

DOUGLAS DYNAMICS, INC  
Form 10-Q  
August 07, 2012  
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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, 2012

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 7, 2012 was 22,130,996.

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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, 2012 (unaudited)</b>	<b>December 31, 2011 (audited)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,790	\$ 39,432
Accounts receivable, net	50,613	34,019
Inventories	32,825	24,005
Deferred income taxes	4,960	4,952
Prepaid and other current assets	1,194	1,054
Total current assets	93,382	103,462
Property, plant, and equipment, net	20,874	21,340
Assets held for sale	1,732	1,732
Goodwill	107,222	107,222
Other intangible assets, net	119,146	121,747
Deferred financing costs, net	2,926	3,402
Other long-term assets	582	112
Total assets	\$ 345,864	\$ 359,017
<b>Liabilities and stockholders equity</b>		
Current liabilities:		
Accounts payable	\$ 4,513	\$ 5,040
Accrued expenses and other current liabilities	13,034	16,105
Income taxes payable	36	395
Short term borrowings	2,000	
Current portion of long-term debt	971	11,071
Total current liabilities	20,554	32,611
Retiree health benefit obligation	8,167	8,053
Pension obligation	13,949	14,163
Deferred income taxes	29,504	26,957
Deferred compensation	756	912
Long-term debt, less current portion	111,480	111,866
Other long-term liabilities	1,553	1,066
Stockholders equity:	221	220

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Common Stock, par value \$0.01, 200,000,000 shares authorized, 22,130,996 and 22,020,694 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively		
Additional paid-in capital	131,812	130,907
Retained earnings	35,360	39,742
Accumulated other comprehensive loss, net of tax	(7,492)	(7,480)
Total stockholders' equity	159,901	163,389
Total liabilities and stockholders' equity	\$ 345,864	\$ 359,017

See the accompanying notes to consolidated financial statements

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(unaudited)		(unaudited)	
Net sales	\$ 65,499	\$ 71,557	\$ 74,059	\$ 95,047
Cost of sales	42,439	45,219	49,180	59,638
Gross profit	23,060	26,338	24,879	35,409
Selling, general, and administrative expense	5,707	6,760	10,337	12,687
Intangibles amortization	1,301	1,300	2,601	2,600
Income from operations	16,052	18,278	11,941	20,122
Interest expense, net	(2,178)	(2,142)	(4,223)	(4,347)
Loss on extinguishment of debt		(673)		(673)
Other expense, net	(155)	(74)	(233)	(187)
Income before taxes	13,719	15,389	7,485	14,915
Income tax expense	4,747	5,666	2,780	5,992
Net income	\$ 8,972	\$ 9,723	\$ 4,705	\$ 8,923
Less net income attributable to participating securities	94	114	32	110
Net income attributable to common shareholders	\$ 8,878	\$ 9,609	\$ 4,673	\$ 8,813
Weighted average number of common shares outstanding:				
Basic	21,906,622	21,661,662	21,866,662	21,536,441
Diluted	21,962,098	21,768,385	21,985,974	21,667,544
Earnings per common share:				
Basic	\$ 0.41	\$ 0.44	\$ 0.21	\$ 0.41
Diluted	\$ 0.40	\$ 0.44	\$ 0.21	\$ 0.41
Cash dividends declared and paid per share	\$ 0.21	\$ 0.20	\$ 0.41	\$ 0.77
Comprehensive income	\$ 8,971	\$ 9,659	\$ 4,693	\$ 8,859

See the accompanying notes to consolidated financial statements.





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## Douglas Dynamics, Inc.

## Consolidated Statements of Cash Flows

(in thousands)

	June 30, 2012	Six Months Ended (unaudited)	June 30, 2011
<b>Operating activities</b>			
Net income	\$	4,705	\$ 8,923
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization		4,003	4,102
Amortization of deferred financing costs and debt discount		565	342
Loss on extinguishment of debt			673
Stock-based compensation		906	746
Provision for losses on accounts receivable		227	408
Deferred income taxes		2,539	2,415
Changes in operating assets and liabilities:			
Accounts receivable		(16,821)	(19,749)
Inventories		(8,820)	(7,424)
Prepaid and other assets and prepaid income taxes		(610)	300
Accounts payable		(527)	2,119
Accrued expenses and other current liabilities		(3,430)	5,064
Deferred compensation		(156)	(120)
Benefit obligations and other long-term liabilities		375	(666)
Net cash used in operating activities		(17,044)	(2,867)
<b>Investing activities</b>			
Capital expenditures		(1,016)	(840)
Proceeds from sale of equipment		80	49
Net cash used in investing activities		(936)	(791)
<b>Financing activities</b>			
Proceeds from exercise of stock options			1,277
Collection of stockholders' notes receivable			482
Payments of financing costs			(3,454)
Dividends paid		(9,087)	(16,868)
Revolver borrowings		2,000	
Borrowings on long-term debt			123,750
Repayment of long-term debt		(10,575)	(121,513)
Net cash used in financing activities		(17,662)	(16,326)
Change in cash and cash equivalents		(35,642)	(19,984)
Cash and cash equivalents at beginning of period		39,432	20,149
Cash and cash equivalents at end of period	\$	3,790	\$ 165

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 the Annual Report on Form 10-K (Commission File No. 1-34728) for the year ended December 31, 2011 of Douglas Dynamics, Inc. (the Company, we, us, our ) filed with the Securities and Exchange Commission.

We operate as a single business unit.

Certain reclassifications have been made to the prior period financial statements to conform to the 2012 presentation.

***Interim Consolidated Financial Information***

The accompanying consolidated balance sheet as of June 30, 2012 and the consolidated statements of operations for the three and six months ended June 30, 2012 and 2011 and cash flows for the six months ended June 30, 2012 and 2011 have been prepared by the Company and have not been audited.

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.

**2. Fair Value**

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

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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 6/30/2012	Fair Value at 12/31/2011
<b>Assets:</b>		
Assets (a)	\$	\$
Total Assets	\$	\$
<b>Liabilities:</b>		
Long term debt (b)	\$ 110,393	\$ 122,709
Other non-current liabilities		
- Interest rate swap (c)	642	621
Total Liabilities	\$ 111,035	\$ 123,330

(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 using observable market credit spreads. Thus, inputs used to determine fair value of the interest rate swap are Level 2 inputs.

### 3. Inventories

Inventories consist of the following:

	June 30, 2012	December 31, 2011
Finished goods and work-in-process	\$ 31,440	\$ 22,630
Raw material and supplies	1,385	1,375
	\$ 32,825	\$ 24,005

**4. Property, plant and equipment**

Property, plant and equipment are summarized as follows:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Land	\$ 960	\$ 960
Land improvements	1,768	1,768
Buildings	12,852	12,660
Machinery and equipment	23,337	23,253
Furniture and fixtures	7,244	7,255
Mobile equipment and other	1,230	1,216
Construction-in-process	1,168	748
Total property, plant and equipment	48,559	47,860
Less accumulated depreciation	(27,685)	(26,520)
Net property, plant and equipment	\$ 20,874	\$ 21,340

Table of Contents**5. Long-Term Debt**

Long-term debt is summarized below:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Term Loan	\$ 112,451	\$ 122,937
Total long-term debt	112,451	122,937
Less current maturities	971	11,071
	\$ 111,480	\$ 111,866

The Company entered into its current term loan agreement on April 18, 2011. The Company's senior credit facilities consist of a \$125,000 term loan facility and a \$70,000 revolving credit facility with a group of banks. The agreement for the term loan (the Term Loan Credit Agreement) provides for a senior secured term loan facility in the aggregate principal amount of \$125,000 and generally bears interest at (at the Company's election) either (i) 3.25% per annum plus the greatest of (a) the Prime Rate (as defined in the Term Loan Credit Agreement) in effect on such day, (b) the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers plus 0.50% and (c) 1.00% plus the greater of (1) the London Interbank Offered Rate for a one month interest period multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (2) 1.50% or (ii) 4.25% per annum plus the greater of (a) the London Interbank Offered Rate for the applicable interest period multiplied by the Statutory Reserve Rate and (b) 1.50%. The revolving credit facility (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 term loan amortizes in nominal amounts quarterly with the balance payable on April 18, 2018.

The 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 term loan.

At June 30, 2012, the Company had borrowings of \$2,000 on the revolving credit facility and remaining borrowing availability of \$59,754.

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

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revolving credit facility. At June 30, 2012, 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 June 30, 2012, the Company was not required to make an excess cash flow payment.



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Each of the senior secured facilities entered into in the second quarter of 2011 includes a hedge provision, which required the Company to enter into an interest rate hedge commencing 90 days after the closing date. The hedging provision requires the Company to hedge the interest rate on at least 25% of the aggregate outstanding principal amount of the term loans. The purpose of the interest rate swap is to reduce the Company's exposure to interest rate volatility. Effective June 20, 2011, the Company entered into an interest rate swap agreement with a notional amount of \$50,000. The interest rate swap negative fair value at June 30, 2012 of \$642 is included in other long-term liabilities on the Consolidated Balance Sheet. The Company has counterparty credit risk resulting from the interest rate swap, which it monitors on an on-going basis. This risk lies with one global financial institution. Under the interest rate swap agreement, effective as of July 18, 2011, the Company either receives or makes payments on a monthly basis based on the differential between 6.335% and LIBOR plus 4.25% (with a LIBOR floor of 1.5%). The interest rate swap contract on the term loan expires in December 2014.

**6. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other liabilities are summarized as follows:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Payroll and related costs	\$ 2,808	\$ 4,756
Employee benefits	1,998	2,645
Accrued warranty	3,965	4,188
Other	4,263	4,516
	<b>\$ 13,034</b>	<b>\$ 16,105</b>

**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:

<b>Three months ended June 30, 2012</b>	<b>Six months ended</b>
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	June 30, 2011		June 30, 2012		June 30, 2011			
Balance at the beginning of the period	\$	3,506	\$	2,270	\$	4,188	\$	3,399
Warranty provision		643		1,244		773		1631
Claims paid/settlements		(184)		(444)		(996)		(1,960)
Balance at the end of the period	\$	3,965	\$	3,070	\$	3,965	\$	3,070

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

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Component of net periodic pension cost:				
Service cost	\$ 67	\$ 240	\$ 134	\$ 480
Interest cost	370	385	740	770
Expected return on plan assets	(318)	(339)	(636)	(678)
Amortization of net loss	192	113	384	226
Net periodic pension cost	\$ 311	\$ 399	\$ 622	\$ 798

The Company estimates its total required minimum contributions to its pension plans in 2012 will be \$2,512. Through June 30, 2012, the Company has made \$838 of cash contributions to the pension plans in 2012 versus \$1,222 through the same period in 2011.

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

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Components of net periodic other postretirement benefit cost				
Service cost	\$ 70	\$ 66	\$ 140	\$ 131
Interest cost	90	102	180	204
Amortization of net gain	(4)	(15)	(8)	(31)
Net periodic other postretirement benefit cost	\$ 156	\$ 153	\$ 312	\$ 304

**9. Earnings Per Share**

Basic earnings per share of common stock is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed by dividing net income by the weighted average number of common shares 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.

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As restricted shares participate in dividends, in accordance with Accounting Standards Codification Topic ( 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		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Basic earnings per common share</b>				
Net income	\$ 8,972	\$ 9,723	\$ 4,705	\$ 8,923
Less income allocated to participating securities	94	114	32	110
Net income allocated to common shareholders	\$ 8,878	\$ 9,609	\$ 4,673	\$ 8,813
Weighted average common shares outstanding	21,906,622	21,661,662	21,866,662	21,536,441
	\$ 0.41	\$ 0.44	\$ 0.21	\$ 0.41
<b>Earnings per common share assuming dilution</b>				
Net income	\$ 8,972	\$ 9,723	\$ 4,705	\$ 8,923
Less income allocated to participating securities	94	114	32	110
Net income allocated to common shareholders	\$ 8,878	\$ 9,609	\$ 4,673	\$ 8,813
Weighted average common shares outstanding	21,906,622	21,661,662	21,866,662	21,536,441
Incremental shares applicable to stock based compensation	55,476	106,723	119,312	131,103
Weighted average common shares assuming dilution	21,962,098	21,768,385	21,985,974	21,667,544
	\$ 0.40	\$ 0.44	\$ 0.21	\$ 0.41

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

As of June 30, 2012, 37,240 shares of common stock are reserved for issuance upon the exercise of outstanding options under the Company's Amended and Restated 2004 Stock Incentive Plan (the "A&R 2004 Plan"). All outstanding options are fully vested. All options expire 10 years from the date of grant. No further awards are permitted to be issued under the A&R 2004 Plan.

*Stock Options*

There were no stock options exercised with respect to the Company's stock under the A&R 2004 Plan for either the three or six months ended June 30, 2012.

*2010 Stock Incentive Plan*

In May 2010, the Company's Board of Directors and stockholders adopted the 2010 Stock Incentive Plan (the "2010 Plan"). The 2010 Plan provides for the issuance of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock awards and restricted stock units, any of which may be performance-based, and for incentive bonuses, which may be paid in cash or stock or a combination of both, to eligible employees, officers, non-employee directors and other service providers to the Company and its subsidiaries. A maximum of 2,130,000 shares of common stock may be issued pursuant to all awards under the 2010 Plan.

***Restricted Stock Awards***

A summary of restricted stock activity for the six months ended June 30, 2012 is as follows:

	Shares (In thousands)	Weighted Average Grant Date Fair value	Weighted Average Remaining Contractual Term
Unvested at December 31, 2011	235,667	\$ 12.27	2.83 years
Granted	42,077	\$ 14.57	2.50 years
Vested	(68,921)	\$ 12.61	
Cancelled and forfeited			
Unvested at June 30, 2012	208,823	\$ 12.63	2.44 years
Expected to vest in the future at June 30, 2012	201,305	\$ 12.63	2.44 years

The fair value of the Company's restricted stock awards is the closing stock price on the date of grant. The Company recognized \$282 and \$561 of compensation expense related to restricted stock awards granted for the three and six months ended June 30, 2012, respectively. The unrecognized compensation expense calculated under the fair value method for shares expected to vest as of June 30, 2012 was approximately \$2,215 and is expected to be recognized over a weighted average period of 2.44 years.

Table of Contents***Unrestricted Stock***

The Company granted performance based awards under the 2010 Plan in the first quarter of 2012 which are subject to performance conditions. Upon meeting the prescribed performance conditions, employees will be issued unrestricted shares in the first quarter of 2013. In accordance with ASC 718 such awards are being expensed over 2012, from the date of grant through the requisite service period. The fair value per share of the awards is the closing stock price on the date of grant, which was \$12.94. The Company recognized \$259 and \$345 of compensation expense related to the awards in the three and six months ended June 30, 2012, respectively. The unrecognized compensation expense calculated under the fair value method for shares that were, as of June 30, 2012, expected to be earned through the requisite service period was approximately \$517 and is expected to be recognized throughout 2012.

***Restricted Stock Units***

Restricted stock units ( RSUs ) are issued to the board of directors and carry dividend equivalent rights but do not carry voting rights. Each RSU represents the right to receive one share of the Company's common stock and are subject to time based vesting restrictions. Participants are not required to pay any consideration to the Company at either the time of grant of a RSU or upon vesting.

A summary of RSU activity for the six months ended June 30, 2012 is as follows:

	Shares (In thousands)	Weighted Average Grant Date Fair value	Weighted Average Remaining Contractual Term
Unvested at December 31, 2011	18,893	\$ 15.20	2.00 years
Granted	12,564	\$ 14.57	2.50 years
Vested	(7,214)	\$ 15.25	
Cancelled and forfeited			
Unvested at June 30, 2012	24,243	\$ 15.08	1.19 years
Expected to vest in the future at June 30, 2012	24,243	\$ 15.08	1.19 years

Vested RSUs are settled by the delivery to the participant or a designated brokerage firm of one share of common stock per vested RSU as soon as reasonably practicable following a termination of service of the participant that constitutes a separation from service, and in all events no later than the end of the calendar year in which such termination of service occurs or, if later, two and one-half months after such termination of service.

**11. Commitments and Contingencies**

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In the ordinary course of business, the Company is engaged in various litigation including product liability and intellectual property disputes.

As previously disclosed, Northern Star Industries, Inc. ( Northern Star ) sued the Company's subsidiary, Douglas Dynamics L.L.C. ( DD LLC ), in the United States District Court for the Eastern District of Wisconsin (the Court ), alleging that various advertisements that DD LLC had run violated the Lanham Act. Northern Star sought monetary damages and injunctive relief. On February 15, 2012, the Court entered a decision and order granting a preliminary injunction motion in part and denying it in part. On July 31, 2012, the Court approved a settlement between Northern Star and DD LLC pursuant to which the preliminary injunction was dissolved and the Company paid \$1,500 to Northern Star. The Company is in discussions with its insurers and currently believes it is probable that a substantial portion of the settlement amount, as well as certain litigation expenses and attorneys' fees, will be covered by insurance.

The Company does not believe that any pending litigation will have a material adverse effect on its consolidated financial position. The Company is not currently a party to any environmental-related claims or legal matters.



Table of Contents**12. Income Taxes**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The largest item affecting deferred taxes is the difference between book and tax amortization of goodwill and other intangibles amortization. The Company estimates that the combined federal and state tax rate for 2012 will be approximately 37%. The Company's effective tax rate was 34.6% and 36.8% for the three months ended June 30, 2012 and 2011, respectively. The Company's effective tax rate for the six months ended June 30, 2012 and 2011 was 37.1% and 40.2%, respectively. The effective tax rate for both the three months ended June 30, 2012 was lower than the corresponding period in 2011 due to the Company recognizing less income slightly offset by a decreased domestic productions activities deduction in the current period as compared to the prior year's corresponding period. The effective tax rate for the six months ended June 30, 2012 was lower than the corresponding period in 2011 due to the Company recognizing less income slightly offset by a decreased domestic productions activities deduction in the current year along with the Company adjusting the prior year's net deferred tax liabilities to a higher federal rate for 2011 compared to the actual rate incurred in 2010.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes which are included in Item 1 of this Quarterly Report on Form 10-Q, as well as the information contained in our Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission.*

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

**Forward-Looking Statements**

*This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements include information relating to future events, product demand, the payment of dividends, future financial performance, strategies, expectations, competitive environment, regulation and availability of financial resources. These statements are often identified by use of words such as anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will and similar expressions and include references to assumptions and relate to our future prospects, developments and business strategies. Such statements involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: (i) weather conditions, particularly lack of or reduced levels of snowfall or the timing of such snowfall; (ii) a significant decline in economic conditions or the speed of the economic recovery; (iii) our inability to maintain good relationships with our distributors; (iv) lack of available or favorable financing options for our end-users or distributors; (v) increases in the price of steel or other materials necessary for the production of our products that cannot be passed on to our distributors; (vi) increases in the price of fuel; (vii) the inability of our suppliers to meet our volume or quality requirements; (viii) inaccuracies in our estimates of future demand for our products; (ix) our inability to protect or continue to build our intellectual property portfolio; (x) our inability to develop new products or improve upon existing products in response to end-user needs; (xi) losses due to lawsuits arising out of personal injuries associated with our products; (xii) factors that could impact the future declaration and payment of dividends; and (xiii) our inability to compete effectively against competition, as well as those discussed in the section entitled Risk Factors, set forth in Part I, Item 1A of our Annual Report on Form 10-K for the Year Ended December 31, 2011. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. These*

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*forward-looking statements do not include the potential impact of any acquisition that may be subsequently announced and/or completed. 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.*

Table of Contents**Results of Operations***Overview*

During the three months ended June 30, 2012 and 2011, we sold 16,486 and 18,063 units of snow and ice control equipment, respectively, and during the six months ended June 30, 2012 and 2011 we sold 18,100 and 22,011 units of snow and ice control equipment, respectively. The following table shows our sales of snow and ice control equipment and related parts and accessories as a percentage of net sales for the three and six months ended June 30, 2012 and 2011.

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Equipment	91%	89%	89%	82%
Parts and accessories	9%	11%	11%	18%

The following table sets forth, for the three and six months ended June 30, 2012 and 2011, the consolidated statements of operations of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the table below and throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, consolidated statements of operations data for the three and six months ended June 30, 2012 and 2011 have been derived from our unaudited consolidated financial statements. The information contained in the table below should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q.

	Three Months Ended		Six Months Ended	
	June 30, 2012 (unaudited) (in thousands)	June 30, 2011	June 30, 2012 (unaudited) (in thousands)	June 30, 2011
Net sales	\$ 65,499	\$ 71,557	\$ 74,059	\$ 95,047
Cost of sales	42,439	45,219	49,180	59,638
Gross profit	23,060	26,338	24,879	35,409
Selling, general, and administrative expense	5,707	6,751	10,337	12,687
Intangibles amortization	1,301	1,300	2,601	2,600
Income from operations	16,052	18,287	11,941	20,122
Interest expense, net	(2,178)	(2,142)	(4,223)	(4,347)
Loss on extinguishment of debt		(673)		(673)
Other expense, net	(155)	(74)	(233)	(187)
Income before taxes	13,719	15,398	7,485	14,915
Income tax expense	4,747	5,666	2,780	5,992
Net income	\$ 8,972	\$ 9,732	\$ 4,705	\$ 8,923



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The following table sets forth for the three and six months ended June 30, 2012 and 2011, the percentage of certain items in our consolidated statement of operations, relative to net sales:

	June 30, 2012 (unaudited)	June 30, 2011	June 30, 2012 (unaudited)	June 30, 2011
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	64.8%	63.2%	66.4%	62.7%
Gross profit	35.2%	36.8%	33.6%	37.3%
Selling, general, and administrative expense	8.7%	9.4%	14.0%	13.3%
Intangibles amortization	2.0%	1.8%	3.5%	2.7%
Income from operations	24.5%	25.6%	16.1%	21.3%
Interest expense, net	(3.3)%	(3.0)%	(5.7)%	(4.6)%
Loss on extinguishment of debt	0.0%	(0.9)%	0.0%	(0.7)%
Other expense, net	(0.2)%	(0.1)%	(0.3)%	(0.2)%
Income before taxes	21.0%	21.6%	10.1%	15.8%
Income tax expense	7.2%	7.9%	3.8%	6.3%
Net income	13.8%	13.7%	6.3%	9.5%

### *Net Sales*

Net sales were \$65.5 million for the three months ended June 30, 2012 compared to \$71.6 million in the three months ended June 30, 2011, a decrease of \$6.1 million, or 8.5%. Net sales were \$74.1 million for the six months ended June 30, 2012 compared to \$95.0 million in the six months ended June 30, 2011, a decrease of \$20.9 million, or 22.0%. The decrease in net sales for the three and six months ended June 30, 2012 was driven by a 8.7% and 17.8% decrease in unit sales of snow and ice control equipment, respectively. In addition to the decrease in unit sales of snow and ice control equipment there was a decrease in parts and accessories sales for the three and six months ended June 30, 2012 compared to the corresponding period in 2011 of 28.5%, and 50.9%, respectively. The Company attributes the decreases in both equipment and parts and accessories to the significantly below average snowfall during the October 1, 2011 to March 31, 2012 snow season.

### *Cost of Sales*

Cost of sales was \$42.4 million for the three months ended June 30, 2012 compared to \$45.2 million for the three months ended June 30, 2011, a decrease of \$2.8 million, or 6.2%. Cost of sales was \$49.2 million for the six months ended June 30, 2012 compared to \$59.6 million in the six months ended June 30, 2011, a decrease of \$10.4 million, or 17.4%. The decreases in cost of sales for the three and six months ended June 30, 2012 compared to the corresponding periods in 2011 were primarily driven by decreases in volume as discussed above under *Net Sales*. In addition, the Company experienced slightly higher cost of sales as a percentage of sales of 64.8% for the three months ended June 30, 2012 compared to 63.2% for the three-month period ended June 30, 2011. The Company also experienced higher cost of sales as a percentage of sales of 66.4% compared to 62.7% for the six-month periods ending June 30, 2012 and June 30, 2011, respectively. The increase in cost of sales as a

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percentage of net sales for both the three and six month periods was due to lower units sold which contributed to higher fixed costs per unit sold. Slightly offsetting increased fixed costs per unit, the Company experienced favorability from positive performance variances and cost reduction efforts. As a percentage of cost of sales, fixed and variable costs were approximately 14% and 86%, respectively, for the three months ended June 30, 2012 versus approximately 13% and 87%, respectively for the three months ended June 30, 2011, and approximately 16% and 84%, respectively, for the six months ended June 30, 2012 versus approximately 15% and 85%, respectively, for the six months ended June 30, 2011.

### *Gross Profit*

Gross profit was \$23.1 million for the three months ended June 30, 2012 compared to \$26.3 million in the three months ended June 30, 2011, a decrease of \$3.2 million, or 12.2%. Gross profit was \$24.9 million for the six months ended June 30, 2012 compared to \$35.4 million in the six months ended June 30, 2011, a decrease of \$10.5 million, or 29.7%. The decrease in gross profit for the three and six months ended June 30, 2012 was due primarily to the decreased unit sales of snow and ice control equipment described above under Net Sales. As a percentage of net sales, gross profit decreased from 36.8% for the three months ended June 30, 2011 to 35.2% for the corresponding period in 2012 and decreased from 37.3% for the six months ended June 30, 2011 to 33.6% for the corresponding period in 2012, primarily as a result of the factors discussed above under Net Sales and Cost of Sales.

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*Selling, General and Administrative Expense*

Selling, general and administrative expenses, including intangibles amortization, were \$7.0 million for the three months ended June 30, 2012, compared to \$8.1 million for the three months ended June 30, 2011, a decrease of \$1.1 million, or 13.6%. This decrease was partially due to \$1.0 million in secondary offering expenses incurred in the second quarter of 2011. Additionally, there were \$0.4 million lower performance based incentive compensation expense in the three months ended June 30, 2012 compared to the three months ended June 30, 2011. These decreases were partially offset by \$0.7 million of legal expenses recorded in the three months ended June 30, 2012 related to legal settlements. Selling, general and administrative expenses, including intangibles amortization, were \$12.9 million for the six months ended June 30, 2012, compared to \$15.3 million for the six months ended June 30, 2011, a decrease of \$2.4 million, or 15.7%. In addition to the \$1.0 million in secondary offering expenses incurred in 2011 and the \$0.7 million related to the Northern Star settlement in the second quarter of 2012, the Company experienced a \$0.9 million decrease due to lower performance based incentive compensation expenses in the six months ended June 30, 2012 compared to the six months ended June 30, 2011. The remainder of the decrease was due to cost saving measures taken by the Company to right-size capacity to the decline in volume.

*Interest Expense*

Interest expense was \$2.2 million for the three months ended June 30, 2012 essentially unchanged from the same period in the prior year. Interest expense was \$4.2 million for the six months ended June 30, which was slightly less than the \$4.3 million in the same period in the prior year.

*Income Taxes*

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The largest item affecting deferred taxes is the difference between book and tax amortization of goodwill and other intangibles amortization. The Company estimates that the combined federal and state tax rate for 2012 will be approximately 37%. The Company's effective tax rate was 34.6% and 36.8% for the three months ended June 30, 2012 and 2011, respectively. The Company's effective tax rate for the six months ended June 30, 2012 and 2011 was 37.1% and 40.2%, respectively. The effective tax rate for both the three months ended June 30, 2012 was lower than the corresponding period in 2011 due to the Company recognizing less income slightly offset by a decreased domestic productions activities deduction in the current period as compared to the prior year's corresponding period. The effective tax rate for the six months ended June 30, 2012 was lower than the corresponding period in 2011 due to the Company recognizing less income slightly offset by a decreased domestic productions activities deduction in the current year along with the Company adjusting the prior year's net deferred tax liabilities to a higher federal rate for 2011 compared to the actual rate incurred in 2010.

*Net Income*

Net income for the three months ended June 30, 2012 was \$9.0 million compared to net income of \$9.7 million for the corresponding period in 2011, a decrease in net income of \$0.7 million. Net income for the six months ended June 30, 2012 was \$4.7 million compared to net income of \$8.9 million for the corresponding period in 2011, a decrease in net income of \$4.2 million. This decrease in net income was driven by the factors described above under Net Sales and Cost of Sales. As a percentage of net sales, net income was 13.8% for the three months ended

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June 30, 2012 compared to 13.7% for the three months ended June 30, 2011. As a percentage of net sales, net income was 6.3% for the six months ended June 30, 2012 compared to 9.5% for the six months ended June 30, 2011.

### *Adjusted EBITDA*

Adjusted EBITDA (as defined below) for the three months ended June 30, 2012 was \$19.6 million compared to \$21.9 million in the corresponding period in 2011, a decrease of \$2.3 million, or 10.5%. Adjusted EBITDA for the six months ended June 30, 2012 was \$17.7 million compared to \$26.0 million in the corresponding period in 2011, a decrease of \$8.3 million, or 31.9%. As a percentage of net sales, Adjusted EBITDA decreased from 30.6% for the three months ended June 30, 2011 to 29.8% for the three months ended June 30, 2012, and decreased from 27.3% for the six months ended June 30, 2011 to 24.0% for the six months ended June 30, 2012. For the three-month period ended June 30, 2012 Adjusted EBITDA remained relatively constant compared to the three-month period ending June 30, 2011. For the six-month period ending June 30, 2012, the decrease in Adjusted EBITDA is primarily attributable to decreased unit sales of snow and ice control equipment in addition to decreases in parts and accessories compared to the corresponding period of 2011. The below average snowfall in the October 1, 2011 to March 31, 2012 snow season drove the decrease in pre-season orders in the second quarter of 2012.

### *Free Cash Flow*

Free cash flow (as defined below) for the three months ended June 30, 2012 was (\$7.6) million compared to (\$15.2) million in the corresponding period in 2011, a decrease in cash used of \$7.6 million, or 50.0%. Free cash flow for the six months ended June 30, 2012 was (\$18.1) million compared to (\$3.7) million in the corresponding period in 2011, an increase in cash used of \$14.4 million, or 389.2%. For the three month period, the decrease in cash used is primarily a result of \$7.6 million less cash used by operating activities, while for the six month period, the increase in cash used is primarily a result of \$14.2 million more cash used by operating activities, each as discussed below under Liquidity and Capital Resources. While cash used by operating activities declined in the three month period, capital expenditures remained relatively constant at \$0.6 million for both the three month periods ending June 30, 2012 and 2011 and increased slightly by \$0.2 million for the six-month period ending June 30, 2012 compared to the corresponding period in 2011.



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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 used in 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		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In Thousands)		(In Thousands)	
Net cash used in operating activities	\$ (7,015)	\$ (14,632)	\$ (17,044)	\$ (2,867)
Acquisition of property and equipment	(579)	(573)	(1,016)	(840)
Free cash flow	\$ (7,594)	\$ (15,205)	\$ (18,060)	\$ (3,707)

Adjusted net income represents net income as determined under GAAP, excluding certain expenses incurred at the time of our secondary offering in 2011 and a loss on extinguishment of debt incurred in 2011. We believe that the presentation of adjusted net income for the three and six months ended June 30, 2012 and June 30, 2011 allows investors to make meaningful comparisons of our operating performance between periods and to view our business from the same perspective as our management. Because the excluded 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, the most comparable GAAP financial measure, to adjusted net income for the three and six months ended June 30, 2012 and June 30, 2011.

(in millions)	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Net income - (GAAP)</b>	\$ 9.0	\$ 9.7	\$ 4.7	\$ 8.9
Addback expenses, net of tax at 37.0% for 2012 and 2011:				
-Loss on extinguishment of debt		0.4		0.4
- Offering costs		0.6		0.6
<b>Adjusted net income - (Non-GAAP)</b>	\$ 9.0	\$ 10.7	\$ 4.7	\$ 9.9

Adjusted EBITDA represents net income before interest, taxes, depreciation and amortization, as further adjusted for certain non-recurring charges related to certain non-recurring legal and consulting fees, as well as management fees paid by us to affiliates of our former principal stockholders, stock based compensation, 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

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companies, because it allows them to measure a company's operating performance without regard to items such as interest expense, taxes, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets and liabilities, capital structure and the method by which assets were acquired. Our management also uses Adjusted EBITDA for planning purposes, including the preparation of our annual operating budget and financial projections. Management also uses Adjusted EBITDA to evaluate our ability to make certain payments, including dividends, in compliance with our senior credit facilities, which is determined based on a calculation of Consolidated Adjusted EBITDA that is substantially similar to Adjusted EBITDA.

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

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

The following table presents a reconciliation of net income, the most comparable GAAP financial measure, to Adjusted EBITDA as well as the resulting calculation of Adjusted EBITDA for the three and six months ended June 30, 2012 and 2011 (in thousands):

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Net income</b>	\$ 8,972	\$ 9,723	\$ 4,705	\$ 8,923
Interest Expense - Net	2,178	2,142	4,223	4,347
Income Taxes	4,747	5,666	2,780	5,992
Depreciation Expense	701	754	1,402	1,502
Amortization	1,301	1,300	2,601	2,600
<b>EBITDA</b>	<b>17,899</b>	<b>19,585</b>	<b>15,711</b>	<b>23,364</b>
Management Fees		9		26
Stock based compensation	541	481	906	746
Loss on extinguishment of debt		673		673

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Offering costs		1,036		1,036
Other non-recurring charges (1)	1,110	122	1,122	124
<b>Adjusted EBITDA</b>	<b>\$ 19,550</b>	<b>\$ 21,906</b>	<b>\$ 17,739</b>	<b>\$ 25,969</b>

(1) - Reflects \$1,110 and \$122 of legal and consulting fees for the three months ended June 30, 2012 and 2011, respectively, and \$1,122 and \$124 for the six months ended June 30, 2012 and 2011 respectively.

### 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 six months ended June 30, 2012, 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 June 30, 2012, 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.

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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 \$0.82 per share, or \$0.205 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 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 June 30, 2012, we had \$63.6 million of total liquidity, comprised of \$3.8 million in cash and cash equivalents and borrowing availability of \$59.8 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 June 30, 2012, December 31, 2011 and June 30, 2011.

	June 30, 2012	As of December 31, 2011	June 30, 2011
Cash and cash equivalents	\$ 3,790	\$ 39,432	\$ 165
Inventories	32,825	24,005	30,905

We had cash and cash equivalents of \$3.8 million at June 30, 2012 compared to cash and cash equivalents of \$39.4 million and \$0.2 million at December 31, 2011 and June 30, 2011, 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)	Six months ended June 30,		Change	% Change
	2012	2011		
Net cash used in operating activities	\$ (17,044)	\$ (2,867)	\$ (14,177)	494.5%
Net cash used in investing activities	(936)	(791)	(145)	18.3%
Net cash used in financing activities	(17,662)	(16,326)	(1,336)	8.2%
Decrease in cash	\$ (35,642)	\$ (19,984)	\$ (15,658)	78.4%

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Net cash used in operating activities increased \$14.2 million from the six months ended June 30, 2011 to the six months ended June 30, 2012. This increase was driven mainly by working capital changes and a decline in net income.

Net cash used in investing activities remained relatively consistent for the six months ended June 30, 2012, compared to the corresponding period in 2011.

Net cash used in financing activities increased \$1.3 million for the six months ended June 30, 2012 compared to the corresponding period in 2011. The increase in cash used in financing activities was a result of making a voluntary payment on long-term debt of \$10.0 million in the six-month period June 30, 2012. Offsetting the pre-payment, we borrowed \$2.0 million on the our revolver. Slightly offsetting the voluntary payment made in January 2012 was a decrease in dividends paid of \$7.8 million as we paid our stated dividend of \$0.205 per share in the three-month period ending March 31, 2012 compared to paying a \$0.57 dividend in the three month period ended March 31, 2011. The \$0.57 dividend was comprised of a special dividend of \$0.37 per share in addition to a stated dividend of \$0.20 per share. In the three-month period ending June 30, 2012, we paid a stated dividend of \$0.205 per share in the three-month period ending June 30, 2012 compared to a stated dividend of \$0.20 per share in the three-month period ending June 30, 2011. 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.

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**Contractual Obligations**

There have been no material changes to our contractual obligations in the six months ended June 30, 2012.

**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 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

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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.

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.



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

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

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

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

**Interest Rate Risk**

We are exposed to market risk primarily from changes in interest rates. Our borrowings, including our term loan and any revolving borrowings under our senior credit facilities, are at variable rates of interest and expose us to interest rate risk. A portion of our interest rate risk associated with our term loan is mitigated through an interest rate swap as discussed in Note 5 to the Consolidated Financial Statements, above. In addition, the interest rate on any revolving borrowings is subject to an increase in the interest rate based on our average daily availability under our revolving credit facility.

As of June 30, 2012, we had outstanding borrowings under our term loan of \$112.5 million. A hypothetical interest rate change of 1%, 1.5% and 2% on our term loan would have changed interest incurred for the three months ended June 30, 2012 by \$0.0 million, \$0.0 million and \$0.1 million, respectively. We have entered into an interest rate swap, which became effective beginning July 2011 and matures December 2014, to hedge the variability in future cash flows associated with our variable-rate term loans. The swap converts \$50.0 million of our term loan to a fixed interest rate of 2.085%. As of June 30, 2012, we had outstanding borrowings under our revolving credit facility of \$2.0 million. A hypothetical interest rate change of 1%, 1.5% and 2% on our revolving credit facility would have changed interest incurred for the three months ended June 30, 2012 by \$0.0 million, \$0.0 million and \$0.0 million, respectively.

**Commodity Price Risk**

In the normal course of business, we are exposed to market risk related to our purchase of steel, the primary commodity upon which our manufacturing depends. Our steel purchases as a percentage of revenue were 11.7% and 20.5% for the three months and six months ended June 30, 2012 compared to 12.3% and 17.5% for the three months and six months ended June 30, 2011, 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.

**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 Security and Exchange Commission'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, the Company is engaged in various litigation including product liability and intellectual property disputes.

As previously disclosed, Northern Star Industries, Inc. ( Northern Star ) sued the Company s subsidiary, Douglas Dynamics L.L.C. ( DD LLC ), in the United States District Court for the Eastern District of Wisconsin (the Court ), alleging that various advertisements that DD LLC had run violated the Lanham Act. Northern Star sought monetary damages and injunctive relief. On February 15, 2012, the Court entered a decision and order granting a preliminary injunction motion in part and denying it in part. On July 31, 2012, the Court approved a settlement between Northern Star and DD LLC pursuant to which the preliminary injunction was dissolved and the Company paid \$1.5 million to Northern Star. The Company is in discussions with its insurers and currently believes it is probable that a substantial portion of the settlement amount, as well as certain litigation expenses and attorneys fees, will be covered by insurance.

The Company does not believe that any pending litigation will have a material adverse effect on its consolidated financial position.

**Item 1A. *Risk Factors***

There have been no significant changes in our risk factors from those described in our 2011 Form 10-K.

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

**Unregistered Sales of Equity Securities**

During the three months ended June 30, 2012, the Company sold no securities that were not registered under the Securities Act of 1933, as amended (the Securities Act ).

**Dividend Payment Restrictions**

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

### **Item 3. *Defaults Upon Senior Securities***

None.

### **Item 4. *Mine Safety Disclosures***

Not applicable.

### **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:

<b>Exhibit Numbers</b>	<b>Description</b>
31.1*	Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the quarterly report on Form 10-Q of Douglas Dynamics, Inc. for the quarter ended June 30, 2012, filed on August 7, 2012, 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

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\* 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: August 7, 2012

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**Exhibit Index to Form 10-Q for the Period Ended June 30, 2012**

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\* Filed herewith.