In addition, price competition among the distributors that sell our products could lead to significant margin erosion among our distributors, which could in turn result in compressed margins or loss of market share for us. Management believes that, after ourselves, the next largest competitors in the market for snow and ice control equipment for light trucks are Northern Star Industries, Inc. (the manufacturer of the Boss brand of snow and ice control equipment) and Meyer Products LLC, respectively, and accordingly represent our primary competitors for market share.

We are subject to complex laws and regulations, including environmental and safety regulations, that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to certain federal, state and local laws and regulations relating to, among other things, the generation, storage, handling, emission, transportation, disposal and discharge of hazardous and non-hazardous substances and materials into the environment, the manufacturing of motor vehicle accessories and employee health and safety. We cannot be certain that existing and future laws and regulations and their interpretations will not harm our business or financial condition. We currently make and may be required to make large and unanticipated capital expenditures to comply with environmental and other regulations, such as:

- applicable motor vehicle safety standards established by the National Highway Traffic Safety Administration;
- reclamation and remediation and other environmental protection; and
- standards for workplace safety established by the Occupational Safety and Health Administration.

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While we monitor our compliance with applicable laws and regulations and attempt to budget for anticipated costs associated with compliance, we cannot predict the future cost of such compliance. While in 2010 the amount we expended related to compliance with such regulations was insignificant we could incur material expenses in the future in the event of future legislation changes or unforeseen events, such as a workplace accident or environmental discharge, or if we otherwise discover we are in non-compliance with an applicable regulation. In addition, under these laws and regulations, we could be liable for:

- product liability claims;
- personal injuries;
- investigation and remediation of environmental contamination and other governmental sanctions such as fines and penalties; and
- other environmental damages.

Our operations could be significantly delayed or curtailed and our costs of operations could significantly increase as a result of regulatory requirements, restrictions or claims. We are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations.

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Financial market conditions have had a negative impact on the return on plan assets for our pension plans, which may require additional funding and negatively impact our cash flows.

Our pension expense and required contributions to our pension plans are directly affected by the value of plan assets, the projected rate of return on plan assets, the actual rate of return on plan assets and the actuarial assumptions we use to measure the defined benefit pension plan obligations. As of December 31, 2010, our pension plans were underfunded by approximately \$10.8 million. In 2010, contributions to our defined benefit pension plans were approximately \$0.9 million. If plan assets continue to perform below expectations, future pension expense and funding obligations will increase, which would have a negative impact on our cash flows. Moreover, under the Pension Protection Act of 2006, it is possible that continued losses of asset values may necessitate accelerated funding of our pension plans in the future to meet minimum federal government requirements.

The statements regarding our industry, market positions and market share in this report are based on our management's estimates and assumptions. While we believe such statements are reasonable, such statements have not been independently verified.

Information contained in this report concerning the snow and ice control equipment industry for light trucks, our general expectations concerning this industry and our market positions and other market share data regarding the industry are based on estimates our management prepared using end-user surveys, anecdotal data from our distributors and distributors that carry our competitors' products, our results of operations and management's past experience, and on assumptions made, based on our management's knowledge of this industry, all of which we believe to be reasonable. These estimates and assumptions are inherently subject to uncertainties, especially given the year-to-year variability of snowfall and the difficulty of obtaining precise information about our competitors, and may prove to be inaccurate. In addition, we have not independently verified the information from any third-party source and thus cannot guarantee its accuracy or completeness, although management also believes such information to be reasonable. Our actual operating results may vary significantly if our estimates and outlook concerning the industry, snowfall patterns, our market positions or our market shares turn out to be incorrect.

We are subject to product liability claims, product quality issues, and other litigation from time to time that could adversely affect our operating results or financial condition.

The manufacture, sale and usage of our products expose us to the risk of product liability claims. If our products are defective or used incorrectly by our end-users, injury may result, giving rise to product liability claims against us. If a product liability claim or series of claims is brought against us for uninsured liabilities or in excess of our insurance coverage, and it is ultimately determined that we are liable, our business and financial condition could suffer. Any losses that we may suffer from any liability claims, and the effect that any product liability litigation may have upon the reputation and marketability of our products, may divert management's attention from other matters and may have a negative impact on our business and operating results. Additionally, we could experience a material design or manufacturing failure in our products, a quality system failure or other safety issues, or heightened regulatory scrutiny that could warrant a recall of some of our products. A recall of some of our products could also result in increased product liability claims. Any of these issues could also result in loss of market share, reduced sales, and higher warranty expense.

We are heavily dependent on our Chief Executive Officer and management team.

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Our continued success depends on the retention, recruitment and continued contributions of key management, finance, sales and marketing personnel, some of whom could be difficult to replace. Our success is largely dependent upon our senior management team, led by our Chief Executive Officer and other key managers. The loss of any one or more of such persons could have an adverse effect on our business and financial condition.

Our indebtedness could adversely affect our operations, including our ability to perform our obligations and pay dividends.

As of September 30, 2011 we had approximately \$123.2 million of senior secured indebtedness and \$46.0 million of borrowing availability under our revolving credit facility. We may also be able to incur substantial indebtedness in the future, including senior indebtedness, which may or may not be secured. For example, our amended revolving credit facility allows our wholly-owned subsidiaries, Douglas Dynamics, L.L.C. (DDI LLC), Douglas Dynamics Finance Company (DDI Finance) and Fisher, LLC (Fisher) to request the establishment of one or more additional revolving commitments in an aggregate amount not in excess of \$40 million and our new term loan facility allows DDI LLC to request the establishment of one or more additional term loan commitments in an aggregate amount not in excess of \$60 million, in each case, subject to specified terms and conditions.

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Our indebtedness could have important consequences to our stockholders, including the following:

- we could have difficulty satisfying our debt obligations, and if we fail to comply with these requirements, an event of default could result;
- we may be required to dedicate a substantial portion of our cash flow from operations to required payments on indebtedness, thereby reducing the cash flow available to pay dividends or fund working capital, capital expenditures and other general corporate activities;
- covenants relating to our indebtedness may restrict our ability to make dividends or distributions to our stockholders;
- covenants relating to our indebtedness may limit our ability to obtain additional financing for working capital, capital expenditures and other general corporate activities, which may limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- we may be more vulnerable to general adverse economic and industry conditions;
- we may be placed at a competitive disadvantage compared to our competitors with less debt; and
- we may have difficulty repaying or refinancing our obligations under our senior credit facilities on their respective maturity dates.

If any of these consequences occur, our financial condition, results of operations and ability to pay dividends could be adversely affected. This, in turn, could negatively affect the market price of our common stock, and we may need to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any refinancing would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds that may be realized from those sales, or that additional financing could be obtained on acceptable terms, if at all.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly and could impose adverse consequences.

Certain of 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. In addition, the interest rate on any revolving borrowings is subject to an increase in the interest rate if the average daily availability under our revolving credit facility falls below a certain threshold. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows would correspondingly decrease. Our senior credit facilities require us to maintain in effect at all times one or more interest rate hedging agreements so that, at all times, interest on at least 25% of the aggregate outstanding principal amount of the loans under the new term loan facility is either fixed rate or covered by such agreements.

Our senior credit facilities impose restrictions on us, which may also prevent us from capitalizing on business opportunities and taking certain corporate actions. One of these facilities also includes minimum availability requirements, which if unsatisfied, could result in liquidity events that may jeopardize our business.

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Our senior credit facilities contain, and future debt instruments to which we may become subject may contain, covenants that limit our ability to engage in activities that could otherwise benefit our company. Under the credit facilities as modified in April 2011, these covenants include restrictions on our ability to:

- incur, assume or permit to exist additional indebtedness or contingent obligations;
- incur liens and engage in sale and leaseback transactions;
- make loans and investments in excess of agreed upon amounts;
- declare dividends, make payments or redeem or repurchase capital stock in excess of agreed upon amounts and subject to certain other limitations;
- engage in mergers, acquisitions and other business combinations;
- prepay, redeem or purchase certain indebtedness or amend or alter the terms of our indebtedness;
- sell assets;
- make further negative pledges;
- create restrictions on distributions by subsidiaries;
- change our fiscal year;
- engage in activities other than, among other things, incurring the debt under our new senior credit facilities and the activities related thereto, holding our ownership interest in DDI LLC, making restricted payments, including dividends, permitted by our new senior credit facilities and conducting activities related to our status as a public company;
- amend or waive rights under certain agreements;
- transact with affiliates or our stockholders; and
- alter the business that we conduct.

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Our amended revolving credit facility also includes limitations on capital expenditures and requires that if we fail to maintain the greater of \$8,750,000 and 12.5% of the revolving commitments in borrowing availability, we must comply with a fixed charge coverage ratio test. In addition, if a liquidity event occurs because our borrowing availability is less than the greater of \$10,500,000 and 15% of the aggregate revolving commitments (or an event of default occurs and is continuing), subject to certain limited cure rights, all proceeds of our accounts receivable and other collateral will be applied to reduce obligations under our amended revolving credit facility, jeopardizing our ability to meet other obligations. Our ability to comply with the covenants contained in our senior credit facilities or in the agreements governing our future indebtedness, and our ability to avoid liquidity events, may be affected by events, or our future performance, which are subject to factors beyond our control, including prevailing economic, financial, industry and weather conditions, such as the level, timing and location of snowfall and general economic conditions in the snowbelt regions of North America. A failure to comply with these covenants could result in a default under our senior credit facilities, which could prevent us from paying dividends, borrowing additional amounts and using proceeds of our inventory and accounts receivable, and also permit the lenders to accelerate the payment of such debt. If any of our debt is accelerated or if a liquidity event (or event of default) occurs that results in collateral proceeds being applied to reduce such debt, we may not have sufficient funds available to repay such debt and our other obligations, in which case, our business could be halted and such lenders could proceed against any collateral securing that debt. Further, if the lenders accelerate the payment of the indebtedness under our senior credit facilities, our assets may not be sufficient to repay in full the indebtedness under our senior credit facilities and our other indebtedness, if any. We cannot assure you that these covenants will not adversely affect our ability to finance our future operations or capital needs to pursue available business opportunities or react to changes in our business and the industry in which we operate.

Our principal stockholders hold a significant portion of our common stock and may have different interests than us or you in the future.

As of September 30, 2011, our principal stockholders had the right to vote or direct the vote of approximately 9% of our voting power. Consequently, our principal stockholders will for the foreseeable future be able to influence the election and removal of our directors and influence our corporate and management policies, including virtually all matters requiring stockholder approval, such as potential mergers or acquisitions, asset sales and other significant corporate transactions. This concentration of ownership may delay or deter possible changes in control of the Company. We cannot assure you that the interests of our principal stockholders will coincide with the interests of our other holders of common stock.

Provisions of Delaware law and our charter documents could delay or prevent an acquisition of us, even if the acquisition would be beneficial to you.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include:

- the absence of cumulative voting in the election of our directors, which means that the holders of a majority of our common stock may elect all of the directors standing for election;
- the ability of our Board of Directors to issue preferred stock with voting rights or with rights senior to those of our common stock without any further vote or action by the holders of our common stock;
- the division of our Board of Directors into three separate classes serving staggered three-year terms;
- the ability of our stockholders to remove our directors is limited to cause and only by the vote of at least 66²/₃% of the outstanding shares of our common stock;

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- the prohibition on our stockholders from acting by written consent and calling special meetings;
- the requirement that our stockholders provide advance notice when nominating our directors or proposing business to be considered by the stockholders at an annual meeting of stockholders; and
- the requirement that our stockholders must obtain a 66²/₃% vote to amend or repeal certain provisions of our certificate of incorporation.

We are also subject to Section 203 of the Delaware General Corporation Law, which, subject to certain exceptions, prohibits us from engaging in any business combination with any interested stockholder, as defined in that section, for a period of three years following the date on which that stockholder became an interested stockholder. This provision, together with the provisions discussed above, could also make it more difficult for you and our other stockholders to elect directors and take other corporate actions, and could limit the price that investors might be willing to pay in the future for shares of our common stock.

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If we are unable to assess favorably the effectiveness of our internal control over financial reporting, or if our independent registered public accounting firm is unable to provide an unqualified attestation report on our internal controls, our stock price could be adversely affected.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules adopted by the SEC and the Public Company Accounting Oversight Board, beginning with our Annual Report on Form 10-K for the year ending December 31, 2011, our management will be required to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting. We may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal control over financial reporting. In addition, in connection with the attestation process by our independent registered public accounting firm, we may encounter problems or delays in completing the implementation of any requested improvements and receiving a favorable attestation. If we cannot timely and favorably assess the effectiveness of our internal control over financial reporting, or if our independent registered public accounting firm is unable to provide an unqualified attestation report on our internal control over financial reporting, investor confidence and our stock price could decline.

Our dividend policy may limit our ability to pursue growth opportunities.

If we pay dividends at the level currently anticipated under our dividend policy, we may not retain a sufficient amount of cash to finance growth opportunities, meet any large unanticipated liquidity requirements or fund our operations in the event of a significant business downturn. In addition, because a significant portion of cash available will be distributed to holders of our common stock under our dividend policy, our ability to pursue any material expansion of our business, including through acquisitions, increased capital spending or other increases of our expenditures, will depend more than it otherwise would on our ability to obtain third party financing. We cannot assure you that such financing will be available to us at all, or at an acceptable cost. If we are unable to take timely advantage of growth opportunities, our future financial condition and competitive position may be harmed, which in turn may adversely affect the market price of our common stock.

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

Unregistered Sales of Equity Securities

During the three months ended September 30, 2011, the Company sold no securities that were not registered under the Securities Act of 1933, as amended (the Securities Act).

Dividend Payment Restrictions

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

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *(Removed and Reserved)*

Item 5. *Other Information*

None.

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Item 6. Exhibits

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

| Exhibit Numbers | Description |
|----------------------------|---|
| 31.1* | Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101* | Financial statements from the quarterly report on Form 10-Q of Douglas Dynamics, Inc. for the quarter ended September 30, 2011, filed on November 7, 2011, formatted in XBRL: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and (iv) the Notes to the Consolidated Financial Statements |

* Filed herewith.

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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: November 7, 2011

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Exhibit Index to Form 10-Q for the Period Ended September 30, 2011

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