UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2021.

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 001-33582

THE SHYFT GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Michigan	**38-2078923**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
41280 Bridge Street	
Novi, Michigan	**48375**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **(517) 543-6400**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SHYF	NASDAQ Global Select Market

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 every Interactive Data File required to be submitted 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 such files).

Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller Reporting Company	☐
Emerging Growth Company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

Class	Outstanding at July 30, 2021
Common Stock	35,350,265 shares

THE SHYFT GROUP, INC.

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FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements can be identified by the use of forward-looking words such as “estimate,” “anticipate,” “believe,” “project,” “expect,” “intend,”, “predict,” “potential,” “future,” “may,” “will,” “should,” or other comparable words, or by discussions of strategy that may involve risks and uncertainties. The Shyft Group, Inc.’s (the “Company”, “we”, “us”, or “our”) future results, performance or achievements may differ materially from the results, performance or achievements discussed in the forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions (“Risk Factors”) that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements.

Risk Factors include the risk factors listed and more fully described in Part I, Item 1A – Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on March 25, 2021, subject to any changes and updates disclosed in Part II, Item 1A – Risk Factors below. Those risk factors include the primary risks our management believes could materially affect the potential results described by forward-looking statements contained in this Form 10-Q. However, these risks may not be the only risks we face. Our business, operations, and financial performance could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations. In addition, new Risk Factors may emerge from time to time that may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, although we believe that the forward-looking statements contained in this Form 10-Q are reasonable, we cannot provide you with any guarantee that the results described in those forward-looking statements will be achieved. All forward-looking statements in this Form 10-Q are expressly qualified in their entirety by the cautionary statements contained in this section, and investors should not place undue reliance on forward-looking statements as a prediction of actual results. The Company undertakes no obligation to update or revise any forward-looking statements to reflect developments or information obtained after the date this Form 10-Q is filed with the Securities and Exchange Commission.

Item 1. **Financial Statements**

THE SHYFT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands)

	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,178	$ 20,995
Accounts receivable, less allowance of $136 and $116	101,879	64,695
Contract assets	15,370	9,414
Inventories, net	68,420	46,428
Other receivables – chassis pool agreements	13,983	6,503
Other current assets	8,859	8,172
Total current assets	212,689	156,207
Property, plant and equipment, net	54,335	45,734
Right of use assets – operating leases	41,905	43,430
Goodwill	48,677	49,481
Intangible assets, net	54,684	56,386
Other assets	1,162	2,052
Net deferred tax asset	5,625	5,759
TOTAL ASSETS	$ 419,077	$ 359,049
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 74,749	$ 47,487
Accrued warranty	6,623	5,633
Accrued compensation and related taxes	17,799	17,134
Deposits from customers	377	756
Operating lease liability	7,495	7,508
Other current liabilities and accrued expenses	9,774	8,121
Short-term debt – chassis pool agreements	13,983	6,503
Current portion of long-term debt	253	221
Total current liabilities	131,053	93,363
Other non-current liabilities	4,628	5,447
Long-term operating lease liability	35,182	36,662
Long-term debt, less current portion	23,198	23,418
Total liabilities	194,061	158,890
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock; 2,000 shares authorized (none issued)	-	-
Common stock; 80,000 shares authorized; 35,346 and 35,344 outstanding	92,309	91,044
Retained earnings	131,853	109,286
Total The Shyft Group, Inc. shareholders' equity	224,162	200,330
Non-controlling interest	854	(171)
Total shareholders' equity	225,016	200,159
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 419,077	$ 359,049

See accompanying Notes to Condensed Consolidated Financial Statements.

THE SHYFT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Sales	$ 243,982	$ 123,970	$ 441,870	$ 300,918
Cost of products sold	192,076	99,965	349,978	240,612
Gross profit	51,906	24,005	91,892	60,306
Operating expenses:				
Research and development	940	1,130	1,722	2,672
Selling, general and administrative	28,740	24,610	53,277	46,009
Total operating expenses	29,680	25,740	54,999	48,681
Operating income (loss)	22,226	(1,735)	36,893	11,625
Other income (expense):				
Interest expense	(227)	(460)	(57)	(1,191)
Interest and other income	506	515	689	5
Total other income (expense)	279	55	632	(1,186)
Income (loss) from continuing operations before income taxes	22,505	(1,680)	37,525	10,439
Income tax expense (benefit)	5,552	(546)	9,042	(169)
Income (loss) from continuing operations	16,953	(1,134)	28,483	10,608
Income (loss) from discontinued operations, net of income taxes	-	(157)	81	(4,021)
Net income (loss)	16,953	(1,291)	28,564	6,587
Less: net income attributable to non-controlling interest	990	70	1,025	137
Net income (loss) attributable to The Shyft Group Inc.	$ 15,963	$ (1,361)	$ 27,539	$ 6,450
Basic earnings (loss) per share				
Continuing operations	$ 0.45	$ (0.03)	$ 0.78	$ 0.29
Discontinued operations	-	(0.01)	-	(0.11)
Basic earnings (loss) per share	$ 0.45	$ (0.04)	$ 0.78	$ 0.18
Diluted earnings (loss) per share				
Continuing operations	$ 0.44	$ (0.03)	$ 0.76	$ 0.29
Discontinued operations	-	(0.01)	-	(0.11)
Diluted earnings (loss) per share	$ 0.44	$ (0.04)	$ 0.76	$ 0.18
Basic weighted average common shares outstanding	35,333	35,512	35,322	35,456
Diluted weighted average common shares outstanding	36,190	35,512	36,191	35,693

See accompanying Notes to Condensed Consolidated Financial Statements.

THE SHYFT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2021	**2020**
Cash flows from operating activities:		
Net income	$ 28,564	$ 6,587
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	5,330	8,144
Non-cash stock based compensation expense	4,492	4,258
Deferred income taxes	134	12,307
Loss on sale of business	-	2,138
(Gain) on disposal of assets	(105)	-
Loss from write-off of construction in process	-	2,430
Changes in accounts receivable and contract assets	(42,639)	(13,642)
Changes in inventories	(21,992)	1,997
Changes in accounts payable	27,721	(12,626)
Changes in accrued compensation and related taxes	665	(3,911)
Changes in accrued warranty	989	(366)
Change in other assets and liabilities	69	(19,030)
Net cash provided by (used in) operating activities	3,228	(11,714)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(12,373)	(5,966)
Proceeds from sale of property, plant and equipment	15	-
Acquisition of business, net of cash acquired	404	152
Proceeds from sale of business	-	55,000
Net cash provided by (used in) investing activities	(11,954)	49,186
Cash flows from financing activities:		
Proceeds from long-term debt	15,000	16,000
Payments on long-term debt	(15,000)	(46,000)
Payment of dividends	(1,776)	(1,775)
Purchase and retirement of common stock	(3,348)	-
Exercise and vesting of stock incentive awards	(2,967)	(1,153)
Net cash used in financing activities	(8,091)	(32,928)
Net increase (decrease) in cash and cash equivalents	(16,817)	4,544
Cash and cash equivalents at beginning of period	20,995	19,349
Cash and cash equivalents at end of period	$ 4,178	$ 23,893

Note: Consolidated Statements of Cash Flows include continuing operations and discontinued operations for all periods presented.

See accompanying Notes to Condensed Consolidated Financial Statements.

THE SHYFT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)
(In thousands)

	Number of Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Non-Controlling Interest	Total Shareholders' Equity
Balance at January 1, 2021	35,344	$ 91,044	$ -	$ 109,286	$ (171)	$ 200,159
Issuance of common stock and tax impact of stock incentive plan	3	(2,255)	-	-	-	(2,255)
Dividends declared ($0.025 per share)	-	-	-	(983)	-	(983)
Purchase and retirement of common stock	(100)	(260)	-	(3,088)	-	(3,348)
Issuance of restricted stock, net of cancellation	61	-	-	-	-	-
Non-cash stock based compensation expense	-	1,642	-	-	-	1,642
Net income	-	-	-	11,576	35	11,611
Balance at March 31, 2021	35,308	$ 90,171	$ -	$ 116,791	$ (136)	$ 206,826
Issuance of common stock and tax impact of stock incentive plan	2	(712)	-	-	-	(712)
Dividends declared ($0.025 per share)	-	-	-	(901)	-	(901)
Issuance of restricted stock, net of cancellation	36	-	-	-	-	-
Non-cash stock based compensation expense	-	2,850	-	-	-	2,850
Net income	-	-	-	15,963	990	16,953
Balance at June 30, 2021	$ 35,346	$ 92,309	$ -	$ 131,853	$ 854	$ 225,016

	Number of Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Non-Controlling Interest	Total Shareholders' Equity
Balance at January 1, 2020	35,344	$ 353	$ 85,148	$ 86,764	$ (518)	$ 171,747
Issuance of common stock and tax impact of stock incentive plan	4	-	55	-	-	55
Issuance of restricted stock, net of cancellation	127	1	-	-	-	1
Non-cash stock based compensation expense	-	-	2,132	-	-	2,132
Net income	-	-	-	7,811	67	7,878
Balance at March 31, 2020	$ 35,475	$ 354	$ 87,335	$ 94,575	$ (451)	$ 181,813
Issuance of common stock and tax impact of stock incentive plan	4	-	(1,209)	-	-	(1,209)
Issuance of restricted stock, net of cancellation	80	1	(2)	-	-	(1)
Dividends declared ($0.05 per share)	-	-	-	(1,775)	-	(1,775)
Non-cash stock based compensation expense	-	-	2,126	-	-	2,126
Net income (loss)	-	-	-	(1,361)	70	(1,291)
Balance at June 30, 2020	$ 35,559	$ 355	$ 88,250	$ 91,439	$ (381)	$ 179,663

See accompanying Notes to Condensed Consolidated Financial Statements.

THE SHYFT GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except per share data)

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

For a description of key accounting policies followed, refer to the notes to The Shyft Group, Inc. consolidated financial statements for the year ended December 31, 2020, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 25, 2021.

Nature of Operations

We are a niche market leader in specialty vehicle manufacturing and assembly for the commercial vehicle (including last-mile delivery, specialty service and vocation-specific upfit segments) and recreational vehicle industries. Our products include walk-in vans and truck bodies used in e-commerce/parcel delivery, upfit equipment used in the mobile retail and utility trades, luxury Class A diesel motor home chassis and contract manufacturing and assembly services. We also supply replacement parts and offer repair, maintenance, field service and refurbishment services for the vehicles that we manufacture. Our operating activities are conducted through our wholly-owned operating subsidiary, The Shyft Group USA, Inc., with locations in Novi and Charlotte, Michigan; Bristol, Indiana; Waterville, Maine; Ephrata, Pennsylvania; North Charleston, South Carolina; Pompano Beach and West Palm Beach, Florida; Kansas City, Missouri; Montebello, Carson and McClellan Park, California; Mesa, Arizona; Dallas and Weatherford, Texas; and Saltillo, Mexico.

The accompanying unaudited interim condensed consolidated financial statements reflect all normal and recurring adjustments that are necessary for the fair presentation of our financial position as of June 30, 2021, and our results of operations and cash flows for the three and six months ended June 30, 2021. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2020. The results of operations for the three and six months ended June 30, 2021, are not necessarily indicative of the results expected for the full year.

Recent Developments

In March 2020, the President of the United States declared the coronavirus ("COVID-19") outbreak a national emergency, as the World Health Organization determined it was a pandemic. The pandemic has had a significant impact on macroeconomic conditions. To limit the spread of COVID-19, governments have taken various actions including the issuance of stay-at-home orders and social distancing guidelines. While the Company's plants continued to operate as essential businesses, starting March 23, 2020, certain of our manufacturing facilities were temporarily suspended or cut back on operating levels and shifts as a result of government orders. Since the third quarter of 2020, all of our facilities were at full or modified production levels. However, additional suspensions and cutbacks may occur as the impacts from COVID-19 and related responses continue to evolve within our global supply chain and customer base. The Company is taking a variety of measures to maintain operations with as minimal impact as possible to promote the safety and security of our associates, including increased frequency of cleaning and disinfecting of facilities, social distancing, remote working when possible, travel restrictions and limitations on visitor access to facilities.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this filing. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for future periods.

On October 1, 2020, the Company acquired substantially all of the assets and certain liabilities of F3 MFG Inc. through the Company's subsidiary, The Shyft Group DuraMag LLC ("DuraMag"). DuraMag is a leading aluminum truck body and accessory manufacturer, and DuraMag operations include aluminum manufacturing, finishing, assembly, and installation of DuraMag contractor, service, and van bodies, as well as Magnum branded truck accessories including headache racks (also known as cab protection racks or rear racks). DuraMag operates out of Waterville, Maine and that location is expected to continue to serve as the business' primary manufacturing and assembly facility for both product lines. The addition of DuraMag aluminum bodies to the Company's product offerings follows the Company's 2019 acquisition of Royal Truck Body ("Royal"), a West Coast and Southwestern U.S. steel truck body maker. Combined, these acquisitions elevate the Company to a leading position as a national service body manufacturer. DuraMag is part of our Specialty Vehicle segment and continues to go to market under the DuraMag and Magnum brands.

(Dollar amounts in thousands, except per share data)

Recently Adopted Accounting Standards

Effective January 1, 2021, we adopted ASU 2019-12 and all related amendments, which simplifies the accounting for income taxes by removing certain exceptions to the general principles of Topic 740 and improving consistent application of Generally Accepted Accounting Principles ("GAAP") for other areas of Topic 740 by clarifying and amending existing guidance. The adoption of the provisions of ASU 2019-12 did not have a material impact on our consolidated financial position, results of operations or cash flows.

Supplemental Disclosures of Cash Flow Information

Non-cash investing in the six-months ended June 30, 2021, included $1,051 of capital expenditures. The Company has chassis pool agreements, where it participates in chassis converter pools that are non-cash arrangements and they are offsetting between current assets and current liabilities on the Company's Consolidated Balance Sheets. See "Note 5 – *Debt*" for further information about the chassis pool agreements.

NOTE 2 – DISCONTINUED OPERATIONS

On February 1, 2020, we completed the sale of our emergency response vehicle ("ERV") business for $55,000 cash subject to certain post-closing adjustments. In September 2020, the Company finalized the post-close net working capital adjustment and subsequently paid $7,500 on October 1, 2020. The Company recognized a loss on sale of $2,138 for the six months ended June 30, 2020, which is a portion of the Income (loss) from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations. The ERV business included the emergency response chassis operations in Charlotte, Michigan, and operations in Brandon, South Dakota; Snyder and Neligh, Nebraska; and Ephrata, Pennsylvania. The results of the ERV business have been reclassified to Income (loss) from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2020. We continue to have an open Transition Services Agreement with the buyer for the provision of certain transition support services, which may continue for certain services into 2022.

The Income (loss) from discontinued operations presented in the Condensed Consolidated Statement of Operations are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Sales	$ -	$ -	$ -	$ 19,167
Cost of products sold	-	-	-	18,678
Gross profit	-	-	-	489
Operating expenses	-	281	-	4,404
Operating loss	-	(281)	-	(3,915)
Other income (expense)	-	-	109	(2,138)
Loss from discontinued operations before taxes	-	(281)	109	(6,053)
Income tax (expense) benefit	-	124	(28)	2,032
Net income (loss) from discontinued operations	$ -	$ (157)	$ 81	$ (4,021)

Total depreciation and amortization and capital expenditures for the discontinued operations are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Depreciation and amortization	$ -	$ -	$ -	$ 284
Capital expenditures	$ -	$ -	$ -	$ 84

(Dollar amounts in thousands, except per share data)

NOTE 3 – ACQUISITION ACTIVITIES

On October 1, 2020, the Company acquired substantially all of the assets and certain liabilities of F3 MFG Inc. through the Company’s subsidiary, The Shyft Group DuraMag LLC (“DuraMag”). DuraMag is a leading, aluminum truck body and accessory manufacturer, and DuraMag operations include aluminum manufacturing, finishing, assembly, and installation of DuraMag contractor, service, and van bodies, as well as Magnum branded headache racks (also known as cab protection racks or rear racks). The Company paid $18,203 in cash, subject to a net working capital adjustment. The net working capital adjustment was finalized in January 2021, resulting in a decrease to the purchase price of $404. In addition, certain indemnity claims made by the Company pursuant to the purchase agreement were settled in June 2021, resulting in a decrease to the purchase price of $500. The acquisition was partially financed by borrowing from our existing line of credit, as described in "Note 5 – *Debt*". DuraMag is part of our Specialty Vehicle segment.

Purchase Price Allocation

The DuraMag acquisition was accounted for using the acquisition method of accounting with the purchase price allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the date of acquisition. Identifiable intangible assets include customer relationships, DuraMag and Magnum trade names and trademarks, unpatented technology and non-competition agreements. The preliminary excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired of $5,197 was recorded as goodwill, which is expected to be deductible for tax purposes.

The fair values of the net assets acquired were based on a preliminary valuation and the estimates and assumptions are subject to change within the measurement period. The Company will finalize the purchase price allocation for adjustments related to accrued warranty and certain other liabilities that we believe to be insignificant as soon as practicable within the measurement period, but in no event later than one year following the acquisition date.

As of June 30, 2021, the preliminary allocation of purchase price to assets acquired and liabilities assumed is as follows:

Accounts receivable	$	2,230
Inventories		3,659
Other current assets		15
Property, plant and equipment		2,949
Right of use assets-operating leases		8,469
Intangible assets		5,590
Goodwill		5,197
Total assets acquired		28,109
Accounts payable		(1,662)
Accrued compensation and related taxes		(434)
Current operating lease liabilities		(644)
Other current liabilities and accrued expenses		(241)
Long-term operating lease liability		(7,825)
Long-term debt		(4)
Total liabilities assumed		(10,810)
Total purchase price	$	17,299

(Dollar amounts in thousands, except per share data)

Goodwill and Intangible Assets Assigned

Intangible assets totaling $5,590 have provisionally been assigned to customer relationships, trade names and trademarks, unpatented technology and non-competition agreements as a result of the acquisition and consist of the following:

	Amount	Useful Life
Customer relationships	$ 2,200	15 Years
Trade names and trademarks	2,420	Indefinite
Unpatented technology	540	9 Years
Non-competition agreements	430	6 Years
	$ 5,590	

The Company amortizes the customer relationships utilizing an accelerated approach and unpatented technology and non-competition agreements assets utilizing a straight-line approach. Amortization expense, including the intangible assets, recorded from the DuraMag acquisition is $69 and $139 for the three and six months ended June 30, 2021.

Goodwill consists of operational synergies that are expected to be realized in both the short and long-term and the opportunity to enter into new markets which will enable us to increase value to our customers and shareholders. Key areas of expected cost savings include an expanded dealer network, complementary product portfolios and manufacturing and supply chain work process improvements.

Due to its insignificant size relative to the Company, supplemental pro forma financial information of the combined entity for the prior reporting period is not provided.

NOTE 4 – INVENTORIES

Inventories are summarized as follows:

	June 30, 2021	December 31, 2020
Finished goods	$ 2,619	$ 4,200
Work in process	3,709	1,908
Raw materials and purchased components	67,180	46,576
Reserve	(5,088)	(6,256)
Total inventories, net	$ 68,420	$ 46,428

NOTE 5 – DEBT

Short-term debt consists of the following:

	June 30, 2021	December 31, 2020
Chassis pool agreements	$ 13,983	$ 6,503
Total short-term debt	$ 13,983	$ 6,503

(Dollar amounts in thousands, except per share data)

Chassis Pool Agreements

The Company obtains certain vehicle chassis for its walk-in vans, truck bodies and specialty vehicles directly from the chassis manufacturers under converter pool agreements. Chassis are obtained from the manufacturers based on orders from customers, and in some cases, for unallocated orders. The agreements generally state that the manufacturer will provide a supply of chassis to be maintained at the Company’s facilities with the condition that we will store such chassis and will not move, sell, or otherwise dispose of such chassis except under the terms of the agreement. In addition, the manufacturer typically retains the sole authority to authorize commencement of work on the chassis and to make certain other decisions with respect to the chassis including the terms and pricing of sales of the chassis to the manufacturer’s dealers. The manufacturer also does not transfer the certificate of origin to the Company nor permit the Company to sell or transfer the chassis to anyone other than the manufacturer (for ultimate resale to a dealer).

Although the Company is party to related finance agreements with manufacturers, the Company has not historically settled any related obligations in cash, nor does it expect to do so in the future. Instead, the obligation is settled by the manufacturer upon reassignment of the chassis to an accepted dealer, and the dealer is invoiced for the chassis by the manufacturer. Accordingly, as of June 30, 2021 and December 31, 2020, the Company’s outstanding chassis converter pool with manufacturers totaled $13,983 and $6,503, respectively and the Company has included this financing agreement on the Company’s Condensed Consolidated Balance Sheets within *Other receivables – chassis pool agreements* and *Short-term debt – chassis pool agreements*. Typically, chassis are converted and delivered to customers within 90 days of the receipt of the chassis by the Company. The chassis converter pool is a non-cash arrangement and is offsetting between Current assets and Current liabilities on the Company’s Condensed Consolidated Balance Sheets.

Long-term debt consists of the following:

	June 30, 2021	December 31, 2020
Line of credit revolver	$ 22,400	$ 22,400
Finance lease obligation	416	473
Other	635	766
Total debt	23,451	23,639
Less current portion of long-term debt	(253)	(221)
Total long-term debt	$ 23,198	$ 23,418

Line of Credit Revolver

On August 8, 2018, we entered into a Credit Agreement (the "Credit Agreement") by and among us and certain of our subsidiaries as borrowers, Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent, and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A. and PNC Bank National Association (the "Lenders"). Subsequently, the Credit Agreement was amended on May 14, 2019, September 9, 2019 and September 25, 2019 and certain of our other subsidiaries executed guaranties guarantying the borrowers’ obligations under the Credit Agreement. Concurrent with the close of the sale of the ERV business and effective January 31, 2020, the Credit Agreement was further amended by a fourth amendment, which released certain of our subsidiaries that were sold as part of the ERV business. The Credit Agreement was subsequently amended further on April 20, 2021 and July 16, 2021 pursuant to a fifth amendment and sixth amendment, respectively, to make certain changes to the subfacility limits pursuant to the Credit Agreement. The substantive business terms of the Credit Agreement remain in place and were not changed by any of the amendments noted above.

(Dollar amounts in thousands, except per share data)

As a result, at June 30, 2021, under the Credit Agreement, as amended, we may borrow up to $175,000 from the Lenders under a secured revolving credit facility which matures August 8, 2023. We may also request an increase in the facility of up to $50,000 in the aggregate, subject to customary conditions. The credit facility is also available for the issuance of letters of credit of up to $20,000 and swing line loans of up to $30,000, subject to certain limitations and restrictions as of June 30, 2021. This revolving credit facility carries an interest rate of either (i) the highest of prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted LIBOR plus 1.0%; or (ii) adjusted LIBOR, in each case plus a margin based upon our ratio of debt to earnings from time to time. The applicable borrowing rate including margin was 1.38% (or one-month LIBOR plus 1.25%) at June 30, 2021. The credit facility is secured by security interests in, and liens on, all assets of the borrowers and guarantors, other than real property and certain other excluded assets. At June 30, 2021 and December 31, 2020, we had outstanding letters of credit totaling $760 and $525, respectively, related to our workers' compensation insurance.

Under the terms of our Credit Agreement, available borrowings (exclusive of outstanding borrowings) totaled $115,841 and $125,836 at June 30, 2021 and December 31, 2020, respectively. The Credit Agreement requires us to maintain certain financial ratios and other financial covenants; prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales, all subject to certain exceptions and baskets. At June 30, 2021 and December 31, 2020, we were in compliance with all covenants in our Credit Agreement.

NOTE 6 – REVENUE

Changes in our contract assets and liabilities are summarized below:

	June 30, 2021	June 30, 2020
Contract Assets		
Contract assets, beginning of period	$ 9,414	$ 10,898
Reclassification of the beginning contract assets to receivables, as the result of rights to consideration becoming unconditional	(9,401)	(10,558)
Contract assets recognized, net of reclassification to receivables	15,357	14,028
Contract assets, end of period	$ 15,370	$ 14,368
Contract Liabilities		
Contract liabilities, beginning of period	$ 756	$ 2,640
Reclassification of the beginning contract liabilities to revenue, as the result of performance obligations satisfied	(740)	(2,576)
Cash received in advance and not recognized as revenue	361	486
Contract liabilities, end of period	$ 377	$ 550

The aggregate amount of the transaction price allocated to remaining performance obligations in existing contracts that are yet to be completed in the Fleet Vehicles and Services ("FVS") and Specialty Vehicles ("SV") segments are $660,908 and $90,516 respectively, with substantially all revenue expected to be recognized within one year as of June 30, 2021.

In the following tables, revenue is disaggregated by primary geographical market and timing of revenue recognition. The tables also include a reconciliation of the disaggregated revenue with the reportable segments.

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	Three Months Ended June 30, 2021				
	FVS	**SV**	**Total Reportable Segments**	**Other**	**Total**
Primary geographical markets					
United States	$ 167,236	$ 75,678	$ 242,914	$ -	$ 242,914
Other	1,037	31	1,068	-	1,068
Total sales	$ 168,273	$ 75,709	$ 243,982	$ -	$ 243,982
Timing of revenue recognition					
Products transferred at a point in time	$ 11,312	$ 46,293	$ 57,606	$ -	$ 57,606
Products and services transferred over time	156,961	29,416	186,376	-	186,376
Total sales	$ 168,273	$ 75,709	$ 243,982	$ -	$ 243,982

	Three Months Ended June 30, 2020				
	FVS	**SV**	**Total Reportable Segments**	**Other**	**Total**
Primary geographical markets					
United States	$ 96,184	$ 26,694	$ 122,878	$ -	$ 122,878
Other	1,054	38	1,092	-	1,092
Total sales	$ 97,238	$ 26,732	$ 123,970	$ -	$ 123,970
Timing of revenue recognition					
Products transferred at a point in time	$ 11,279	$ 16,033	$ 27,312	$ -	$ 27,312
Products and services transferred over time	85,959	10,699	96,658	-	96,658
Total sales	$ 97,238	$ 26,732	$ 123,970	$ -	$ 123,970

	Six Months Ended June 30, 2021				
	FVS	**SV**	**Total Reportable Segments**	**Other**	**Total**
Primary geographical markets					
United States	$ 296,315	$ 141,874	$ 438,189	$ -	$ 438,189
Other	3,631	50	3,681	-	3,681
Total sales	$ 299,946	$ 141,924	$ 441,870	$ -	$ 441,870
Timing of revenue recognition					
Products transferred at a point in time	$ 21,069	$ 85,630	$ 106,699	$ -	$ 106,699
Products and services transferred over time	278,877	56,294	335,171	-	335,171
Total sales	$ 299,946	$ 141,924	$ 441,870	$ -	$ 441,870

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	Six Months Ended June 30, 2020				
	FVS	SV	Total Reportable Segments	Other	Total
Primary geographical markets					
United States	$ 229,081	$ 67,769	$ 296,850	$ -	$ 296,850
Other	3,845	223	4,068	-	4,068
Total sales	$ 232,926	$ 67,992	$ 300,918	$ -	$ 300,918
Timing of revenue recognition					
Products transferred at a point in time	$ 33,536	$ 40,767	$ 74,303	$ -	$ 74,303
Products and services transferred over time	199,390	27,225	226,615	-	226,615
Total sales	$ 232,926	$ 67,992	$ 300,918	$ -	$ 300,918

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized by major classifications as follows:

	June 30, 2021	December 31, 2020
Land and improvements	$ 8,721	$ 8,721
Buildings and improvements	41,834	40,077
Plant machinery and equipment	44,021	41,054
Furniture and fixtures	17,082	16,259
Vehicles	2,566	2,404
Construction in process	15,374	8,724
Subtotal	129,598	117,239
Less accumulated depreciation	(75,263)	(71,505)
Total property, plant and equipment, net	$ 54,335	$ 45,734

We recorded depreciation expense of $1,899 and $4,447 during the three months ended June 30, 2021 and 2020, respectively, and $3,640 and $6,261 during the six months ended June 30, 2021 and 2020, respectively. In the second quarter of 2020, we committed to a plan to phase out the use of an ERP system at certain locations and determined that the estimated useful lives for the related assets had shortened. As a result, we recorded depreciation expense of $2,330 attributable to accelerated depreciation and loss of $2,430 from write-off of related construction in process. The total impact on Income (loss) from continuing operations was an expense of $3,599 for the three and six months ended June 30, 2020.

(Dollar amounts in thousands, except per share data)

NOTE 8 – LEASES

We have operating and finance leases for land, buildings and certain equipment. Our leases have remaining lease terms of one year to 19 years, some of which include options to extend the leases for up to 15 years. Our leases do not contain residual value guarantees. Assets recorded under finance leases were immaterial (See "Note 5 – *Debt*").

Operating lease expenses are classified as Cost of products sold and Operating expenses on the Condensed Consolidated Statements of Operations. The components of lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Operating leases	$ 1,982	$ 1,510	$ 3,936	$ 3,106
Short-term leases(1)	128	68	166	84
Total lease expense	$ 2,110	$ 1,578	$ 4,102	$ 3,190

(1) Includes expenses for month-to-month equipment leases, which are classified as short-term as the Company is not reasonably certain to renew the lease term beyond one month.

The weighted average remaining lease term and weighted average discount rate were as follows:

	Six Months Ended June 30,	
	2021	2020
Weighted average remaining lease term of operating leases (in years)	9.1	8.3
Weighted average discount rate of operating leases	3.1%	3.8%

Supplemental cash flow information related to leases was as follows:

	Six Months Ended June 30,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow for operating leases	$ 1,942	$ 3,127
Right of use assets obtained in exchange for lease obligations:		
Operating leases	$ 2,147	$ -
Finance leases	$ 106	$ 136

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Maturities of operating lease liabilities as of June 30, 2021 are as follows:

Years ending December 31:	
2021[1]	$ 3,986
2022	7,194
2023	6,917
2024	6,577
2025	5,796
Thereafter	18,590
Total lease payments	49,060
Less: imputed interest	(6,383)
Total lease liabilities	$ 42,677

(1) Excluding the six months ended June 30, 2021.

NOTE 9 – COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2021, we and our subsidiaries were parties, both as plaintiff and defendant, to a number of lawsuits and claims arising out of the normal course of our businesses. In the opinion of management, our financial position, future operating results or cash flows will not be materially affected by the final outcome of these legal proceedings.

Warranty Related

We provide limited warranties against assembly/construction defects. These warranties generally provide for the replacement or repair of defective parts or workmanship for a specified period following the date of sale. The end users also may receive limited warranties from suppliers of components that are incorporated into our chassis and vehicles.

Certain warranty and other related claims involve matters of dispute that ultimately are resolved by negotiation, arbitration or litigation. Infrequently, a material warranty issue can arise which is beyond the scope of our historical experience. We provide for any such warranty issues as they become known and are estimable. It is reasonably possible that additional warranty and other related claims could arise from disputes or other matters beyond the scope of our historical experience. An estimate of possible penalty or loss, if any, cannot be made at this time.

Changes in our warranty liability are summarized below:

	Six Months Ended June 30,	
	2021	**2020**
Balance of accrued warranty at January 1	$ 5,633	$ 5,694
Provisions for current period sales	1,950	1,377
Cash settlements	(1,898)	(991)
Changes in liability for pre-existing warranties	938	(753)
Balance of accrued warranty at June 30	$ 6,623	$ 5,327

Spartan-Gimaex Joint Venture

In February 2015, the Company and Gimaex Holding, Inc. initiated discussions to dissolve the Spartan-Gimaex joint venture. Further to legal proceedings initiated by the Company to dissolve and liquidate the joint venture, the court appointed the Company as liquidating trustee of the joint venture. As of June 2021, the liquidation is substantially complete, and the Company does not expect any material impact to our future operating results.

EPA Information Request

In May 2020, the Company received a letter from the United States Environmental Protection Agency (“EPA”) requesting certain information as part of an EPA investigation regarding a potential failure to affix emissions labels on vehicles to determine the Company’s compliance with applicable laws and regulations. This information request pertains to chassis, vocational vehicles, and vehicles that the Company manufactured or imported into the U.S. between January 1, 2017 to the date the Company received the request in May 2020. The Company responded to the EPA’s request and furnished the requested materials in the third quarter of 2020. An estimate of possible penalties or loss, if any, cannot be made at this time.

NOTE 10 – TAXES ON INCOME

Our effective income tax rate was 24.7% and 32.5% for the three months ended June 30, 2021 and 2020, respectively, compared to 24.1% and (1.6%) for the six months ended June 30, 2021 and 2020, respectively.

The effective tax rate of 24.7% and 24.1% for the three and six months ended June 30, 2021, respectively, is higher than the U.S. statutory tax rate of 21% primarily because of state income taxes at their statutory rates partially offset by a discrete tax benefit related to the difference in stock compensation expense recognized for book purposes and tax purposes upon vesting.

The effective tax rate of 32.5% for the three months ended June 30, 2020 is higher than the US statutory tax rate of 21% due to a benefit related to an excess of stock compensation expense recognized for tax purposes over the amount for financial reporting purposes.

The effective tax rate for the six months ended June 30, 2020 reflects the favorable impact of certain provisions of the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act upon the income tax expense as computed based on current statutory income tax rates. Enacted on March 27, 2020, the CARES Act amended certain provisions of the tax code to allow the five-year carryback of tax basis net operating losses (“NOL”) incurred in the years 2018 through 2020. The closing of the sale of the ERV business during the first quarter of 2020 put the Company into a tax basis NOL position for the year as a result of the reversal of deferred tax assets that were recorded in 2019. Under the CARES Act, the Company will carry the NOL back to offset taxable income incurred in years prior to 2018 when the federal corporate income tax rate was 35%, as compared to the 21% tax rate at which the deferred tax assets were originally recorded. The Company recorded a $2,610 current period tax benefit resulting from the rate difference as a component of Income tax benefit in the first quarter of 2020.

(Dollar amounts in thousands, except per share data)

NOTE 11 – BUSINESS SEGMENTS

We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision maker to assess segment performance and allocate resources among our operating units. We have two reportable segments: Fleet Vehicles and Services and Specialty Vehicles.

We evaluate the performance of our reportable segments based on Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) and it is calculated by excluding items that we believe to be infrequent or not indicative of our underlying operating performance, as well as certain non-cash expenses. We define Adjusted EBITDA as income from continuing operations before interest, income taxes, depreciation and amortization, as adjusted to eliminate the impact of restructuring charges, acquisition related expenses and adjustments, non-cash stock-based compensation expenses, and other gains and losses not reflective of our ongoing operations.

The accounting policies of the segments are the same as those described, or referred to, in "Note 1 – *Nature of Operations and Basis of Presentation*". Assets and related depreciation expense in the column labeled "Eliminations and Other" pertain to capital assets maintained at the corporate level. Eliminations for inter-segment sales are shown in the column labeled "Eliminations and Other". Segment loss from operations in the "Eliminations and Other" column contains corporate related expenses not allocable to the operating segments. Interest expense and Income tax expense (benefit) are not included in the information utilized by the chief operating decision maker to assess segment performance and allocate resources, and accordingly, are excluded from the segment results presented below.

	Three Months Ended June 30, 2021			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 159,826	$ -	$ -	$ 159,826
Motor home chassis sales	-	40,891	-	40,891
Other specialty vehicle sales	-	29,415	-	29,415
Aftermarket parts and accessories sales	8,447	5,403	-	13,850
Total sales	$ 168,273	$ 75,709	$ -	$ 243,982
Depreciation and amortization expense	$ 737	$ 1,553	$ 469	$ 2,759
Adjusted EBITDA	28,287	8,637	(8,354)	28,570
Segment assets	197,479	197,876	23,722	419,077
Capital expenditures	3,866	320	311	4,497

	Three Months Ended June 30, 2020			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 90,762	$ -	$ -	$ 90,762
Motor home chassis sales	-	14,048	-	14,048
Other specialty vehicle sales	-	10,929	-	10,929
Aftermarket parts and accessories sales	6,476	1,755	-	8,231
Total sales	$ 97,238	$ 26,732	$ -	$ 123,970
Depreciation and amortization expense	$ 1,692	$ 857	$ 2,794	$ 5,343
Adjusted EBITDA	13,652	1,219	(5,521)	9,350
Segment assets	151,892	140,654	59,247	351,793
Capital expenditures	2,934	559	40	3,533

	Six Months Ended June 30, 2021			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 284,701	$ -	$ -	$ 284,701
Motor home chassis sales	-	76,159	-	76,159

	FVS		SV		Eliminations and Other		Consolidated
Other specialty vehicle sales		-		56,294		-		56,294
Aftermarket parts and accessories sales		15,245		9,471		-		24,716
Total sales	$	299,946	$	141,924	$	-	$	441,870
Depreciation and amortization expense	$	1,378	$	3,140	$	812	$	5,330
Adjusted EBITDA		46,497		15,653		(14,409)		47,741
Segment assets		197,479		197,876		23,722		419,077
Capital expenditures		8,645		2,688		603		11,936

	Six Months Ended June 30, 2020							
	Segment							
	FVS		SV		Eliminations and Other		Consolidated	
Fleet vehicle sales	$	214,735	$	-	$	-	$	214,735
Motor home chassis sales		-		36,650		-		36,650
Other specialty vehicle sales		-		27,715		-		27,715
Aftermarket parts and accessories sales		18,191		3,627		-		21,818
Total sales	$	232,926	$	67,992	$	-	$	300,918
Depreciation and amortization expense	$	2,492	$	2,047	$	3,321	$	7,860
Adjusted EBITDA		35,388		4,940		(12,602)		27,726
Segment assets		151,892		140,654		59,247		351,793
Capital expenditures		3,824		1,689		370		5,883

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The table below presents the reconciliation of our income from continuing operations to Adjusted EBITDA. Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income. Adjusted EBITDA may have limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. In addition, although we have excluded certain charges in calculating Adjusted EBITDA, we may in the future incur expenses similar to these adjustments, despite our assessment that such expenses are infrequent and/or not indicative of our regular, ongoing operating performance. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or infrequent items.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2021		2020		2021		2020	
Income (loss) from continuing operations	$	16,953	$	(1,134)	$	28,483	$	10,608
Net (income) attributable to non-controlling interest		(990)		(70)		(1,025)		(137)
Add (subtract):								
Interest expense		227		460		57		1,191
Depreciation and amortization expense		2,759		5,343		5,330		7,860
Income tax expense (benefit)		5,552		(546)		9,042		(169)
Restructuring and other related charges		505		562		505		1,554
Acquisition related expenses and adjustments		71		179		214		272
Non-cash stock based compensation expense		2,850		2,126		4,492		4,117
Loss from liquidation of JV		643		-		643		-
Loss from write-off of construction in process		-		2,430		-		2,430
Adjusted EBITDA	$	28,570	$	9,350	$	47,741	$	27,726

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

The Shyft Group, Inc. was organized as a Michigan corporation on September 18, 1975, and is headquartered in Novi, Michigan. We are a niche market leader in specialty vehicle manufacturing and assembly for the commercial vehicle (including last-mile delivery, specialty service and vocation-specific upfit segments) and recreational vehicle industries. Our products include walk-in vans and truck bodies used in e-commerce/parcel delivery, upfit equipment used in the mobile retail and utility trades, service and vocational truck bodies, luxury Class A diesel motor home chassis and contract manufacturing and assembly services. We also supply replacement parts and offer repair, maintenance, field service and refurbishment services for the vehicles that we manufacture. Our operating activities are conducted through our wholly-owned operating subsidiary, The Shyft Group USA, Inc., with locations in Novi and Charlotte, Michigan; Bristol, Indiana; Waterville, Maine; Ephrata, Pennsylvania; North Charleston, South Carolina; Pompano Beach and West Palm Beach, Florida; Kansas City, Missouri; Montebello, Carson and McClellan Park, California; Mesa, Arizona; Dallas and Weatherford, Texas; and Saltillo, Mexico.

Our vehicles, parts and services are sold to commercial users, original equipment manufacturers ("OEMs"), dealers, individual end users, and municipalities and other governmental entities. Our diversification across several sectors provides numerous opportunities while reducing overall risk as the various markets we serve tend to have different cyclicality. We have an innovative team focused on building lasting relationships with our customers by designing and delivering market leading specialty vehicles, vehicle components, and services. Additionally, our business structure is agile and able to quickly respond to market needs, take advantage of strategic opportunities when they arise and correctly size and scale operations to ensure stability and growth. Our expansion of equipment upfit services in our Fleet Vehicles and Services segment, and the growing opportunities that we have capitalized on in last mile delivery as a result of the rapidly changing e-commerce market, are excellent examples of our ability to generate growth and profitability by quickly fulfilling customer needs and operating efficiently.

Recent Developments

In March 2020, the President of the United States declared the COVID-19 outbreak a national emergency, as the World Health Organization determined it was a pandemic. The pandemic has had a significant impact on macroeconomic conditions. To limit the spread of COVID-19, governments have taken various actions including the issuance of stay-at-home orders and social distancing guidelines. While the Company’s plants continued to operate as essential businesses, starting March 23, 2020 certain of our manufacturing facilities were temporarily suspended or cut back on operating levels and shifts as a result of government orders. Since the third quarter of 2020, all of our facilities were at full or modified production levels. However, additional suspensions and cutbacks may occur as the impacts from COVID-19 and related responses continue to evolve within our global supply chain and customer base. The Company is taking a variety of measures to maintain operations with as minimal impact as possible to promote the safety and security of our associates, including increased frequency of cleaning and disinfecting of facilities, social distancing, remote working when possible, travel restrictions and limitations on visitor access to facilities.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this filing. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the nature of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for future periods.

On October 1, 2020, the Company acquired substantially all of the assets and certain liabilities of F3 MFG Inc. through the Company’s subsidiary, The Shyft Group DuraMag LLC (“DuraMag”). DuraMag is a leading aluminum truck body and accessory manufacturer, and DuraMag operations include aluminum manufacturing, finishing, assembly, and installation of DuraMag contractor, service, and van bodies, as well as Magnum branded truck accessories including headache racks (also known as cab protection racks or rear racks). DuraMag operates out of Waterville, Maine and that location is expected to continue to serve as the business’ primary manufacturing and assembly facility for both product lines. The addition of DuraMag aluminum bodies to the Company's product offerings follows the Company’s 2019 acquisition of Royal Truck Body ("Royal"), a West Coast and Southwestern U.S. steel truck body maker. Combined, these acquisitions elevate the Company to a leading position as a national service body manufacturer. DuraMag is part of our Specialty Vehicle segment and continues to go to market under the DuraMag and Magnum brands.

Executive Overview

- Revenue of $244.0 million in the second quarter of 2021, an increase of 96.8% compared to $124.0 million in the second quarter of 2020.
- Gross Margin of 21.3% in the second quarter of 2021, compared to 19.4% in the second quarter of 2020.
- Operating expense of $29.7 million, or 12.2% of sales in the second quarter of 2021, compared to $25.7 million, or 20.8% of sales in the second quarter of 2020.
- Operating income (loss) of $22.2 million in the second quarter of 2021, compared to ($1.7) million in the second quarter of 2020.
- Income tax expense (benefit) of $5.6 million in the second quarter of 2021, compared to ($0.5) million in the second quarter of 2020.
- Income (loss) from continuing operations of $17.0 million in the second quarter of 2021, compared to ($1.1) million in the second quarter of 2020.
- Diluted earnings (loss) per share from continuing operations of $0.44 in the second quarter of 2021, compared to ($0.03) in the second quarter of 2020.
- Order backlog of $751.4 million at June 30, 2021, an increase of $413.9 million or 122.6% from our backlog of $337.5 million at June 30, 2020.

We believe we are well positioned to take advantage of long-term opportunities and continue our efforts to bring product innovations to each of the markets that we serve. Some of our recent innovations, strategic developments and strengths include:

- In June 2021, we announced the creation of Shyft Innovations™, our dedicated mobility research and development team, initially focused on introducing a Class 2 purpose-built flat modular EV chassis to any specialty vehicle body builder. The EV-powered chassis features customizable length and wheelbase, making it well suited for a variety of vehicle types. The chassis' modular design will accommodate multiple gross vehicle weight rating classifications, based on build out and usage. With this high degree of configurability, the all-electric chassis is adaptable to last mile delivery, work truck, mass transit, recreational vehicle, and other emerging EV markets.

- The introduction of the Velocity F2™, a Class 2 walk-in van built on a Ford Transit chassis. The Velocity F2 combines nimbleness, comfort, and fuel efficiency with the cargo space, access, and load capacity similar to a traditional walk-in delivery van. The Velocity F2 gives parcel delivery fleets the added flexibility to manage their driver pool and optimize routing, consistent with increased demand.

- The introduction of the Velocity M3™ walk-in cargo van which is built on a Mercedes-Benz Sprinter cab and chassis, blends the fuel efficiency, driver ergonomics, and safety provisions of a cargo van cab and chassis with the expansive cargo space of a traditional walk-in van. The Velocity M3 builds upon advancements from the Utilimaster Reach®, with a lighter body design, improved payload, better fuel efficiency, and maximized cargo space, punctuated with a game-changing automatic access system that opens, closes, and locks interior and exterior doors—without keys or manual effort—for unequaled ease and stop-by-stop efficiency gains.

- Our continued expansion into the equipment upfit market for vehicles used in the parcel delivery, grocery, trades and construction industries. This rapidly expanding market offers an opportunity to add value to current and new customers for our fleet vehicles and vehicles produced by other original equipment manufacturers.

- The introduction of Royal Truck Body's new Severe Duty body, built to fit General Motors' medium duty truck class and Ford's Super Duty truck class, which includes more standard features than any other service body on the market. With its Fortress five-point lock system, 10-gauge steel and Line-X'd box tops, and 3/8″ tread plate steel floors, this work truck is built to last and is ideal for contractors and business owners that need heavy-duty work trucks.

- The introduction of the K4 605 motorhome chassis. The K4 605 is equipped with Spartan Connected Coach™, a technology bundle featuring the new digital dash display and keyless push-button start. It also features the Spartan Advanced Protection System®, a collection of safety systems that includes collision mitigation with adaptive cruise control, electronic stability control, automatic traction control, Spartan Safe Haul™, factory chassis-integrated air supply for tow vehicle braking systems, tire pressure monitoring system with integrated controls with Spartan Connected Coach's™ digital dash display, Premier Steer steering assist system, woodgrain and leather SMART steering wheel with integrated radio controls and a Passive Steer Tag Axle, and Cummins Connected Diagnostics.

- The strength of our balance sheet and access to working capital through our revolving line of credit.

The following section provides a narrative discussion about our financial condition and results of operations. Certain amounts in the narrative may not sum due to rounding. The comments should be read in conjunction with our Condensed Consolidated Financial Statements and related Notes thereto included in Item 1 of this Form 10-Q and in conjunction with our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 25, 2021.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the components of the Company's Condensed Consolidated Statements of Operations as a percentage of sales (percentages may not sum due to rounding):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Sales	100.0	100.0	100.0	100.0
Cost of products sold	78.7	80.6	79.2	80.0
Gross profit	21.3	19.4	20.8	20.0
Operating expenses:				
Research and development	0.4	0.9	0.4	0.9
Selling, general and administrative	11.8	19.9	12.1	15.3
Operating income (loss)	9.1	(1.4)	8.3	3.9
Other income (expense), net	0.1	0.0	0.1	(0.4)
Income (loss) from continuing operations before income taxes	9.2	(1.4)	8.5	3.5
Income tax expense (benefit)	2.3	(0.4)	2.0	(0.1)
Income (loss) from continuing operations	6.9	(0.9)	6.4	3.5
Income (loss) from discontinued operations, net of income taxes	-	(0.1)	-	(1.3)
Non-controlling interest	0.4	0.1	0.2	0.0
Net income (loss) attributable to The Shyft Group, Inc.	6.5	(1.1)	6.2	2.1

Quarter Ended June 30, 2021 Compared to the Quarter Ended June 30, 2020

Sales

For the quarter ended June 30, 2021, we reported consolidated sales of $244.0 million, compared to $124.0 million for the second quarter of 2020, an increase of $120.0 million or 96.8%. This increase reflects a sales volume increase net of pricing of $120.0 million including acquired business driven by strong demand in the current period versus lower sales in the COVID-19 impacted prior period.

Cost of Products Sold

Cost of products sold was $192.1 million in the second quarter of 2021, compared to $100.0 million in the second quarter of 2020, an increase of $92.1 million or 92.1%. Cost of products sold increased $98.4 million due to higher sales volumes including acquired business, unfavorable product mix of $2.2 million, partially offset by other productivity and cost reductions of $8.5 million.

Gross Profit

Gross profit was $51.9 million for the second quarter of 2021, compared to $24.0 million for the second quarter of 2020, an increase of $27.9 million, or 116.2%. Gross profit increased $23.6 million due to higher sales volumes including acquired business, $8.5 million due to productivity and other cost reductions, partially offset by unfavorable product pricing and mix of $4.2 million.

Operating Expenses

Operating expenses were $29.7 million for the second quarter of 2021, compared to $25.7 million for the second quarter of 2020, an increase of $4.0 million or 15.3%. Research and development expense in the second quarter of 2021 was $0.9 million, compared to $1.1 million in the second quarter of 2020, a decrease of $0.2 million. Selling, general and administrative expense was $28.7 million in the second quarter of 2021, compared to $24.6 million for the second quarter of 2020, an increase of $4.1 million or 16.8%, primarily driven by an increase in compensation expense related to growth and acquisition of $4.9 million versus cost reduction actions taken in the second quarter of 2020 and higher professional services of $3.7 million. These increases were partially offset by the accelerated depreciation of the ERP system and write-off of related construction in process of $4.5 million in the second quarter of 2020.

Other Income (Expense)

Interest expense was $0.2 million for the second quarter of 2021, compared to $0.5 million for the second quarter of 2020, driven by lower borrowings and interest support more than offsetting periodic expense. Other income was $0.5 million in the second quarter of 2021 and 2020.

Income Tax Expense

Our effective income tax rate was 24.7% in the second quarter of 2021, compared to 32.5% in the second quarter of 2020. The effective tax rates for 2021 and 2020 reflect the impact of current statutory income tax rates on our Income (loss) before taxes affected favorably in 2021, and unfavorably in 2020, by a discrete tax benefit of $0.2 million in each year related to the difference in stock compensation expense recognized for book purposes and tax purposes upon vesting.

Income from Continuing Operations

Income from continuing operations for the quarter ended June 30, 2021 increased by $18.1 million to $17.0 million compared to a loss of $1.1 million for the quarter ended June 30, 2020. On a diluted per share basis, income from continuing operations increased $0.47 to $0.44 in the second quarter of 2021 compared to ($0.03) per share in the second quarter of 2020. Driving this increase were the factors noted above.

Income (Loss) from Discontinued Operations

Income from discontinued operations, net of income taxes for the quarter ended June 30, 2021 increased by $0.2 million compared to Loss from discontinued operations of $0.2 million for the quarter ended June 30, 2020 due to the completion of the sale of the ERV business in February 2020.

Adjusted EBITDA

Our consolidated Adjusted EBITDA in the second quarter of 2021 was $28.6 million, compared to $9.4 million for the second quarter of 2020, an increase of $19.2 million or 205.6%.

The table below describes the changes in Adjusted EBITDA for the three months ended June 30, 2021 compared to the same period of 2020 (in millions):

Adjusted EBITDA three months ended June 30, 2020	$	9.4
Sales volume including acquired business		23.6
Product pricing and mix		(4.2)
Productivity and other cost reductions		8.5
General and administrative costs and other		(8.7)
Adjusted EBITDA three months ended June 30, 2021	$	28.6

Order Backlog

Our order backlog by reportable segment is summarized in the following table (in thousands):

	June 30, 2021	June 30, 2020
Fleet Vehicles and Services	$ 660,908	$ 286,955
Specialty Vehicles	90,516	50,540
Total consolidated	$ 751,424	$ 337,495

The consolidated backlog at June 30, 2021, totaled $751.4 million, up 122.6%, compared to $337.5 million at June 30, 2020, which reflects strong demand for vehicles across the Company's product portfolio.

Our Fleet Vehicles and Services backlog increased by $374.0 million, or 130.3%, which reflects strong demand for vehicles across the Company's product portfolio. Our Specialty Vehicles segment backlog increased by $40.0 million, or 79.1%, due to increased motor home chassis and service truck body orders.

Orders in the backlog are subject to modification, cancellation or rescheduling by customers. Although the backlog of unfilled orders is one of many indicators of market demand, several factors, such as changes in production rates, available capacity, new product introductions, supply of chassis, and competitive pricing actions, may affect actual sales. Accordingly, a comparison of backlog from period-to-period is not necessarily indicative of eventual actual shipments.

Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

Sales

For the six months ended June 30, 2021, we reported consolidated sales of $441.9 million, compared to $300.9 million for the first six months of 2020, an increase of $141.0 million or 46.8%. This increase reflects a sales volume increase net of pricing of $141.0 million including acquired business driven by strong demand in the current period versus lower sales in the COVID-19 impacted prior period.

Cost of Products Sold

Cost of products sold was $350.0 million in the first six months of 2021, compared to $240.6 million in the first six months of 2020, an increase of $109.4 million or 45.5%. Cost of products sold increased $117.1 million due to higher sales volumes including acquired business, pre-production costs of $2.3 million, partially offset by other productivity and cost reductions of $10.0 million.

Gross Profit

Gross profit was $91.9 million for the first six months of 2021, compared to $60.3 million for the first six months of 2020, an increase of $31.6 million, or 52.4%. Gross profit increased $28.5 million due to higher sales volumes including acquired business, $10.0 million due to productivity and other cost reductions, partially offset by pre-production costs of $2.3 million and unfavorable product pricing and mix of $4.6 million.

Operating Expenses

Operating expenses were $55.0 million for the first six months of 2021, compared to $48.7 million for the first six months of 2020, an increase of $6.3 million or 13.0%. Research and development expense in the first six months of 2021 was $1.7 million, compared to $2.7 million in the first six months of 2020, a decrease of $1.0 million. Selling, general and administrative expense was $53.3 million in the first six months of 2021, compared to $46.0 million for the first six months of 2020, an increase of $7.3 million or 15.8%, primarily driven by an increase in compensation expense related to growth and acquisition of $8.1 million versus cost reduction actions taken in the first six months of 2020 and higher professional services of $3.7 million. These increases were partially offset by the accelerated depreciation of the ERP system and write-off of related construction in process of $4.5 million in the second quarter of 2020 that did not recur in 2021.

Other Income (Expense)

Interest expense was $0.1 million for the first six months of 2021, compared to $1.2 million for the first six months of 2020, driven by lower borrowings and interest support more than offsetting periodic expense. Other income was $0.7 million in the first six months of 2021 compared to insignificant Other income for the first six months of 2020.

Income Tax Expense

Our effective income tax rate was 24.1% in the first six months of 2021, compared to (1.6%) in the first six months of 2020. The effective tax rate for 2021 reflects the impact of current statutory income tax rates on our Income before taxes partially offset by a discrete tax benefit of $0.7 million related to the difference in stock compensation expense recognized for book purposes and tax purposes upon vesting.

The effective tax rate for the six months ended June 30, 2021 compares unfavorably to the comparable period in 2020 due to a favorable adjustment recorded in 2020 because of provisions of the CARES Act allowing the carryback of tax net operating losses ("NOL") incurred in the years 2018 through 2020 for five years. The sale of our ERV business in 2020 placed the Company into a tax NOL position because of the reversal of certain deferred tax assets recorded in 2019. As a result, this NOL will be carried back to offset taxable income in years when the federal corporate income tax rate was 35%, as opposed to the 21% rate in effect at the time the deferred tax assets were recorded. The resultant favorable tax rate differential allowed us to record a $2.6 million current year tax benefit as a discrete item.

Income from Continuing Operations

Income from continuing operations for the six months ended June 30, 2021, increased by $17.9 million, or 168.5%, to $28.5 million compared to $10.6 million for the six months ended June 30, 2020. On a diluted per share basis, income from continuing operations increased $0.47 to $0.76 in the first six months of 2021 compared to $0.29 per share in the first six months of 2020. Driving this increase were the factors noted above.

Income (Loss) from Discontinued Operations

Income from discontinued operations, net of income taxes for the six months ended June 30, 2021 increased by $4.1 million to $0.1 million compared to Loss from discontinued operations of $4.0 million for the six months ended June 30, 2020 due to the completion of the sale of the ERV business in February 2020.

Adjusted EBITDA

Our consolidated Adjusted EBITDA for the six months ended June 30, 2021 was $47.7 million, compared to $27.7 million for the six months ended June 30, 2020, an increase of $20.0 million or 72.2%.

The table below describes the changes in Adjusted EBITDA for the six months ended June 30, 2021 compared to the same period of 2020 (in millions):

Adjusted EBITDA six months ended June 30, 2020	$	27.7
Sales volume including acquired business		28.5
Product pricing and mix		(4.6)
Productivity and other cost reductions		10.0
Pre-production costs		(2.3)
General and administrative costs and other		(11.6)
Adjusted EBITDA six months ended June 30, 2021	$	47.7

<u>*Reconciliation of Non-GAAP Financial Measures*</u>

This report presents Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), which is a non-GAAP financial measure. This non-GAAP measure is calculated by excluding items that we believe to be infrequent or not indicative of our underlying operating performance, as well as certain non-cash expenses. We define Adjusted EBITDA as income from continuing operations before interest, income taxes, depreciation and amortization, as adjusted to eliminate the impact of restructuring charges, acquisition related expenses and adjustments, non-cash stock-based compensation expenses, and other gains and losses not reflective of our ongoing operations. Adjusted EBITDA for all prior periods presented has been recast to conform to the current presentation.

We present the non-GAAP measure Adjusted EBITDA because we consider it to be an important supplemental measure of our performance. The presentation of Adjusted EBITDA enables investors to better understand our operations by removing items that we believe are not representative of our continuing operations and may distort our longer-term operating trends. We believe this measure to be useful to improve the comparability of our results from period to period and with our competitors, as well as to show ongoing results from operations distinct from items that are infrequent or not indicative of our continuing operating performance. We believe that presenting this non-GAAP measure is useful to investors because it permits investors to view performance using the same tools that management uses to budget, make operating and strategic decisions, and evaluate our historical performance. We believe that the presentation of this non-GAAP measure, when considered together with the corresponding GAAP financial measures and the reconciliations to that measure, provides investors with additional understanding of the factors and trends affecting our business than could be obtained in the absence of this disclosure.

We use Adjusted EBITDA to evaluate the performance of and allocate resources to our segments. Adjusted EBITDA is also used, along with other financial and non-financial measures, for purposes of determining annual incentive compensation for our management team and long-term incentive compensation for certain members of our management team.

The following table reconciles Income from continuing operations to Adjusted EBITDA for the periods indicated.

Financial Summary (Non-GAAP)
Consolidated
(In thousands, Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Income (loss) from continuing operations	$ 16,953	$ (1,134)	$ 28,483	$ 10,608
Net (income) attributable to non-controlling interest	(990)	(70)	(1,025)	(137)
Add (subtract):				
Interest expense	227	460	57	1,191
Depreciation and amortization expense	2,759	5,343	5,330	7,860
Income tax expense (benefit)	5,552	(546)	9,042	(169)
Restructuring and other related charges	505	562	505	1,554
Acquisition related expenses and adjustments	71	179	214	272
Non-cash stock based compensation expense	2,850	2,126	4,492	4,117
Loss from liquidation of JV	643	-	643	-
Loss from write-off of construction in process	-	2,430	-	2,430
Adjusted EBITDA	$ 28,570	$ 9,350	$ 47,741	$ 27,726

Our Segments

We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision maker to assess segment performance and allocate resources among our operating units. We have two reportable segments: Fleet Vehicles and Services ("FVS") and Specialty Vehicles ("SV").

For certain financial information related to each segment, see "Note 11 – Business Segments," of the Notes to Condensed Consolidated Financial Statements appearing in Item 1 of this Form 10-Q.

Fleet Vehicles and Services

	Financial Data (Dollars in Thousands) Three Months Ended June 30,			
	2021		2020	
	Amount	Percentage	Amount	Percentage
Sales	$ 168,273	100.0%	$ 97,238	100.0%
Adjusted EBITDA	28,287	16.8%	13,652	14.0%

Sales in our FVS segment were $168.3 million for the second quarter of 2021, compared to $97.2 million for the second quarter of 2020, an increase of $71.0 million or 73.1%. This increase was due to a sales volume increase of $73.2 million, partially offset by unfavorable product pricing and mix of $2.2 million.

Adjusted EBITDA in our FVS segment for the second quarter of 2021 was $28.3 million compared to $13.7 million in the second quarter of 2020, an increase of $14.6 million or 107.2%. This increase was due to $14.6 million in higher sales volumes, other productivity and cost reductions of $4.2 million, partially offset by an unfavorable pricing and mix of $3.9 million and $0.3 million of higher operating expense.

	Financial Data (Dollars in Thousands) Six Months Ended June 30,			
	2021		2020	
	Amount	Percentage	Amount	Percentage
Sales	$ 299,946	100.0%	$ 232,926	100.0%
Adjusted EBITDA	46,497	15.5%	35,388	15.2%

Sales in our FVS segment were $299.9 million for the six months ended June 30, 2021, compared to $232.9 million for the six months ended June 30, 2020, an increase of $67.0 million or 28.8%. This increase was due to a sales volume increase of $72.0 million, partially offset by unfavorable product pricing and mix of $5.0 million.

Adjusted EBITDA in our FVS segment for the six months ended June 30, 2021, was $46.5 million compared to $35.4 million for the six months ended June 30, 2020, an increase of $11.1 million or 31.4%. This increase was due to $14.3 million in higher sales volumes, other productivity and cost reductions of $5.1 million, partially offset by unfavorable pricing and mix of $4.1 million, $2.3 million of pre-production costs, and $1.9 million of increased operating expense.

Specialty Vehicles

	Financial Data (Dollars in Thousands) Three Months Ended June 30,			
	2021		2020	
	Amount	Percentage	Amount	Percentage
Sales	$ 75,709	100.0%	$ 26,732	100.0%
Adjusted EBITDA	8,637	11.4%	1,219	4.6%

Sales in our SV segment were $75.7 million in the second quarter of 2021, compared to $26.7 million in the second quarter ended 2020, an increase of $49.0 million or 183.2%. This increase was due to a sales volume increase of $49.0 million including acquired business.

Adjusted EBITDA for our SV segment for the second quarter of 2021 was $8.6 million, compared to $1.2 million in the second quarter of 2020, an increase of $7.4 million or 608.5%. This increase was due to $7.4 million in higher sales volumes including acquired business.

	Financial Data (Dollars in Thousands) Six Months Ended June 30,			
	2021		2020	
	Amount	Percentage	Amount	Percentage
Sales	$ 141,924	100.0%	$ 67,992	100.0%
Adjusted EBITDA	15,653	11.0%	4,940	7.3%

Sales in our SV segment were $141.9 million for the six months ended June 31, 2021, compared to $68.0 million for the six months ended June 31, 2020, an increase of $73.9 million or 108.7%. This increase was due to a sales volume increase of $73.9 million including acquired business.

Adjusted EBITDA for our SV segment for the six months ended June 31, 2021, was $15.7 million, compared to $4.9 million for the six months ended June 31, 2020, an increase of $10.7 million or 216.9%. This increase was due to $10.7 million in higher sales volumes including acquired business.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash and cash equivalents decreased by $16.8 million to $4.2 million at June 30, 2021, compared to $21.0 million at December 31, 2020. These funds, in addition to cash generated from future operations and available credit facilities, are expected to be sufficient to finance our foreseeable liquidity and capital needs, including potential future acquisitions.

Cash Flow from Operating Activities

We generated $3.2 million of cash from operating activities during the six months ended June 30, 2021, an increase in cash provided of $14.9 million from $11.7 million of cash used by operating activities during the six months ended June 30, 2020. Cash flow from operating activities increased due to a $2.6 million increase in net income adjusted for non-cash charges to operations and a $12.3 million increase in the change in net working capital. The change in net working capital is attributable to a $40.4 million increase in the change in payables and a $19.1 million increase in the change in other liabilities partially offset by a $29.0 million increase in the change in receivables and contract assets and a $24.0 million increase in the change in inventories.

These changes were primarily driven by increased sales of $141.0 million, or 46.8% in the six-months ended June 30, 2021, compared to the same period in 2020, driven by strong demand in the current period and the comparatively lower sales resulting from the impact of the COVID-19 pandemic in the comparative period. Corresponding increases in the change in receivables, inventories, and payables resulted from the need to fulfill increased sales in the current period and expected production in the third quarter of 2021 related to the ramp up of production of new Velocity vehicles.

Cash Flow from Investing Activities

We used $12.0 million of cash for investing activities during the six months ended June 30, 2021, an increase of cash used of $61.2 million from $49.2 million of cash provided by investing activities during the six months ended June 30, 2020. Cash flow from investing activities decreased primarily due to a $6.4 million increase in purchases of property, plant and equipment and $55.0 million of proceeds from the sale of the ERV business not repeated in the current period.

Cash Flow from Financing Activities

We used $8.1 million of cash for financing activities during the six months ended June 30, 2021, a decrease of cash used of $24.8 million from $32.9 million of cash used by financing activities during the six months ended June 30, 2020. Cash flow from financing activities increased primarily due to a net $30.0 million decrease in payments on long-term debt, partially offset by a $3.3 million increase in the purchase and retirement of common stock and $1.8 million increase in exercise and vesting of stock awards.

Contingent Obligations

Spartan-Gimaex Joint Venture

In February 2015, the Company and Gimaex Holding, Inc. initiated discussions to dissolve the Spartan-Gimaex joint venture. Further to legal proceedings initiated by the Company to dissolve and liquidate the joint venture, the court appointed the Company as liquidating trustee of the joint venture. As of June 2021, the liquidation is substantially complete, and the Company does not expect any material impact to our future operating results.

EPA Information Request

In May 2020, the Company received a letter from the United States Environmental Protection Agency ("EPA") requesting certain information as part of an EPA investigation regarding a potential failure to affix emissions labels on vehicles to determine the Company's compliance with applicable laws and regulations. This information request pertains to chassis, vocational vehicles, and vehicles that the Company manufactured or imported into the U.S. between January 1, 2017 to the date the Company received the request in May 2020. The Company responded to the EPA's request and furnished the requested materials in the third quarter of 2020. An estimate of possible penalties or loss, if any, cannot be made at this time.

Debt

On August 8, 2018, we entered into a Credit Agreement (the "Credit Agreement") by and among us and certain of our subsidiaries as borrowers, Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent, and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A. and PNC Bank National Association (the "Lenders"). Subsequently, the Credit Agreement was amended on May 14, 2019, September 9, 2019 and September 25, 2019 and certain of our other subsidiaries executed guaranties guarantying the borrowers' obligations under the Credit Agreement. Concurrent with the close of the sale of the ERV business and effective January 31, 2020, the Credit Agreement was further amended by a fourth amendment, which released certain of our subsidiaries that were sold as part of the ERV business. The Credit Agreement was subsequently amended further on April 20, 2021 and July 16, 2021 pursuant to a fifth amendment and sixth amendment, respectively, to make certain changes to the subfacility limits pursuant to the Credit Agreement. The substantive business terms of the Credit Agreement remain in place and were not changed by any of the amendments noted above.

As a result, at June 30, 2021, under the Credit Agreement, as amended, we may borrow up to $175.0 million from the Lenders under a secured revolving credit facility which matures August 8, 2023. We may also request an increase in the facility of up to $50.0 million in the aggregate, subject to customary conditions. The credit facility is also available for the issuance of letters of credit of up to $20.0 million and swing line loans of up to $30.0 million subject to certain limitations and restrictions as of June 30, 2021. This revolving credit facility carries an interest rate of either (i) the highest of prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted LIBOR plus 1.0%; or (ii) adjusted LIBOR, in each case plus a margin based upon our ratio of debt to earnings from time to time. The applicable borrowing rate including margin was 1.38% (or one-month LIBOR plus 1.25%) at June 30, 2021. The credit facility is secured by security interests in, and liens on, all assets of the borrowers and guarantors, other than real property and certain other excluded assets. At June 30, 2021, and December 31, 2020, we had outstanding letters of credit totaling $0.8 million and $0.5 million, respectively, related to our workers' compensation insurance.

Under the terms of our Credit Agreement, available borrowings (exclusive of outstanding borrowings) totaled $115.8 million and $125.8 million at June 30, 2021 and December 31, 2020, respectively. The Credit Agreement requires us to maintain certain financial ratios and other financial covenants; prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales, all subject to certain exceptions and baskets. At June 30, 2021 and December 31, 2020, we were in compliance with all covenants in our Credit Agreement.

Equity Securities

On April 28, 2016, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock in open market transactions. At June 30, 2021 there were 0.4 million shares remaining under this repurchase authorization. If we were to repurchase the remaining 0.4 million shares of stock under the repurchase program, it would cost us approximately $16.1 million based on the closing price of our stock on July 30, 2021. We believe that we have sufficient resources to fund any potential stock buyback in which we may engage.

Dividends

The amounts or timing of any dividends are subject to earnings, financial condition, liquidity, capital requirements and such other factors as our Board of Directors deems relevant. In August 2020, the Board of Directors approved the change of the frequency of dividend payments from semi-annual to quarterly. We declared dividends on our outstanding common shares in 2020 and 2021 as shown in the table below.

Date dividend declared	Record date	Payment date	Dividend per share ($)	
May 7, 2021	May 18, 2021	June 18, 2021	$	0.025
Feb. 15, 2021	Feb. 25, 2021	Mar. 25, 2021	$	0.025
Nov. 6, 2020	Nov. 18, 2020	Dec. 18, 2020	$	0.025
Aug. 6, 2020	Aug. 18, 2020	Sep. 18, 2020	$	0.025
May 8, 2020	May 18, 2020	Jun. 18, 2020	$	0.050

EFFECT OF INFLATION

Inflation affects us in two principal ways. First, our revolving credit agreement is generally tied to the prime and LIBOR interest rates so that increases in those interest rates would be translated into additional interest expense. Second, general inflation impacts prices paid for labor, parts and supplies. Whenever possible, we attempt to cover increased costs of production and capital by adjusting the prices of our products. However, we generally do not attempt to negotiate inflation-based price adjustment provisions into our contracts. Since order lead times can be as much as twelve months, we have limited ability to pass on cost increases to our customers on a short-term basis. In addition, the markets we serve are competitive in nature, and competition limits our ability to pass through cost increases in many cases. We strive to minimize the effect of inflation through cost reductions and improved productivity. Refer to the *Commodities Risk* section in Item 3 of this Form 10-Q, for further information regarding commodity cost fluctuations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are exposed to market risks related to changes in interest rates and the effect of such a change on outstanding variable rate short-term and long-term debt. At June 30, 2021, we had $22.4 million in debt outstanding under our variable rate short-term and long-term debt agreements. An increase of 100 basis points in interest rates would result in additional interest expense of $0.2 million on an annualized basis. We believe that we have sufficient financial resources to accommodate this hypothetical increase in interest rates. We do not enter into market-risk-sensitive instruments for trading or other purposes.

The interest rate charged on our outstanding borrowings pursuant to our credit facility is currently based on LIBOR, as described in Part 1, Item 1, "Note 5 – *Debt*" of this Form 10-Q. Our credit facility provides for the transition to a replacement for LIBOR, and it also provides for an alternative to LIBOR, as described in Part 1, Item 1, "Note 5 – *Debt*" of this Form 10-Q. If LIBOR ceases to exist, our interest expense may increase. It is also possible that the overall financing market may be disrupted as a result of the phase-out or replacement of LIBOR with SOFR or any other reference rate. Increased interest expense and/or disruption in the financial market could have a material adverse effect on our business, financial condition, or results of operations.

Commodities Risk

We are also exposed to changes in the prices of raw materials, primarily steel and aluminum, along with components that are made from these raw materials. We generally do not enter into derivative instruments for the purpose of managing exposures associated with fluctuations in steel and aluminum prices. We do, from time to time, engage in pre-buys of components that are impacted by changes in steel, aluminum and other commodity prices in order to mitigate our exposure to such price increases and align our costs with prices quoted in specific customer orders. We also actively manage our material supply sourcing and may employ various methods to limit risk associated with commodity cost fluctuations due to normal market conditions and other factors including tariffs. See Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part 1, Item 2 of this Form 10-Q for information on the impacts of changes in input costs during the three and six months ended June 30, 2021.

We do not believe that there has been a material change in the nature or categories of the primary market risk exposures or in the particular markets that present our primary risk of loss. As of the date of this report, we do not know of or expect any material changes in the general nature of our primary market risk exposure in the short-term.

Prevailing interest rates, interest rate relationships and commodity costs are primarily determined by market factors that are beyond our control. All information provided in response to this item consists of forward-looking statements. Reference is made to the section captioned "Forward-Looking Statements" before Part I of this Quarterly Report on Form 10-Q for a discussion of the limitations on our responsibility for such statements.

Item 4. Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of June 30, 2021. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer, concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective due to a material weakness in our internal control over financial reporting that was disclosed in the Annual Report on Form 10-K for the year ended December 31, 2020.

Notwithstanding the identified material weakness, management has concluded that the condensed consolidated financial statements included in this Form 10-Q fairly present in all material respects our financial condition, results of operations and cash flows as of and for the periods presented in accordance with U.S. generally accepted accounting principles.

Remediation

We are executing against the remediation plan previously disclosed in the Annual Report on Form 10-K for the year ended December 31, 2020. The material weakness will not be considered remediated until the applicable control operates for a sufficient period of time and management has concluded, through testing, that the control objective is achieved. We are currently tracking to our action plan for remediation of this material weakness prior to the end of fiscal 2021.

Changes in Internal Control over Financial Reporting

In response to the COVID-19 pandemic, we have required certain employees, some of whom are involved in the operation of our internal controls over financial reporting, to work from home. Despite this change and other than the remediation efforts discussed above, there have been no changes in our internal control over financial reporting that occurred during the second quarter of fiscal 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We are continually monitoring and assessing the COVID-19 pandemic on our internal controls to minimize any impact it may have on their design and operating effectiveness.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

We have included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020, a description of certain risks and uncertainties that could affect our business, future performance or financial condition (the “Risk Factors”). There have been no material changes from the disclosure provided in the Form 10-K for the year ended December 31, 2020 with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to our stock.

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

Issuer Purchases of Equity Securities

On April 28, 2016, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock in open market transactions. During the quarter ended June 30, 2021, no shares were repurchased under this authorization.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
April 1 to April 30	11,826	$ 37.76	-	408,994
May 1 to May 31	-	-	-	408,994
June 1 to June 30	9,217	41.02	-	408,994
Total	21,043		-	408,994

(1)This column reflects the number of shares that may yet be purchased pursuant to the April 28, 2016 Board of Directors authorization described above.

During the quarter ended June 30, 2021, 21,043 shares were delivered by associates in satisfaction of tax withholding obligations that occurred upon the vesting of restricted shares.

Item 6. Exhibits.

(a) Exhibits. The following exhibits are filed as a part of this report on Form 10-Q:

Exhibit No.	Document
10.1	Fifth Amendment to Credit Agreement, dated April 20, 2021, by and among the Company and its affiliates, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto.
10.2	Sixth Amendment to Credit Agreement, dated July 16, 2021, by and among the Company and its affiliates, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto.
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit 101)

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.

Date: August 5, 2021	THE SHYFT GROUP, INC.
	By /s/ Jonathan C. Douyard
	Jonathan C. Douyard
	Chief Financial Officer

FIFTH AMENDMENT TO CREDIT AGREEMENT

This FIFTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is dated as of April 20, 2021, and effective in accordance with Section 3 below, by and among THE SHYFT GROUP, INC. (f/k/a SPARTAN MOTORS, INC.) (the "Company"), THE SHYFT GROUP GLOBAL, INC. (f/k/a SPARTAN MOTORS GLOBAL, INC.), UTILIMASTER SERVICES, LLC, THE SHYFT GROUP USA, INC. (f/k/a SPARTAN MOTORS USA, INC.) and FORTRESS RESOURCES, LLC (collectively, with the Company, the "Borrowers"), the Guarantors (as defined in the Credit Agreement referred to below) party hereto, the Lenders referred to below and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association, as administrative agent for the Lenders ("Administrative Agent").

STATEMENT OF PURPOSE:

WHEREAS, the Borrowers, certain financial institutions party thereto (the "Lenders") and the Administrative Agent have entered into that certain Credit Agreement dated as of August 8, 2018 (as amended, restated, supplemented or otherwise modified from time to time prior to the date hereof, the "Existing Credit Agreement", and as amended by this Amendment, the "Credit Agreement");

WHEREAS, the Borrowers have requested, and subject to the terms and conditions set forth herein, the Administrative Agent and the Lenders party hereto have agreed, to amend the Existing Credit Agreement as more specifically set forth herein;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Capitalized Terms. All capitalized undefined terms used in this Amendment (including, without limitation, in the introductory paragraph and the statement of purpose hereto) shall have the meanings assigned thereto in the Credit Agreement (as amended by this Amendment).

Section 2. Amendment to Existing Credit Agreement. Effective as of the Amendment Effective Date (as defined below) and subject to and in accordance with the terms and conditions set forth herein, the parties hereto agree that Section 2.05(a) of the Existing Credit Agreement is amended and restated to read as follows:

> "General. Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Loans to the Borrowers from time to time during the Availability Period, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of outstanding Swingline Loans exceeding $40,000,000, (ii) the sum of the total Revolving Credit Exposures exceeding the total Revolving Credit Commitments, (iii) the aggregate principal amount of outstanding Floorplan Swingline Loans exceeding $35,000,000 (the "Floorplan Swingline Commitment"), and (iv) the aggregate principal amount of outstanding W/C Swingline Loans exceeding $5,000,000; provided that the Swingline Lender shall not be required to make a Swingline Loan to refinance an outstanding Swingline Loan. Notwithstanding anything herein to the contrary, for purposes of determining the amount of the Loans and Letters of Credit that may be made under this Agreement, the Administrative Agent may assume that the aggregate amount of the Swingline Loans made by the Swingline Lender is $40,000,000, absent a written agreement to the contrary among the Company, the Swingline Lender and the Administrative Agent. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrowers may borrow, prepay and re-borrow Swingline Loans."

Section 3. Conditions to Effectiveness. This Amendment shall be deemed to be effective upon the Administrative Agent's receipt of this Amendment duly executed by each of the Borrowers, the Guarantors, the Administrative Agent, the Required Lenders and the Swingline Lenders (such date, the "Amendment Effective Date").

Section 4. Representations and Warranties. By its execution hereof, each Borrower hereby represents and warrants to the Administrative Agent and the Lenders that, as of the date hereof after giving effect to this Amendment:

(a) each of the representations and warranties made by the Borrowers in or pursuant to the Loan Documents is true and correct in all material respects (except to the extent that such representation and warranty is subject to a materiality or Material Adverse Effect qualifier, in which case it shall be true and correct in all respects), in each case, on and as of the date hereof as if made on and as of the date hereof, except to the extent that such representations and warranties relate to an earlier date, in which case such representations and warranties are true and correct in all material respects as of such earlier date;

(b) it has the right and power and is duly authorized and empowered to enter into, execute and deliver this Amendment and to perform and observe the provisions of this Amendment;

(c) this Amendment has been duly authorized and approved by such Borrower's board of directors or other governing body, as applicable, and constitutes a legal, valid and binding obligation of such Borrower, enforceable against such Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law; and

(d) the execution, delivery and performance of this Amendment do not conflict with, result in a breach in any of the provisions of, constitute a default under, or result in the creation of a Lien upon any assets or property of any of the Borrowers, or any of their respective Subsidiaries, under the provisions of, such Borrower's or such Subsidiary's organizational documents or any material agreement to which such Borrower or Subsidiary is a party.

Section 5. Effect of this Amendment. On and after the Amendment Effective Date, references in the Credit Agreement to "this Agreement" (and indirect references such as "hereunder", "hereby", "herein", and "hereof") and in any Loan Document to the "Credit Agreement" shall be deemed to be references to the Credit Agreement as modified hereby. Except as expressly provided herein, the Credit Agreement and the other Loan Documents shall remain unmodified and in full force and effect. Except as expressly set forth herein, this Amendment shall not be deemed (a) to be a waiver of, or consent to, a modification or amendment of, any other term or condition of the Credit Agreement or any other Loan Document, (b) to prejudice any other right or rights which the Administrative Agent or the Lenders may now have or may have in the future under or in connection with the Credit Agreement or the other Loan Documents or any of the instruments or agreements referred to therein, as the same may be amended, restated, supplemented or otherwise modified from time to time, (c) to be a commitment or any other undertaking or expression of any willingness to engage in any further discussion with the Borrowers or any other Person with respect to any waiver, amendment, modification or any other change to the Credit Agreement or the Loan Documents or any rights or remedies arising in favor of the Lenders or the Administrative Agent, or any of them, under or with respect to any such documents or (d) to be a waiver of, or consent to or a modification or amendment of, any other term or condition of any other agreement by and among the Loan Parties, on the one hand, and the Administrative Agent or any other Lender, on the other hand.

Section 6. Costs and Expenses. The Borrowers hereby reconfirm their obligations pursuant to Section 9.03 of the Credit Agreement to pay and reimburse the Administrative Agent and its Affiliates in accordance with the terms thereof.

Section 7. Acknowledgments and Reaffirmations. Each Loan Party (a) consents to this Amendment and agrees that the transactions contemplated by this Amendment shall not limit or diminish the obligations of such Person under, or release such Person from any obligations under, any of the Loan Documents to which it is a party, (b) confirms and reaffirms its obligations under each of the Loan Documents to which it is a party and (c) agrees that each of the Loan Documents to which it is a party remains in full force and effect and is hereby ratified and confirmed.

Section 8. Governing Law. This Amendment shall be governed by, and construed in accordance with, the law of the State of New York.

Section 9. Counterparts. This Amendment may be executed in any number of counterparts, and by different parties hereto in separate counterparts and by facsimile signature, each of which counterparts when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

Section 10. Electronic Transmission. Delivery of this Amendment by facsimile or pdf shall be effective as delivery of a manually executed counterpart hereof; provided that, upon the request of any party hereto, such facsimile or pdf shall be promptly followed by the original thereof.

Section 11. Entire Agreement. This Amendment is the entire agreement, and supercedes any prior agreements and contemporaneous oral agreements, of the parties concerning its subject matter. This Amendment is a Loan Document and is subject to the terms and conditions of the Credit Agreement.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date and year first above written.

BORROWERS:

THE SHYFT GROUP, INC.
THE SHYFT GROUP GLOBAL, INC.
UTILIMASTER SERVICES, LLC
THE SHYFT GROUP USA, INC.
FORTRESS RESOURCES, LLC

By: /s/ Jonathan C. Douyard
Name: Jonathan C. Douyard
Title: Treasurer

GUARANTORS:

THE SHYFT GROUP UPFIT SERVICES, INC.
THE SHYFT GROUP GTB, LLC
ROYAL AT MCCLELLAN PARK LLC
THE SHYFT GROUP DURAMAG LLC

By: /s/ Jonathan C. Douyard
Name: Jonathan C. Douyard
Title: Treasurer

ADMINISTRATIVE AGENT AND LENDERS:

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, a Swingline Lender, an Issuing Bank and Lender

By: /s/ Dustin Sentz
Name: Dustin Sentz
Title: Vice President

The Shyft Group, Inc.
Fifth Amendment to Credit Agreement
Signature Page

JPMORGAN CHASE BANK, N.A., as Lender

By: /s/ Michael Hall
Name: Michael Hall
Title: Authorized Officer

PNC BANK, NATIONAL ASSOCIATION, as Lender

By: /s/ Scott Neiderheide
Name: Scott Neiderheide
Title: Senior Vice President

Execution Version

SIXTH AMENDMENT TO CREDIT AGREEMENT

This SIXTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is dated as of July 16, 2021, and effective in accordance with Section 3 below, by and among THE SHYFT GROUP, INC. (f/k/a SPARTAN MOTORS, INC.) (the "Company"), THE SHYFT GROUP GLOBAL, INC. (f/k/a SPARTAN MOTORS GLOBAL, INC.), UTILIMASTER SERVICES, LLC, THE SHYFT GROUP USA, INC. (f/k/a SPARTAN MOTORS USA, INC.) and FORTRESS RESOURCES, LLC (collectively, with the Company, the "Borrowers"), the Guarantors (as defined in the Credit Agreement referred to below) party hereto, the Lenders referred to below and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association, as administrative agent for the Lenders ("Administrative Agent").

STATEMENT OF PURPOSE:

WHEREAS, the Borrowers, certain financial institutions party thereto (the "Lenders") and the Administrative Agent have entered into that certain Credit Agreement dated as of August 8, 2018 (as amended, restated, supplemented or otherwise modified from time to time prior to the date hereof, the "Existing Credit Agreement", and as amended by this Amendment, the "Credit Agreement");

WHEREAS, the Borrowers have requested, and subject to the terms and conditions set forth herein, the Administrative Agent and the Lenders party hereto have agreed, to amend the Existing Credit Agreement as more specifically set forth herein;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Capitalized Terms. All capitalized undefined terms used in this Amendment (including, without limitation, in the introductory paragraph and the statement of purpose hereto) shall have the meanings assigned thereto in the Credit Agreement (as amended by this Amendment).

Section 2. Amendment to Existing Credit Agreement. Effective as of the Amendment Effective Date (as defined below) and subject to and in accordance with the terms and conditions set forth herein, the parties hereto agree that:

(a) Section 1.01 of the Existing Credit Agreement is amended to insert the following new definitions in the appropriate alphabetical order therein to read as follows:

""Permitted Receivables Sale Transaction" means customary invoice discounting, receivables sale transactions or similar arrangements consistent with industry practice involving the sale of Receivables that is structured as a "true sale", without recourse to the Borrowers and their Subsidiaries (except for customary representations, warranties, covenants and indemnities made in connection therewith or as is otherwise customary (as determined by the Company in good faith) for such transactions and does not provide recourse to any Borrower and its Subsidiaries for credit risk of the account parties on such Receivable), to a counterparty pursuant to an accelerated payment program that is not entered into as part of an accounts receivable securitization transaction or any revolving credit or term loan financing transaction and that provides for payment to any Borrower or one of its Subsidiaries on account of such Receivables prior to the date that such Receivables would otherwise be due; provided that (a) the portion of the purchase price with respect to any Receivable that must be paid in cash shall not be less than 96% (or such lesser percentage as the Administrative Agent may reasonably determine) of the original invoiced amount of such Receivable, (b) such arrangement shall be on arm's length terms that are fair and reasonable to the Borrowers and their Subsidiaries (as determined in good faith by the Company) and (c) the aggregate book value of all Receivables that have been sold (or otherwise subjected to such arrangement) by the Borrowers and their Subsidiaries and that remain outstanding shall not at any time exceed $10,000,000.

"Receivables" means accounts receivable of the Company or any of its Subsidiaries arising in the ordinary course of business from the sale of goods or services, including any thereof constituting or evidenced by chattel paper, instruments, accounts (as defined in the UCC) or general intangibles, and all proceeds thereof and rights (contractual and other) and collateral (including all general intangibles, documents, instruments and records) related thereto that are customarily transferred in connection with a receivables facility or similar monetization of such assets."

(b) Section 2.05(a) of the Existing Credit Agreement is amended and restated to read as follows:

"General. Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Loans to the Borrowers from time to time during the Availability Period, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of outstanding Swingline Loans exceeding $10,000,000, (ii) the sum of the total Revolving Credit Exposures exceeding the total Revolving Credit Commitments, (iii) the aggregate principal amount of outstanding Floorplan Swingline Loans exceeding $5,000,000 (the "Floorplan Swingline Commitment"), and (iv) the aggregate principal amount of outstanding W/C Swingline Loans exceeding $5,000,000; provided that the Swingline Lender shall not be required to make a Swingline Loan to refinance an outstanding Swingline Loan. Notwithstanding anything herein to the contrary, for purposes of determining the amount of the Loans and Letters of Credit that may be made under this Agreement, the Administrative Agent may assume that the aggregate amount of the Swingline Loans made by the Swingline Lender is $10,000,000, absent a written agreement to the contrary among the Company, the Swingline Lender and the Administrative Agent. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrowers may borrow, prepay and re-borrow Swingline Loans."

(c) Section 6.01 of the Existing Credit Agreement is amended to delete "and" at the end of clause (h), re-letter existing clause (i) to clause (j), and to insert a new clause (i) to read as follows:

"(i) Indebtedness incurred in the ordinary course of business owing to a Manufacturer, or any other manufacturer of motor vehicles approved by the Administrative Agent in writing, to finance the acquisition by a Borrower or its Subsidiaries of Vehicles pursuant to a customary floorplan arrangement (such arrangement, a "Floorplan Arrangement") in an aggregate principal amount not exceeding $30,000,000 at any time outstanding; and"

(d) Section 6.02 of the Existing Credit Agreement is amended to delete "and" at the end of clause (e), re-letter existing clause (f) to clause (h), and to insert new clauses (f) and (g) to read as follows:

> "(f) Liens on Vehicles and any assets related thereto that are customarily subject to a Lien pursuant to a Floorplan Arrangement (as determined by the applicable Borrower in good faith) securing Indebtedness permitted under Section 6.01(i); provided that (i) the Indebtedness secured thereby does not exceed the cost of acquiring such Vehicles and related assets and (ii) such security interests shall not apply to any other property or assets of any Borrower or any Subsidiary;
>
> (g) Liens on Receivables incurred in connection with any Permitted Receivables Sale Transaction; and"

(e) Section 6.08 of the Existing Credit Agreement is amended to replace "and" at the end of clause (iv) with a comma, insert "and" at the end clause (v), and to insert a new clause (vi) to read as follows:

> "(vi) the foregoing shall not apply to customary restrictions contained in documentation governing a Permitted Receivables Sale Transaction."

(f) Section 6.09 of the Existing Credit Agreement is amended to delete "and" at the end of clause (i), re-letter existing clause (j) to clause (k), and to insert a new clause (j) to read as follows:

> "(j) the sale of Receivables prior to their stated due dates in connection with Permitted Receivable Sale Transactions; and"

(g) Section 8.09(a)(i) of the Existing Credit Agreement is amended to delete "or" at the end of clause (B), re-letter existing clause (C) to clause (D), and to insert a new clause (C) to read as follows:

> "(C) on Receivables that are sold as part of any Permitted Receivables Sale Transaction or"

(h) Section 8.09(a)(ii) of the Existing Credit Agreement is amended and restated to read as follows:

> "to release or subordinate any Lien on any Collateral granted to or held by the Administrative Agent under any Loan Document to the holder of any Lien permitted pursuant to Section 6.02(d) or Section 6.02(f); and"

Section 3. Conditions to Effectiveness. This Amendment shall be deemed to be effective upon the Administrative Agent's receipt of this Amendment duly executed by each of the Borrowers, the Guarantors, the Administrative Agent and the Required Lenders (such date, the "Amendment Effective Date").

Section 4. Representations and Warranties. By its execution hereof, each Borrower hereby represents and warrants to the Administrative Agent and the Lenders that, as of the date hereof after giving effect to this Amendment:

(a) each of the representations and warranties made by the Borrowers in or pursuant to the Loan Documents is true and correct in all material respects (except to the extent that such representation and warranty is subject to a materiality or Material Adverse Effect qualifier, in which case it shall be true and correct in all respects), in each case, on and as of the date hereof as if made on and as of the date hereof, except to the extent that such representations and warranties relate to an earlier date, in which case such representations and warranties are true and correct in all material respects as of such earlier date;

(b) it has the right and power and is duly authorized and empowered to enter into, execute and deliver this Amendment and to perform and observe the provisions of this Amendment;

(c) this Amendment has been duly authorized and approved by such Borrower's board of directors or other governing body, as applicable, and constitutes a legal, valid and binding obligation of such Borrower, enforceable against such Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law;

(d) the execution, delivery and performance of this Amendment do not conflict with, result in a breach in any of the provisions of, constitute a default under, or result in the creation of a Lien upon any assets or property of any of the Borrowers, or any of their respective Subsidiaries, under the provisions of, such Borrower's or such Subsidiary's organizational documents or any material agreement to which such Borrower or Subsidiary is a party; and

(e) no Unmatured Default or Event of Default has occurred and is continuing as of the date of this Amendment or will exist after giving effect to this Amendment.

Section 5. Effect of this Amendment. On and after the Amendment Effective Date, references in the Credit Agreement to "this Agreement" (and indirect references such as "hereunder", "hereby", "herein", and "hereof") and in any Loan Document to the "Credit Agreement" shall be deemed to be references to the Credit Agreement as modified hereby. Except as expressly provided herein, the Credit Agreement and the other Loan Documents shall remain unmodified and in full force and effect. Except as expressly set forth herein, this Amendment shall not be deemed (a) to be a waiver of, or consent to, a modification or amendment of, any other term or condition of the Credit Agreement or any other Loan Document, (b) to prejudice any other right or rights which the Administrative Agent or the Lenders may now have or may have in the future under or in connection with the Credit Agreement or the other Loan Documents or any of the instruments or agreements referred to therein, as the same may be amended, restated, supplemented or otherwise modified from time to time, (c) to be a commitment or any other undertaking or expression of any willingness to engage in any further discussion with the Borrowers or any other Person with respect to any waiver, amendment, modification or any other change to the Credit Agreement or the Loan Documents or any rights or remedies arising in favor of the Lenders or the Administrative Agent, or any of them, under or with respect to any such documents or (d) to be a waiver of, or consent to or a modification or amendment of, any other term or condition of any other agreement by and among the Loan Parties, on the one hand, and the Administrative Agent or any other Lender, on the other hand.

Section 6. Costs and Expenses. The Borrowers hereby reconfirm their obligations pursuant to Section 9.03 of the Credit Agreement to pay and reimburse the Administrative Agent and its Affiliates in accordance with the terms thereof.

Section 7. Acknowledgments and Reaffirmations. Each Loan Party (a) consents to this Amendment and agrees that the transactions contemplated by this Amendment shall not limit or diminish the obligations of such Person under, or release such Person from any obligations under, any of the Loan Documents to which it is a party, (b) confirms and reaffirms its obligations under each of the Loan Documents to which it is a party and (c) agrees that each of the Loan Documents to which it is a party remains in full force and effect and is hereby ratified and confirmed.

Section 8. Governing Law. This Amendment shall be governed by, and construed in accordance with, the law of the State of New York.

Section 9. Counterparts. This Amendment may be executed in any number of counterparts, and by different parties hereto in separate counterparts and by facsimile signature, each of which counterparts when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

Section 10. Electronic Transmission. Delivery of this Amendment by facsimile or pdf shall be effective as delivery of a manually executed counterpart hereof; provided that, upon the request of any party hereto, such facsimile or pdf shall be promptly followed by the original thereof.

Section 11. Entire Agreement. This Amendment is the entire agreement, and supercedes any prior agreements and contemporaneous oral agreements, of the parties concerning its subject matter. This Amendment is a Loan Document and is subject to the terms and conditions of the Credit Agreement.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date and year first above written.

BORROWERS:

THE SHYFT GROUP, INC.
THE SHYFT GROUP GLOBAL, INC.
UTILIMASTER SERVICES, LLC
THE SHYFT GROUP USA, INC.
FORTRESS RESOURCES, LLC

By: /s/ Jonathan C. Douyard
Name: Jonathan C. Douyard
Title: Treasurer

GUARANTORS:

THE SHYFT GROUP UPFIT SERVICES, INC.
THE SHYFT GROUP GTB, LLC
ROYAL AT MCCLELLAN PARK LLC
THE SHYFT GROUP DURAMAG LLC

By: /s/ Jonathan C. Douyard
Name: Jonathan C. Douyard
Title: Treasurer

ADMINISTRATIVE AGENT AND LENDERS:

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, a Swingline Lender, an Issuing Bank and Lender

By: /s/ Dustin Sentz
Name: Dustin Sentz
Title: Vice President

JPMORGAN CHASE BANK, N.A., as Lender

By: /s/ Michael Hall
Name: Michael Hall
Title: Authorized Officer

PNC BANK, NATIONAL ASSOCIATION, as Lender

By: /s/ Scott Neiderheide
Name: Scott Neiderheide
Title: Senior Vice President

EXHIBIT 31.1

CERTIFICATION

I, Daryl M. Adams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Shyft Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

/s/ Daryl M. Adams
Daryl M. Adams
President and Chief Executive Officer
The Shyft Group, Inc.

EXHIBIT 31.2

CERTIFICATION

I, Jonathan C. Douyard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Shyft Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

/s/ Jonathan C. Douyard
Jonathan C. Douyard
Chief Financial Officer
The Shyft Group, Inc.

EXHIBIT 32

CERTIFICATION

Each of the undersigned hereby certifies in his capacity as an officer of The Shyft Group, Inc. (the "Company"), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that:

1. The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2021 (the "Report") fully complies with the requirements of Section 13(a) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition at the end of such period and results of operations of the Company for such period.

Dated: August 5, 2021

/s/ Daryl M. Adams
Daryl M. Adams
President and Chief Executive Officer

Dated: August 5, 2021

/s/ Jonathan C. Douyard
Jonathan C. Douyard
Chief Financial Officer