

DOUGLAS DYNAMICS, INC
Form 10-Q
May 10, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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	134275891
(State or other jurisdiction of incorporation or organization)	(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

Smaller reporting company

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(Do not check if a 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

Number of shares of registrant's common shares outstanding as of May 10, 2016 was 22,501,640.

Table of Contents

DOUGLAS DYNAMICS, INC.

Table of Contents

<u>PART I. FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Unaudited Consolidated Balance Sheet as of March 31, 2016 and audited Consolidated Balance Sheet as of December 31, 2015</u>	3
<u>Unaudited Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2016 and 2015</u>	4
<u>Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015</u>	5
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	27
<u>Item 4. Controls and Procedures</u>	28
<u>PART II. OTHER INFORMATION</u>	29
<u>Item 1. Legal Proceedings</u>	29
<u>Item 1A. Risk Factors</u>	29
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
<u>Item 3. Defaults Upon Senior Securities</u>	29
<u>Item 4. Mine Safety Disclosures</u>	29
<u>Item 5. Other Information</u>	29
<u>Item 6. Exhibits</u>	30
<u>Signatures</u>	31

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Douglas Dynamics, Inc.

Consolidated Balance Sheets

(In thousands except share data)

	March 31, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 48,394	\$ 36,844
Accounts receivable, net	28,965	67,707
Inventories	73,729	51,584
Refundable income taxes paid	433	4,850
Deferred income taxes	6,155	6,154
Prepaid and other current assets	2,298	2,104
Total current assets	159,974	169,243
Property, plant, and equipment, net	42,418	42,636
Goodwill	160,932	160,932
Other intangible assets, net	125,921	127,647
Other long-term assets	3,499	2,708
Total assets	\$ 492,744	\$ 503,166
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 10,250	\$ 14,555
Accrued expenses and other current liabilities	16,909	25,549
Current portion of long-term debt	1,629	1,629
Total current liabilities	28,788	41,733
Retiree health benefit obligation	6,767	6,656
Pension obligation	10,641	10,839
Deferred income taxes	55,575	54,932
Long-term debt, less current portion	182,214	182,506

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Other long-term liabilities	8,207	6,004
Stockholders' equity:		
Common Stock, par value \$0.01, 200,000,000 shares authorized, 22,501,640 and 22,387,797 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	225	224
Additional paid-in capital	142,838	141,626
Retained earnings	64,746	64,829
Accumulated other comprehensive loss, net of tax	(7,257)	(6,183)
Total stockholders' equity	200,552	200,496
Total liabilities and stockholders' equity	\$ 492,744	\$ 503,166

See the accompanying notes to consolidated financial statements

Table of Contents

Douglas Dynamics, Inc.

Consolidated Statements of Operations and Comprehensive Income

(In thousands, except share and per share data)

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(unaudited)	
Net sales	\$ 48,789	\$ 53,890
Cost of sales	34,658	37,453
Gross profit	14,131	16,437
Selling, general, and administrative expense	10,913	11,417
Intangibles amortization	1,726	1,903
Income from operations	1,492	3,117
Interest expense, net	(2,872)	(2,454)
Litigation proceeds	10,050	-
Other expense, net	(64)	(60)
Income before taxes	8,606	603
Income tax expense	3,328	220
Net income	\$ 5,278	\$ 383
Less net income attributable to participating securities	70	5
Net income attributable to common shareholders	\$ 5,208	\$ 378
Weighted average number of common shares outstanding:		
Basic	22,417,337	22,247,802
Diluted	22,417,337	22,269,022
Earnings per common share:		
Basic	\$ 0.23	\$ 0.02
Diluted	\$ 0.23	\$ 0.01
Cash dividends declared and paid per share	\$ 0.24	\$ 0.22
Comprehensive income (loss)	\$ 4,204	\$ (271)

See the accompanying notes to consolidated financial statements.

4

Table of Contents

Douglas Dynamics, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Three Months Ended March 31, 2016 (unaudited)	March 31, 2015
Operating activities		
Net income	\$ 5,278	\$ 383
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,109	3,055
Inventory step up of acquired business included in cost of sales	-	1,956
Amortization of deferred financing costs and debt discount	183	167
Stock-based compensation	1,213	1,124
Provision for losses on accounts receivable	(9)	58
Deferred income taxes	642	2,228
Earnout liability	66	232
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	38,751	36,953
Inventories	(22,145)	(24,661)

Prepaid refundable income taxes and other assets	3,432	(3,809)
Accounts payable	(4,305)	499
Accrued expenses and other current liabilities	(8,640)	(6,002)
Benefit obligations and other long-term liabilities	976	(857)
Net cash provided by operating activities	18,551	11,326
Investing activities		
Capital expenditures	(1,165)	(1,254)
Acquisition of business	-	(7,931)
Net cash used in investing activities	(1,165)	(9,185)
Financing activities		
Shares withheld on restricted stock vesting paid for employees' taxes	-	(27)
Dividends paid	(5,361)	(5,034)
Repayment of long-term debt	(475)	(475)
Net cash used in financing activities	(5,836)	(5,536)
Change in cash and cash equivalents	11,550	(3,395)
Cash and cash equivalents at beginning of period	36,844	24,195
Cash and cash equivalents at end of period	\$ 48,394	\$ 20,800

See the accompanying notes to consolidated financial statements.

Table of Contents

Douglas Dynamics, Inc.

Notes to Unaudited Consolidated Financial Statements

(in thousands except share and per share data)

1. Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for fiscal year-end financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the financial statements and related footnotes included in our 2015 Form 10-K (Commission File No. 001-34728) filed with the Securities and Exchange Commission on March 8, 2016.

We operate as a single business segment.

Certain reclassifications have been made to the prior period financial statements to conform to the 2016 presentation. In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This ASU requires an entity to present such costs on the balance sheet as a direct deduction from the related debt liability rather than as an asset. The Company adopted ASU No. 2015-03 during the quarter ended March 31, 2016 and applied it retrospectively. The adoption resulted in the reclassification of debt issuance costs from Deferred Financing Costs to Long-term Debt on the balance sheet of \$2,222 and \$2,337 as of March 31, 2016 and December 31, 2015, respectively.

Interim Consolidated Financial Information

The accompanying consolidated balance sheet as of March 31, 2016 and the consolidated statements of operations and comprehensive income for the three months ended March 31, 2016 and 2015 and cash flows for the three months ended March 31, 2016 and 2015 have been prepared by the Company and have not been audited.

The Company is a counterparty to interest-rate swap agreements to hedge against the potential impact on earnings from increases in market interest rates. The Company entered into three interest rate swap agreements during the first quarter of 2015 with notional amounts of \$45,000, \$90,000 and \$135,000 effective for the periods December 31, 2015

through March 29, 2018, March 29, 2018 through March 31, 2020 and March 31, 2020 through June 30, 2021, respectively. Under the interest rate swap agreement, effective as of December 31, 2015 the Company will either receive or make payments on a monthly basis based on the differential between 6.105% and London Interbank Offered Rate (“LIBOR”) plus 4.25% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement, effective as of March 29, 2018 the Company will either receive or make payments on a monthly basis based on the differential between 6.916% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement effective as of March 31, 2020 the Company will either receive or make payments on a monthly basis based on the differential between 7.168% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%). The negative fair value of the interest rate swap, net of tax, of (\$2,104) at March 31, 2016 is included in Accumulated other comprehensive loss on the Consolidated Balance Sheet. This fair value was determined using Level 2 inputs as defined in Accounting Standards Codification Topic (“ASC”) 820. Additionally, other comprehensive income 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 13 to the Unaudited Consolidated Financial Statements.

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

Table of Contents

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.

The Company relies on a combination of patents, trade secrets and trademarks to protect certain of the proprietary aspects of its business and technology. In the three months ended March 31, 2016, the Company received a settlement resulting from an ongoing lawsuit with one of its competitors. Previously under the same lawsuit the competitor was required to stop using the Company's intellectual property. Under the settlement agreement the Company received \$10,050 as part of defending its intellectual property. The proceeds of the lawsuit are included on the Consolidated Statements of Operations and Comprehensive Income as Litigation proceeds.

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).

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 March 31, 2016	Fair Value at December 31, 2015
Assets:		
Other long-term assets (a)	\$ 3,264	\$ 2,500
Total Assets	\$ 3,264	\$ 2,500
Liabilities:		
Interest rate swaps (b)	\$ 3,381	\$ 1,501
Long term debt (c)	186,529	185,540
Earnout - TrynEx (d)	-	1,606
Earnout - Henderson (e)	709	761
Total Liabilities	\$ 190,619	\$ 189,408

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

(b) Valuation models are calibrated to initial trade price. Subsequent valuations are based on observable inputs to the valuation model (e.g. interest rates and credit spreads). Model inputs are changed only when corroborated by market data. A credit risk adjustment is made on each swap using observable market credit spreads. Thus, inputs used to determine fair value of the interest rate swap are Level 2 inputs. Interest rate swaps of \$379 and \$3,002 at March 31,

Table of Contents

2016 are included in Accrued expenses and other current liabilities and Other long-term liabilities, respectively. Interest rate swaps of \$286 and \$1,215 at December 31, 2015 are included in Accrued expenses and other current liabilities and Other long-term liabilities, respectively.

(c) The fair value of the Company's long-term debt, including current maturities, is estimated using discounted cash flows based on the Company's current incremental borrowing rates for similar types of borrowing arrangements, which is a Level 2 input for all periods presented. Meanwhile, long-term debt is recorded at carrying amount, net of discount and deferred debt issuance costs, as disclosed on the face of the balance sheet.

(d) Included in accrued expenses and other current liabilities in the amount of \$0 and \$2,032 at March 31, 2016 and March 31, 2015, respectively, is an obligation for a portion of the potential earn out incurred in conjunction with the acquisition of substantially all of the assets of TrynEx, Inc. ("TrynEx"). The carrying amount of the earn out approximates its fair value. Fair value is based upon Level 3 inputs of a monte carlo simulation analysis using key inputs of forecasted future sales and financial performance as well as a growth rate reduced by the market required rate of return. See reconciliation of liability included below:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Beginning Balance	\$ 1,606	\$ 1,987
Additions	—	—
Adjustments to fair value	—	313
Payment to former owners	(1,606)	(268)
Ending balance	\$ -	\$ 2,032

(e) Included in accrued expenses and other current liabilities and other long term liabilities in the amounts of \$267 and \$442, respectively, at March 31, 2016 is the fair value of an obligation for a portion of the potential earn out acquired in conjunction with the acquisition of Henderson Enterprise Group, Inc. ("Henderson"). Included in accrued expenses and other current liabilities and other long term liabilities in the amounts of \$193 and \$442, respectively, at March 31, 2015 is the fair value of an obligation for a portion of the potential earn out acquired in

conjunction with the acquisition of Henderson. Fair value is based upon Level 3 discounted cash flow analysis using key inputs of forecasted future sales as well as a growth rate reduced by the market required rate of return. See reconciliation of liability included below:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Beginning Balance	\$ 761	\$ 600
Additions	—	—
Adjustments to fair value	—	96
Payment to former owners	(52)	(61)
Ending balance	\$ 709	\$ 635

Table of Contents

3. Inventories

Inventories consist of the following:

	March 31, 2016	December 31, 2015
Finished goods and work-in-process	\$ 63,901	\$ 40,984
Raw material and supplies	9,828	10,600
	\$ 73,729	\$ 51,584

4. Property, plant and equipment

Property, plant and equipment are summarized as follows:

	March 31, 2016	December 31, 2015
Land	\$ 1,500	\$ 1,500
Land improvements	3,010	3,010
Leasehold Improvements	859	859
Buildings	24,481	24,476
Machinery and equipment	36,777	35,628
Furniture and fixtures	11,663	11,657
Mobile equipment and other	2,430	2,255
Construction-in-process	1,752	2,155
Total property, plant and equipment	82,472	81,540
Less accumulated depreciation	(40,054)	(38,904)
Net property, plant and equipment	\$ 42,418	\$ 42,636

5. Long-Term Debt

Long-term debt is summarized below:

	March 31, 2016	December 31, 2015
Term Loan, net of debt discount of \$1,561 and \$1,629 at March 31, 2016 and December 31, 2015, respectively	\$ 186,065	\$ 186,472

Less current maturities	1,629	1,629
Long term debt before deferred financing costs	184,436	184,843
Deferred financing costs, net	2,222	2,337
Long term debt, net	\$ 182,214	\$ 182,506

The Company's senior credit facilities consist of a \$190,000 term loan facility and a \$100,000 revolving credit facility with a group of banks, of which \$10,000 will be available in the form of letters of credit

9

Table of Contents

and \$5,000 will be available for the issuance of short-term swing line loans. 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 \$190,000 and generally bears interest (at the Company’s election) at 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 LIBOR for a one month interest period multiplied by the Statutory Reserve Rate (as defined in the Term Loan Credit Agreement) and (2) 1.00% or (ii) 4.25% per annum plus the greater of (a) the LIBOR for the applicable interest period multiplied by the Statutory Reserve Rate and (b) 1.00%. The Term Loan Credit Agreement also allows the Company to request the establishment of one or more additional term loan commitments in an aggregate amount not in excess of \$80,000 subject to specified terms and conditions, which amount may be further increased so long as the First Lien Debt Ratio (as defined in the Term Loan Credit Agreement) is not greater than 3.25 to 1.00.

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) a margin ranging from 1.50% to 2.00% per annum, depending on the utilization of the facility, plus the LIBOR for the applicable interest period multiplied by the Statutory Reserve Rate (as defined by the Revolving Credit Agreement) or (ii) a margin ranging from 0.50% to 1.00% per annum, depending on the utilization of the facility, plus the greatest of (a) the Prime Rate (as defined in the Revolving 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) the LIBOR for a one month interest period multiplied by the Statutory Reserve Rate plus 1%. The maturity date for the Revolving Credit Agreement is December 31, 2019, and the Company’s term loan amortizes in nominal amounts quarterly with the balance payable on December 31, 2021.

The term loan was issued at a \$1,900 discount which is being amortized over the term of the term loan.

At March 31, 2016, the Company had no outstanding borrowings on the Revolving Credit Agreement and remaining borrowing availability of \$97,776. There were no outstanding borrowings on the Revolving – Credit Agreement at December 31, 2015.

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 Revolving Credit Agreement specifically restrict subsidiaries from paying dividends if a minimum availability under the Revolving Credit Agreement 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 Revolving Credit Agreement includes a requirement that, subject to certain exceptions, capital expenditures may not exceed \$12,500 in any calendar year (plus the unused portion of permitted capital expenditures from the preceding year subject to a \$12,500 cap and a separate one-time \$15,000 capital

expenditures to be used for the consolidation of facilities and costs associated with the acquiring and/or development and construction of one new manufacturing facility) and, if certain minimum availability under the Revolving Credit Agreement 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 Revolving Credit Agreement. At March 31, 2016, 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 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

Table of Contents

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 March 31, 2016, the Company was not required to make an excess cash flow payment.

The Company entered into interest rate swap agreements on February 20, 2015 to reduce its exposure to interest rate volatility. The three interest rate swap agreements have notional amounts of \$45,000, \$90,000 and \$135,000 effective for the periods December 31, 2015 through March 29, 2018, March 29, 2018 through March 31, 2020 and March 31, 2020 through June 30, 2021, respectively. The interest rate swaps' negative fair value at March 31, 2016 was \$3,381, of which \$379 and \$3,002 are included in accrued expenses and other current liabilities and Other long-term liabilities on the Consolidated Balance Sheet, respectively. Meanwhile, the interest rate swaps' negative fair value at March 31, 2015 was \$1,293, of which \$88 and \$1,205 are included in Accrued expenses and Other current liabilities and Other long-term liabilities on the Consolidated Balance Sheet, respectively. 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 December 31, 2015, the Company will either receive or make payments on a monthly basis based on the differential between 6.105% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement, effective as of March 29, 2018, the Company will either receive or make payments on a monthly basis based on the differential between 6.916% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%). Under the interest rate swap agreement, effective as of March 31, 2020, the Company will either receive or make payments on a monthly basis based on the differential between 7.168% and LIBOR plus 4.25% (with a LIBOR floor of 1.0%).

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other liabilities are summarized as follows:

	March 31, 2016	December 31, 2015
Payroll and related costs	\$ 4,063	\$ 8,927
Employee benefits	4,265	4,113

Accrued warranty	5,504	7,423
Other	3,077	5,086
	\$ 16,909	\$ 25,549

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 \$6,504 at March 31, 2016 of which \$1,000 is included in Other long term liabilities and \$5,504 is included in Accrued expenses and other current liabilities in the accompanying

Table of Contents

consolidated balance sheet. Meanwhile at December 31, 2015 \$7,423 is included in accrued expenses and other current liabilities in the accompanying Consolidated Balance Sheet.

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

	Three Months Ended	
	March	March
	31,	31,
	2016	2015
Balance at the beginning of the period	\$ 7,423	\$ 6,279
Warranty provision	471	648
Claims paid/settlements	(1,390)	(1,739)
Balance at the end of the period	\$ 6,504	\$ 5,188

8.Employee Retirement Plans

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

Three Months
 Ended
 March March
 31, 31,
 2016 2015

Component of net periodic pension cost:

Service cost	\$ 80	\$ 64
Interest cost	410	372
Expected return on plan assets	(456)	(407)
Amortization of net loss	181	255
Net periodic pension cost	\$ 215	\$ 284

The Company estimates its total required minimum contributions to its pension plans in 2016 will be \$967. During the first quarter of 2016, the Company made \$193 of cash contributions to the pension plans versus \$226 through the same period in 2015.

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

Three Months
 Ended
 March March
 31, 31,
 2016 2015

Component of periodic other postretirement benefit cost:

Service cost	\$ 53	\$ 57
Interest cost	70	64
Amortization of net gain	(32)	(17)
Net periodic other postretirement benefit cost	\$ 91	\$ 104

Table of Contents

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.

As restricted shares and restricted stock units both participate in dividends, in accordance with ASC 260, the Company has calculated earnings per share pursuant to the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends.

Table of Contents