

DOUGLAS DYNAMICS, INC  
Form 10-Q  
August 06, 2013  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission file number: 001-34728

## DOUGLAS DYNAMICS, INC.

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**134275891**  
(I.R.S. Employer  
Identification No.)

**7777 North 73rd Street**

**Milwaukee, Wisconsin 53223**

(Address of principal executive offices) (Zip code)

**(414) 354-2310**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

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

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

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

See the accompanying notes to consolidated financial statements

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

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

See the accompanying notes to consolidated financial statements.





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

(in thousands)

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

See the accompanying notes to consolidated financial statements.



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

We operate as a single business unit.

***Interim Consolidated Financial Information***

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

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

The Company's business is seasonal and consequently its results of operations and financial condition vary from quarter-to-quarter. Because of this seasonality, the Company's results of operations for any quarter may not be indicative of results of operations that may be achieved for a subsequent quarter or the full year, and may not be similar to results of operations experienced in prior years. The Company attempts to manage the seasonal impact of snowfall on its revenues in part through its pre-season sales program. This pre-season sales program encourages the Company's distributors to re-stock their inventory during the second and third quarters in anticipation of the peak fourth quarter retail sales

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period by offering favorable pre-season pricing and payment deferral until the fourth quarter. Thus, the Company tends to generate its greatest volume of sales during the second and third quarters. By contrast, its revenue and operating results tend to be lowest during the first quarter, as management believes the Company's end-users prefer to wait until the beginning of a snow season to purchase new equipment and as the Company's distributors sell off inventory and wait for the pre-season sales incentive period to re-stock inventory. Fourth quarter sales vary from year-to-year as they are primarily driven by the level, timing and location of snowfall during the quarter. This is because most of the Company's fourth quarter sales and shipments consist of re-orders by distributors seeking to restock inventory to meet immediate customer needs caused by snowfall during the winter months.

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

### **2. Fair Value**

Fair value is the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Fair value measurements are categorized into one of three levels based on the lowest level of significant input used: Level 1 (unadjusted quoted prices in act