

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 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**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**38-2078923**  
(I.R.S. Employer Identification No.)

**41280 Bridge Street**  
**Novi, Michigan**  
(Address of Principal Executive Offices)

**48375**  
(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on which Registered</u>
Common Stock	SHYF	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Securities Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, based on the last sales price of such stock on NASDAQ Global Select Market on June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter: \$1,293,553,553

The number of shares outstanding of the registrant's Common Stock as of February 14, 2022: 35,002,115 shares

**Documents Incorporated by Reference**

Portions of the definitive proxy statement for the registrant's May 18, 2022 annual meeting of shareholders, to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2021 are incorporated by reference in Part III.

## FORWARD-LOOKING STATEMENTS

This Form 10-K contains some statements that are not historical facts. These statements are called “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements involve important known and unknown risks, uncertainties and other factors and generally can be identified by phrases using “estimate,” “anticipate,” “believe,” “project,” “expect,” “intend,” “predict,” “potential,” “future,” “may,” “will,” “should” or similar expressions or words. 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 Item 1A below, “Risk Factors”, as well as risk factors that we have discussed in previous public reports and other documents filed with the Securities and Exchange Commission. The list in Item 1A below includes the primary risks our management believes could materially affect the potential results described by forward-looking statements contained in this Form 10-K. 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-K 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-K 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-K is filed with the Securities and Exchange Commission.

### Trademarks and Service Marks

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business. Solely for convenience, some of the copyrights, trademarks, service marks and trade names referred to in this Annual Report on Form 10-K are listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to our copyrights, trademarks, service marks, trade names and domain names. The trademarks, service marks and trade names of other companies appearing in this Annual Report on Form 10-K are, to our knowledge, the property of their respective owners.

PART I

Item 1. **Business.**

**General**

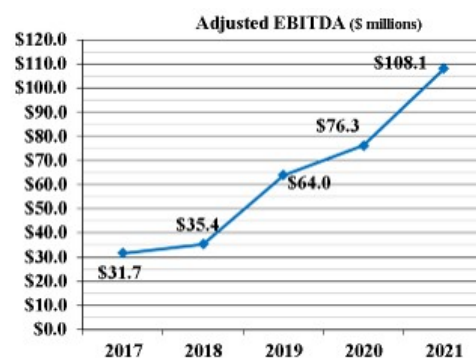
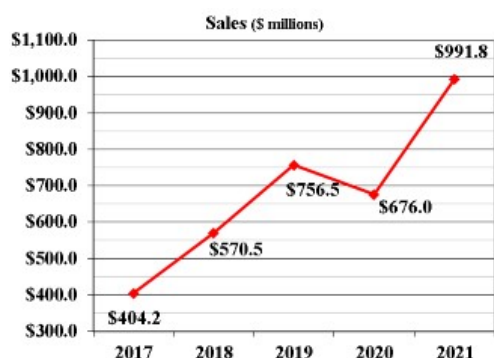
As used herein, the term “Company”, “we”, “us” or “our” refers to The Shyft Group, Inc. and its subsidiaries unless designated or identified otherwise.

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, Charlotte, and Plymouth, Michigan; Bristol, Indiana; Waterville, Maine; Landisville, Pennsylvania; North Charleston, South Carolina; Pompano Beach and West Palm Beach, Florida; Kansas City, Missouri; Carson, McClellan Park, and Montebello, 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 cyclicalities. 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 provides agility 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 growing opportunities that we have capitalized on in last mile delivery as a result of the rapidly changing e-commerce market is an excellent example of our ability to generate growth and profitability by quickly fulfilling customer needs.

**Performance Overview**

Unless noted otherwise, the data in this Form 10-K reflects our continuing operations and, therefore, excludes the performance of our prior ERV business. Over the past five years our sales have increased by \$587.6 million, a compound annual growth rate (CAGR) of 25.2%, while income from continuing operations has grown by \$52.5 million, a CAGR of 41.4%, and Adjusted EBITDA has grown by \$76.4 million, a CAGR of 35.9%. Please see the reconciliation of income from continuing operations to Adjusted EBITDA near the end of Item 1 of this Form 10-K.



**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"). As of October 1, 2021, the composition of both reportable segments changed due to an internal reorganization as certain businesses previously managed and reported within FVS are now a part of SV. Corresponding items of segment information for earlier periods have been recast. For certain financial information related to each segment, see "Note 17 – Business Segments" of the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K. Sales by segment are as follows:



**Fleet Vehicles and Services Segment**

We manufacture commercial vehicles used in the e-commerce/last mile/parcel delivery, beverage and grocery delivery, laundry and linen, mobile retail, and trades and construction industries through our Bristol, Indiana; Landisville, Pennsylvania; North Charleston, South Carolina; and Charlotte, Michigan locations. Our commercial vehicles are marketed under the Utilimaster brand name, which serves a diverse customer base and sells aftermarket parts and accessories for walk-in vans and other delivery vehicles. We also provide vocation-specific equipment upfit services, which are marketed and sold as Utilimaster Upfit Services, through our manufacturing operations in Kansas City, Missouri; North Charleston, South Carolina; and Saltillo, Mexico. Our Fleet Vehicles and Services segment employed approximately 2,100 employees and 400 contractors as of December 31, 2021.

We offer fleet vehicles in Gross Vehicle Weight Rating ("GVWR") Class 1 through Class 7, the largest range of product offerings amongst our competitors.



**Innovation**

Our Solution Experts employ a customer-centric approach by working with customers through a process of listening and learning, needs assessment, and design innovation through building and implementing solutions designed with our customers and their end customers in mind. Recent innovations implemented by our Solution Experts include innovative and cost saving solutions for the specialty service segment, utility industry, food and beverage delivery, and mobile retail industry, such as safe loading equipment, keyless entry and cargo access systems, backup camera systems, and refrigeration solutions. Our teams can deliver product customization ranging from out-of-the-box to 100% custom solutions, based on customer needs and business requirements.

Recent innovations launched by the product development team include a new walk-in-van format, named the Velocity. Available in GVWR Class 2 and Class 3 designs, the Velocity lineup spans multiple OEM chassis formats to accommodate buyer preference and to increase manufacturing and distribution scale, as Utilmaster build operations are aligned with OEM chassis manufacturing.

## **Products**



### *Walk-in Vans*

Assembled on a de-contented or “stripped” truck chassis supplied with engine and drive train components, our walk-in vans are used across a variety of vocations for multiple delivery and mobile service options. The vehicles feature a durable and lightweight aluminum body with a highly modularized cargo area, featuring extensive driver ergonomics options and a low step-in height for easy entry and egress.



### *Truck Bodies*

Utilmaster dry van truck bodies are the industry standard for heavy-duty commercial delivery and are installed on chassis from a variety of manufacturers, which are supplied with a finished cab. They feature a highly customizable cargo area for maximum versatility and are manufactured with anti-rust galvanized steel and aluminum component parts. Available with cargo lengths from 10 to 28 feet and interior heights ranging from 72 to 108 inches.



### *Cutaway*

Utilmaster cutaway truck bodies are the industry standard for medium-duty commercial delivery and are installed on chassis from a variety of manufacturers that are supplied with a finished cab. The highly configurable design can be configured with a set-back walk-through bulkhead allowing access to the cargo area from the cab. Available with cargo lengths from 10 to 18 feet and interior heights ranging from 72 to 90 inches.



### *Velocity®*

A nimble, fuel efficient, and ergonomically designed walk-in van lineup built on commercial cargo van chassis across OEMs is designed to combine the cargo capacity of a traditional walk-in-van with the drivability of a smaller format vehicle. The Velocity lineup makes large product/package deliveries easy, with lower entry/egress height and 3-point grab rails at side and rear doors, and comfortable safe seats. Economical to operate, the Velocity features a total cost of ownership about half that of a traditional walk-in van.



### *Specialty Upfit*

We install specialty interior and exterior upfit equipment for walk-in vans, truck bodies, cargo vans, and light duty pick-up trucks for added safety, cargo handling efficiency, and vocational functionality.



### *Parts and Accessories*

We provide a full line of parts and accessories for our walk-in vans and truck bodies.

## **Marketing**

We market our commercial vehicles, including walk-in vans, cutaway vans, and truck bodies, under the Aeromaster®, Velocity, Trademaster®, and Utilivan® product brand names. We sell our fleet vehicles to leasing companies, national and fleet accounts (national accounts typically have 1,000+ vehicle fleets and fleet accounts typically have 100+ vehicle fleets), and through a network of independent truck dealers in the U.S. and Canada. We also market our truck bodies direct to retail customers in select markets. We provide aftermarket support, including parts sales and field services, to all of our fleet vehicle customers through our Customer Service Department located in Bristol, Indiana.

## **Manufacturing**

We have implemented the Shyft Production System, lean manufacturing and continuous improvement in all of our fleet vehicle facilities in order to maximize efficiency and reduce costs. We manufacture walk-in vans at our Bristol, Indiana facility and truck bodies at our Landisville, Pennsylvania; and Kansas City, Missouri facilities. We have facilities at North Charleston, South Carolina; Kansas City, Missouri; and Saltillo, Mexico aligned with our commercial and OEM customers for the installation of upfit equipment. Our walk-in vans and truck bodies are manufactured on non-automated assembly lines utilizing a combination of high-skilled tradespeople and assemblers. Our upfit facilities utilize teams of workers requiring minimal capital investment for efficient and timely installation of a variety of equipment.

## **Specialty Vehicles Segment**

Our Specialty Vehicles segment includes our Spartan RV chassis and Builtmore Contract Manufacturing out of our Charlotte, Michigan facility where we engineer and manufacture luxury Class A diesel motorhome chassis, provide contract assembly of specialty vehicles and other commercial vehicles, and distribute related aftermarket parts and accessories under the Spartan RV Chassis and Builtmore Contract Manufacturing brand names. Our service truck bodies operations include locations in Carson, McClellan Park, and Montebello, California; Mesa, Arizona; Dallas and Weatherford, Texas; and Waterville, Maine. We also provide vocation-specific equipment upfit services, which are marketed and sold under the Strobes-R-U's brand, through our manufacturing operations in Pompano and West Palm Beach, Florida. Our specialty vehicle products are manufactured to customer specifications upon receipt of confirmed purchase orders. As a specialty chassis and vehicle manufacturer, we believe we hold a unique position for continued growth due to the high quality and performance of our products, our proactive engineering, manufacturing expertise and flexibility, and the scalability of our operations. Our specialty vehicle products are generally sold through original equipment manufacturers in the case of chassis and vehicles and to dealers, distributors or directly to consumers for truck bodies and aftermarket parts and accessories. The Specialty Vehicles segment employed approximately 1,100 employees and less than 100 contractors as of December 31, 2021.

## **Innovation**

Through trade shows and motorhome rallies, we talk with a wide variety of motorhome owners to identify needs and bring our customers the latest technology and highest quality in our motorhome and specialty chassis. Recent innovations to our motorhome chassis include: custom tuned suspensions, independent front suspension, and passive steer tag axle that greatly improve ride, handling and maneuverability; adaptive cruise control, collision mitigation, electronic stability control and lane departure warning to improve safety; and automatic air leveling that adds convenience and functionality to top line motorhomes. We also support trade shows, OEM and dealer events to promote our truck body products and upfit services. We continue to expand our product portfolio and execute innovations in that segment.

## **Products**



### *Motorhome Chassis*

We custom manufacture diesel chassis for luxury Class A motorhomes to the individual specifications of our motorhome OEM customers under the Spartan RV Chassis brand name. These specifications vary based on specific interior and exterior design specifications, gross vehicle weight, horsepower, and electrical needs of the motor home bodies to be attached to our chassis. Our motorhome chassis feature diesel engines of 360 to 605 horsepower and are used in motor homes ranging from 37 to 45 feet. Our motorhome chassis are separated into four models: the K1, K2, K3, and K4 series chassis.



#### *Contract Manufacturing*

We provide final assembly services for Isuzu N-gas and F-series chassis for the North American market under the Builtmore Contract Manufacturing brand name. These class 3 and class 5 chassis are utilized in a variety of final configurations for light duty freight hauling and industrial uses. We have a cost effective, flexible and a highly skilled team of assembly workers and management, which, along with a dedication to lean manufacturing and continuous improvement, allow us to deliver superior quality and value in contract manufacturing.



#### *Service Truck Bodies*

We manufacture and assemble truck bodies for a variety of trades and vocations. Those body configurations include service bodies, stake bodies, contractor bodies, dump/landscape bodies and vocational dry freight bodies under the Royal Truck Body and DuraMag brand names.



#### *Specialty Upfit*

We design and install custom lighting and upfit solutions to meet the unique needs of the fleet industries including a range of specialty industries such as law enforcement, Department of Transportation, security companies, and providers of funeral, towing, and utility services. We provide durable, reliable, and high-quality product installations for any vehicle requiring specialty exterior and interior accessory upfits.



#### *Parts and Accessories*

We provide truck accessories under our Magnum brand and provide a full line of parts and accessories as well as maintenance and repair services for our motorhome and specialty chassis.

### **Marketing**

We sell our Class A diesel motorhome chassis to OEMs for use in the manufacturing of premium motor homes. We actively participate in a variety of trade shows and motor home rallies that promote our products and aftermarket parts and services in addition to providing an opportunity to communicate with our end customers to showcase our latest innovations and identify needs and opportunities for continuous improvement of our chassis. We sell our service truck bodies through a commercial dealer network and through OEM pools, and we actively participate in a variety of regional and national trade shows that promote our products. We also provide vocation-specific equipment upfit services, which are marketed and sold under the Stobes-R-Us brand.

### **Manufacturing**

Our motorhome chassis, service truck body, and specialty manufacturing operations employ the Shyft Production System, lean manufacturing, and continuous improvement to bring efficiency and cost reduction throughout our Specialty Vehicles segment. We engineer, manufacture, and assemble Spartan RV chassis, as well as other specialty vehicles on non-automated assembly lines. We assemble both the Isuzu N- and F-series chassis on high-volume assembly lines that utilize a variety of state-of-the-art automation and testing equipment. Our upfit facilities utilize teams of workers requiring minimal capital investment for efficient and timely installation of a variety of equipment.

### **Competition**

The principal methods we use to build competitive advantages include short engineering reaction time, custom design capability, high product quality, superior customer service and quick delivery. We employ a solutions-based approach to offer specialized products tailored to customer needs across the spectrum of our products. We compete with companies that manufacture for similar markets, including some divisions of large diversified organizations that have total sales and financial resources exceeding ours. Our competition in the fleet vehicle market ranges from one large manufacturer in the walk-in van market to a number of smaller manufacturers in the truck body and equipment upfit markets. Our competitors in the specialty vehicle market are principally large multi-product line manufacturers of specialty and heavy-duty vehicles. In addition to established mature competitors, we also face competition from new market entrants including technology companies.

## **Suppliers**

We are dedicated to establishing long-term and mutually beneficial relationships with our suppliers. Through these relationships, we benefit from new innovations, higher quality, reduced lead times, smoother/faster manufacturing ramp-up of new vehicle introductions and lower total costs of doing business. Our accelerating growth and company-wide supply chain management initiatives allow us to benefit from economies of scale and maximize focus on a common vision.

The single largest commodity directly utilized in production is aluminum, which we purchase under purchase agreements based on forecasted production requirements. To a lesser extent we are dependent upon suppliers of lumber, fiberglass and steel for our manufacturing. We have initiated long-term supplier agreements and are consolidating suppliers where beneficial to gain pricing advantages. There are several readily available sources for the majority of these raw materials. However, we are heavily dependent on specific component part products from a few single source vendors. We maintain a qualification, on-site inspection, assistance, and performance measurement system to control risks associated with reliance on suppliers. We normally do not carry inventories of such raw materials or components in excess of those reasonably required to meet production and shipping schedules. Material and component cost increases are passed on to our customers whenever possible. There can be no assurance that there will not be any supply issues over the long-term.

In the assembly of certain of our vehicles, we use chassis supplied by third parties, and we generally do not purchase these chassis for inventory. For this market, we typically accept shipment of truck chassis owned by dealers or end users, for the purpose of installing and/or manufacturing our specialized commercial vehicles on such chassis, but from time to time we do purchase chassis for use in fulfilling certain customer orders.

## **Research and Development**

Our success depends on our ability to innovate and add new products and features ahead of changing market demands and new regulatory requirements. Thus, we emphasize research and development and commit significant resources to develop and adapt new products and production techniques. Our engineering team is looking past “current practices” and “best practices” to deliver “next practices” for our customers and shareholders. Our engineering group’s goal throughout the company: to deliver world class products and manufacturing processes regardless of product line or location. Results are accomplished with the appropriate blend of predictive analysis and physical property testing in our Research and Development facilities along with ride-and-drive analysis. Our efforts range from executing special orders for current production; to new production development for new functionality and product improvements; to exciting technologies that are new to the markets we serve, like vehicle electrification. Our engineering actions are driven by our firm commitment to safety, quality, delivery, and productivity. We spent \$8.5 million, \$4.4 million, and \$4.9 million on research and development in 2021, 2020, and 2019, respectively.

During 2021, Shyft Innovations, our dedicated mobility research and development team, unveiled plans to bring to market an all-electric purpose-built Class 3 chassis platform designed to serve a wide array of medium-duty truck markets, from last mile parcel delivery fleets to work trucks, passenger busses, recreational vehicles, and more. The EV-powered chassis will feature customizable length and wheelbase, making it well suited for a variety of vehicle types. The chassis’ modular design can accommodate multiple GVWR 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.

## **Product Warranties**

We provide limited warranties against assembly and construction defects. These warranties generally provide for the replacement or repair of defective parts or workmanship for specified periods, ranging from one year to twenty years, following the date of sale. With the use of validation testing, predictive analysis tools and engineering and design standards, we strive to continuously improve product quality and durability, and reduce our exposure to warranty claims. The end users also may receive limited warranties from suppliers of components that are incorporated into our chassis and vehicles. For more information concerning our product warranties, see “Note 11 – *Commitments and Contingent Liabilities*” of the Notes to Consolidated Financial Statements in Item 8 appearing in this Form 10-K.



### **Patents, Trademarks and Licenses**

We have 17 United States patents, which include rights to the design and structure of chassis and certain peripheral equipment and we have 18 pending patent applications in the United States. The existing patents will expire on various dates from 2025 through 2040 and utility patents are subject to payment of required maintenance fees. We also own or license 84 federal and international trademark and service mark registrations. The trademark and service mark registrations are generally renewable under applicable laws, subject to payment of required fees and the filing of affidavits of use. In addition, we have various pending trademark applications.

Our products and services are identified by our trademarks and service marks. Our trademarks and service marks are valuable assets to both of our business segments. We are not aware of any infringing uses or any prior claims of ownership of our trademarks that could materially affect our business. It is our policy to pursue registration of our primary marks whenever possible and to vigorously defend our patents, trademarks and other proprietary marks against infringement or other threats to the extent practicable under applicable laws.

### **Human Capital Management**

We believe people are the most critical component in our continued success, and we strive to attract high-performing talent. As of December 31, 2021, we employed approximately 3,800 employees and contractors. Approximately 13% of our total workforce consists of contractors, including all personnel at our Saltillo, Mexico operation. Compared to 2020, we decreased the percentage of contractors in our workforce by approximately 50%. This decrease reflected a strategic change in our talent acquisition strategy of direct hiring instead of contract relationships. Of our total workforce, 92% reside in the United States, with the remaining 8% in Mexico. Our production processes leverage a combination of skilled tradespeople and high-touch assemblers working in body, electrical, mechanical, paint, and assembly operations. As a team, our employees and contractors put the Company's core values into action, while executing on key growth initiatives to maintain long-term sustainable growth. We strive to create a workplace of choice to attract, retain, and develop top talent to achieve our vision and deliver shareholder results.

In our locations, we compete with many local companies for talent. We have implemented talent strategies and market competitive wages and benefits to support talent acquisition and retention. In addition to these actions, we have implemented employee surveys and focus groups that encourage our employees to share their opinions and feedback on the culture of our company. The results of the survey are analyzed and measured to learn how we can enhance and accelerate improvements in the attraction and retention in a difficult talent environment.

We adhere to a philosophy that includes, among other things, commitments to create ongoing job opportunities, pay fair wages, and protect worker health and safety. Fundamental to these commitments are our Company's core values of honesty and integrity, accountability, trust, and performance excellence. Management considers relations with the Company's workforce to be positive.

### **Compensation and Benefits**

We believe the structure of our compensation packages provides the appropriate incentives to attract, retain and motivate our employees. We provide base pay that is competitive and that aligns with employee positions, skill levels, experience and geographic location. In addition to base pay, we seek to reward employees with incentive awards, recognition programs, educational opportunities, paid time off, and equity awards for employees at certain roles.

### **Diversity and Inclusion**

We value and advance the diversity and inclusion of the people with whom we work. We are committed to equal opportunity and are intolerant of discrimination and harassment. We work to maintain workplaces that are free from discrimination or harassment on the basis of race, sex, color, national or social origin, ethnicity, religion, age, disability, sexual orientation, gender identification or expression, political opinion or any other status protected by applicable law.

The basis for recruitment, hiring, placement, development, training, compensation and advancement at the Company includes qualifications, performance, skills and experience.

We do not tolerate disrespectful or inappropriate behavior, unfair treatment or retaliation of any kind. Harassment is not tolerated in the workplace and in any work-related circumstance outside the workplace.

### COVID-19 Health Measures

In response to the COVID-19 pandemic, we implemented measures to help ensure the health, safety and security of our employees, while constantly monitoring the rapidly evolving situation and adapting our efforts and responses. We are diligently following guidance from authorities and health officials. This includes allowing remote work in certain circumstances, imposing travel restrictions and implementing safety measures for on-site employees including, but not limited to, the use of personal protective equipment as appropriate and in accordance with local laws and regulations.

### Customer Base

We serve customers ranging from municipalities to OEMs to commercial customers and vehicle dealers throughout our product lines. Sales to our top 10 customers in 2021 accounted for 60.6% of our sales. Sales to customers that individually exceeded 10% of our consolidated sales for 2021, 2020 and 2019 are detailed in the chart below.

Year	Customer	Sales (\$ millions)	Percentage of consolidated sales	Segment
2021	Amazon	\$ 248.6	25.1%	FVS
2020	Amazon	\$ 198.3	29.3%	FVS
2019	Amazon	\$ 173.0	22.9%	FVS
2019	USPS	\$ 113.8	15.0%	FVS

We do have other significant customers which, if the relationship changes significantly, could have a material adverse impact on our financial position and results of operations. We believe that we have developed strong relationships with our customers and continually work to develop new customers and markets. See related risk factors in Item 1A of this Form 10-K.

Sales to customers outside the United States were \$11.7 million, \$9.5 million, and \$21.4 million for the years ended December 31, 2021, 2020 and 2019, respectively, or 1.2%, 1.4%, and 2.8%, respectively, of sales for those years. Substantially all of our long-lived assets are located in the United States.

### Order Backlog

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

	December 31, 2021	December 31, 2020	Increase
FVS	\$ 859,442	\$ 421,544	\$ 437,898
SV	104,117	57,107	47,010
Total consolidated	\$ 963,559	\$ 478,651	\$ 484,908

Our FVS backlog increased by \$437.9 million, or 103.9%, driven by new orders for walk-in vans. Our SV segment backlog increased by \$47.0 million, or 82.3%, due to an increase in Class A diesel motorhome market demand and service body orders.

While orders in the backlog are subject to modification, cancellation or rescheduling by customers, this has not been a major factor in the past. Although the backlog of unfilled orders is one of many indicators of market demand, several factors, such as chassis availability, changes in production rates, available capacity, new product introductions 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.

### Non-GAAP Financial Measure

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.

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.

Our management uses 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.

	2021	2020	2019	2018	2017
Income from continuing operations	\$ 69,974	\$ 38,289	\$ 36,790	\$ 18,116	\$ 17,471
Net (income) loss attributable to non-controlling interest	(1,230)	(347)	(140)	-	1
Interest expense	414	1,293	1,839	1,080	864
Income tax expense	14,506	9,867	10,355	3,334	2,382
Depreciation and amortization	11,356	13,903	6,073	6,214	6,032
Restructuring and other related charges	505	1,873	316	662	798
Acquisition related expenses and adjustments	1,585	1,332	3,531	1,952	588
Non-cash stock-based compensation expense	8,745	7,706	5,281	4,027	3,536
Loss from write-off of construction in process	-	2,430	-	-	-
Loss from liquidation of JV	643	-	-	-	-
Non-recurring professional fees	1,568	-	-	-	-
Adjusted EBITDA	\$ 108,066	\$ 76,346	\$ 64,045	\$ 35,385	\$ 31,672

#### **Available Information**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports (and amendments thereto) filed or furnished pursuant to Section 13(a) of the Securities Exchange Act are available, free of charge, on our internet website ([www.TheShyftGroup.com](http://www.TheShyftGroup.com)) as soon as reasonably practicable after we electronically file or furnish such materials with the Securities and Exchange Commission ("SEC").

The SEC maintains an internet website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

#### **Information About our Executive Officers**

The executive officers of the Company, their business experience and their ages as of February 1, 2022, are as follows:

Name	Position	Business Experience	Age	Executive Officer Since
Daryl M. Adams	President and Chief Executive Officer	President and Chief Executive Officer since February 2015. Director since December 2014. Chief Operating Officer from July 2014 to February 2015. Chief Executive Officer, Midway Products from 2007 to 2014.	60	2015

Name	Position	Business Experience	Age	Executive Officer Since
Jonathan C. Douyard	Chief Financial Officer	Chief Financial Officer since March 2020. Vice President and Chief Financial Officer, Fluke Corporation from June 2016 to February 2020. Vice President, Finance and Chief Financial Officer, Commercial Systems & Services business unit, Sikorsky Aircraft (United Technologies) from September 2015 to May 2016. Director, Finance, Commercial Systems & Services business unit, Sikorsky Aircraft (United Technologies) from 2012 to 2015. Various financial leadership roles, General Electric subsidiaries from 2001 to 2012.	42	2020
Todd A. Heavin	Chief Operating Officer	Chief Operating Officer since June 2019. Management Consultant from August 2017 to May 2019. Division President, American Axle from April 2017 to August 2017. Division General Manager, Metaldyne Performance Group from 2014 to April 2017.	60	2019
Chad M. Heminover	President Fleet Vehicles and Services	President, Shyft Fleet Vehicles and Services since May 2018. Vice President of Operations and Business Development, Shyft Fleet Vehicles and Services from December 2017 through April 2018. Business Unit President, Taylor Corporation from 2014 through December 2017.	45	2018
Stephen K. Guillaume	President Specialty Vehicles	President, Shyft Specialty Vehicles since May 2015. Vice President of New Business Development and Joint Ventures from January 2015 to May 2015. Vice President and General Manager, Navistar Commercial Trucks from 2010 through 2014.	54	2015
Joshua A. Sherbin	Chief Legal Officer, Chief Compliance Officer and Corporate Secretary	Chief Legal Officer, Chief Compliance Officer and Corporate Secretary since May 2021. Senior Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary, TriMas Corporation from March 2016 to May 2021. Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary, TriMas Corporation from 2008 to March 2016.	59	2021

**Item 1A. Risk Factors.**

Our financial condition, results of operations and cash flows are subject to various risks, many of which are not exclusively within our control that may cause actual performance to differ materially from historical or projected future performance. The risks described below are the primary risks known to us that we believe could materially affect our business, financial condition, results of operations, or cash flows. However, these risks may not be the only risks we face. Our business could also be affected by additional factors that are not presently known to us, factors we currently consider to be immaterial to our operations, or factors that emerge as new risks in the future.

**Risks Related to the COVID-19 Pandemic**

**Our results of operations are likely to continue to be adversely affected by the circumstances relating to the COVID-19 pandemic.**

We have experienced challenges to our business arising from the COVID-19 pandemic and related governmental directives, and we expect to continue facing these challenges for the foreseeable future. In 2020, we were forced to shut down certain of our facilities, often on short notice. Although all of our facilities are currently in operation, future shutdowns are possible as long as the COVID-19 virus presents a public health risk.

In addition, we have had to incur additional costs and expenses to maintain our facilities and operations in compliance with governmental directives and in a manner designed to protect the health and safety of our workforce. These challenges are made more difficult by the fact that we have facilities in multiple states, and each state has implemented different restrictions and directives in response to the pandemic. This also increases our compliance-related risk as we work to understand and comply with the different rules and regulations within each state.

We have also experienced increased employee absences related to the pandemic, due to illness and/or the need to care for family members. This challenge may continue throughout 2022.

These challenges also impact our suppliers, and we have experienced supply chain disruptions as a result. Our inability to obtain raw materials, chassis and other supplies on a timely basis negatively impacts our ability to fulfill customer orders, which may have a material adverse impact on our results of operations, financial condition, and liquidity.

### **Risks Related to Our Company and Business**

#### **Any negative change in our relationship with our major customers could have significant adverse effects on revenues and profits.**

Our financial success is directly related to the willingness of our customers to continue to purchase our products. Failure to fill customers' orders in a timely manner or on the terms and conditions they may impose could harm our relationships with our customers. The importance of maintaining excellent relationships with our major customers may also give these customers leverage in our negotiations with them, including pricing and other supply terms, as well as post-sale disputes. This leverage may lead to increased costs to us or decreased margins. Furthermore, if any of our major customers experience a significant downturn in their business or fail to remain committed to our products or brands, then these customers may reduce or discontinue purchases from us, which could have an adverse effect on our business, results of operations and financial condition. In 2021, we had a single customer that accounted for 25.1 percent of consolidated sales. Sales to our top 10 customers accounted for 60.6 percent of our sales.

#### **We may not be able to remain competitive in the rapidly changing markets in which we compete.**

The markets we serve are undergoing rapid transformation, particularly with respect to parcel delivery services and electric vehicle (EV) technologies. Our competitors include companies that have significantly greater resources than we do, including OEMs and certain of our customers, and which are highly motivated by market opportunities to deploy those resources. In addition to these established, mature competitors, we also face competition from new market entrants, including technology companies. As a result of these market opportunities, OEMs and other companies have taken actions to reduce costs, including through in-sourcing and supply base consolidation. We expect these trends to continue and even accelerate. Our business will be adversely affected if we are unable to adequately respond to these pressures or otherwise continue to compete in these markets.

#### **The integration of businesses or assets we have acquired or may acquire in the future involves challenges that could disrupt our business and harm our financial condition.**

As part of our growth strategy, we have pursued and expect we will continue to selectively pursue acquisitions of businesses or assets in order to diversify, expand our capabilities, enter new markets, or increase our market share. Integrating any newly acquired business or assets can be expensive and can require a great deal of management time and other resources. If we are unable to successfully integrate the newly acquired businesses with our existing business, we may not realize the synergies we expect from the acquisition and our business and results of operations may be adversely impacted.

#### **Re-configuration or relocation of our production operations could negatively impact our earnings.**

We may, from time to time, reconfigure our production lines or relocate production of products between buildings or locations or to new locations to maximize the efficient utilization of our existing production capacity or take advantage of opportunities to increase manufacturing efficiencies. Costs incurred to affect these reconfigurations or relocations may exceed our estimates, and efficiencies gained may be less than anticipated, each of which may have a negative impact on our results of operations and financial position.

#### **Disruptions within our dealer network could adversely affect our business.**

We rely, for certain of our products, on a network of independent dealers to market, deliver, provide training for, and service our products to and for customers. Our business is influenced by our ability to initiate and manage new and existing relationships with dealers.

From time to time, we or an individual dealer may choose to terminate the relationship, or the dealership could face financial difficulty leading to failure or difficulty in transitioning to new ownership. In addition, our competitors could engage in a strategy to attempt to acquire or convert our dealers to carry their products. We do not believe our business is dependent on any single dealer, the loss of which would have a sustained material adverse effect upon our business.

However, disruption of dealer coverage within a specific local market could have an adverse impact on our business within the affected market. The loss or termination of a significant number of dealers could cause difficulties in marketing and distributing our products and have an adverse effect on our business, operating results or financial condition. In the event that a dealer in a strategic market experiences financial difficulty, we may choose to provide financial support such as extending credit to a dealership, reducing the risk of disruption, but increasing our financial exposure.

**We may not be able to successfully implement and manage our growth strategy.**

Our growth strategy includes expanding existing market share through product innovation, continued expansion into industrial and global markets and merger or acquisition related activities. We believe our future success depends in part on our research and development and engineering efforts, our ability to manufacture or source the products and customer acceptance of our products. As it relates to new markets, our success also depends on our ability to create and implement local supply chain, sales and distribution strategies to reach these markets.

The potential inability to successfully implement and manage our growth strategy could adversely affect our business and our results of operations. The successful implementation of our growth strategy will depend, in part, on our ability to integrate operations with acquired companies.

Our efforts to grow our business in emerging markets are subject to all of these risks plus additional, unique risks. In certain markets, the legal and political environment can be unstable and uncertain which could make it difficult for us to compete successfully and could expose us to liabilities.

We also make investments in new business development initiatives which could have a relatively high failure rate. We limit our investments in these initiatives and establish governance procedures to contain the associated risks, but losses could result and may be material. Our growth strategy also may involve acquisitions, joint venture alliances and additional arrangements of distribution. We may not be able to enter into acquisitions or joint venture arrangements on acceptable terms, and we may not successfully integrate these activities into our operations. We also may not be successful in implementing new distribution channels, and changes could create discord in our existing channels of distribution.

**Increased costs, including costs of raw materials, component parts and labor costs, potentially impacted by changes in labor rates and practices and/or new or increased tariffs or similar restrictions, could reduce our operating income.**

Our results of operations may be significantly affected by the availability and pricing of manufacturing components and labor, changes in labor rates and practices, and increases in tariffs or similar restrictions on materials we import. Increases in costs of raw materials used in our products could affect the cost of our supply materials and components, as rising steel and aluminum prices as well as increased tariffs have impacted the cost of certain of our manufacturing components. Although we attempt to mitigate the effect of any escalation in components, labor costs, and tariffs by negotiating with current or new suppliers and by increasing productivity or, where possible, by increasing the sales prices of our products, we cannot be certain that we will be able to do so without it having an adverse impact on the competitiveness of our products and, therefore, our sales volume. If we cannot successfully offset increases in our manufacturing costs, this could have a material adverse impact on our margins, operating income and cash flows. Our profit margins may decrease if prices of purchased component parts, labor rates, and/or tariffs increase, and we are unable to pass on those increases to our customers.

**Implementing new information systems could interfere with our business or operations.**

We are in the process of implementing new information systems infrastructure and applications that impact multiple locations. These projects require significant investment of capital and human resources, the re-engineering of many processes of our business, and the attention of many employees and managers who would otherwise be focused on other aspects of our business. Should the systems not be implemented successfully, we may incur impairment charges that could materially impact our financial results. If the systems do not perform in a satisfactory manner once implementation is complete, our business and operations could be disrupted and our results of operations negatively affected, including our ability to report accurate and timely financial results.

**Disruption of our supply base could affect our ability to obtain component parts.**

We increasingly rely on component parts from global sources in order to manufacture our products. Disruption of this supply base due to international political events, natural disasters, the ongoing COVID-19 pandemic, or other factors could affect our ability to obtain component parts at acceptable prices, or at all, and have a negative impact on our sales, results of operations and financial position.

**When we introduce new products, we may incur expenses that we did not anticipate, such as recall expenses, resulting in reduced earnings.**

The introduction of new products is critical to our future success. We have additional costs when we introduce new products, such as initial labor or purchasing inefficiencies, but we may also incur unexpected expenses. For example, we may experience unexpected engineering or design issues that will force a recall of a new product or increase production costs of the product above levels needed to ensure profitability. In addition, we may make business decisions that include offering incentives to stimulate the sales of products not adequately accepted by the market, or to stimulate sales of older or less marketable products. The costs resulting from these types of problems could be substantial and have a significant adverse effect on our earnings.

**We depend on a small group of suppliers for some of our components, and the loss of any of these suppliers could affect our ability to obtain components at competitive prices, which would decrease our sales or earnings.**

Most chassis and specialty vehicle commodity components are readily available from a variety of sources. However, a few proprietary or specialty components are produced by a small group of suppliers.

In addition, we generally do not purchase chassis for our delivery vehicles. Rather, we accept shipments of vehicle chassis owned by dealers or end-users for the purpose of installing and/or manufacturing our specialized truck bodies on such chassis. There are four primary sources for commercial chassis, and we have established relationships with all major chassis manufacturers.

Changes in our relationships with these suppliers, shortages, production delays, their ability to secure components required for chassis production or work stoppages by the employees of such suppliers could have a material adverse effect on our ability to timely manufacture our products and secure sales. If we cannot obtain an adequate supply of components or commercial chassis, this could result in a decrease in our sales and earnings.

**Our business could be adversely affected by the decision of our employees to unionize.**

Currently, none of our U.S. employees are represented by a collective bargaining agreement. If in the future our employees decide to unionize, this would increase our operating costs and potentially force us to alter the way we operate causing an adverse effect on our operating results.

**The ability to hire or retain management and other key personnel is critical to our continued success, and the loss of or inability to hire such personnel could have a material adverse effect on our business, financial condition and results of operations.**

Our ability to sustain and grow our business requires us to hire, retain and develop a highly skilled and diverse management team and workforce. As all key personnel devote their full time to our business, the loss of any member of our management team, or other key persons, or the inability to hire key persons, could have an adverse effect on us. If we lose key members of our senior management team or are unable to effect successful transitions from one executive to another as part of our succession plan, we may not be able to effectively manage our current operations or meet ongoing and future business challenges, and this could have a material adverse effect on our business, financial condition and results of operations.

**Risks associated with international sales and contracts could have a negative effect on our business.**

In 2021, 2020, and 2019, we derived 1.2%, 1.4%, and 2.8% of our revenue from sales to, or related to, end customers outside the United States. We face numerous risks associated with conducting international operations, any of which could negatively affect our financial performance, including changes in foreign country regulatory requirements, the strength of the U.S. dollar compared to foreign currencies, import/export restrictions, the imposition of foreign tariffs and other trade barriers and disruptions in the shipping of exported products.

Additionally, as a U.S. corporation, we are subject to the Foreign Corrupt Practices Act, which may place us at a competitive disadvantage to foreign companies that are not subject to similar regulations.

**Changes in the method of determining London Interbank Offered Rate (LIBOR), or the replacement of LIBOR with an alternative rate, may adversely affect interest charged on our outstanding debt.**

The interest rate charged on our outstanding borrowings pursuant to our credit facility is currently based on LIBOR, as described in "Note 13 – Debt" below. On July 27, 2017, the Financial Conduct Authority in the U.K. announced that it would phase out LIBOR by the end of 2021. On November 30, 2020, the ICE Benchmark Administration Limited (ICE) announced plans to delay the phase out of LIBOR to June 30, 2023. The U.S. Federal Reserve is considering replacing U.S. dollar LIBOR with a newly created index called the Secured Overnight Funding Rate (SOFR), a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. Our credit facility provides for the transition to a replacement for LIBOR, and it also provides for an alternative to LIBOR. When 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.

**More General Risks Applicable to Our Industry**

**General economic, market, and/or political conditions, whether on a global, national, or more regional scale, could have a negative effect on our business.**

Concerns regarding acts of terrorism, armed conflicts, natural disasters, budget shortfalls, cyber events, civil unrest, governmental actions, and epidemics have in the past and could in the future create significant uncertainties that may have material and adverse effects on consumer demand (particularly the specialty and motorhome markets), shipping and transportation, the availability of manufacturing components, commodity prices and our ability to engage in overseas markets as tariffs are implemented. An economic recession, whether resulting from one of these events or others, would have a material adverse impact on our financial condition and results of operations.

**If there is a rise in the frequency and size of product liability, warranty and other claims against us, including wrongful death claims, our business, results of operations and financial condition may be harmed.**

We are frequently subject, in the ordinary course of business, to litigation involving product liability and other claims, including wrongful death claims, related to personal injury and warranties. We insure our product liability claims in the commercial insurance market. We cannot be certain that our insurance coverage will be sufficient to cover all future claims against us. Any increase in the frequency and size of these claims, as compared to our experience in prior years, may cause the premiums that we are required to pay for such insurance to rise significantly. It may also increase the amounts we pay in punitive damages, which may not be covered by our insurance. In addition, a major product recall or increased levels of warranty claims could have a material adverse effect on our results of operations.

**Changes to laws and regulations governing our business could have a material impact on our operations.**

Our manufactured products and the industries in which we operate are subject to extensive federal and state regulations. Changes to any of these regulations or the implementation of new regulations could significantly increase the costs of manufacturing, purchasing, operating or selling our products and could have a material adverse effect on our results of operations. Our failure to comply with present or future regulations could result in fines, potential civil and criminal liability, suspension of sales or production, or cessation of operations.

Certain U.S. tax laws currently afford favorable tax treatment for financing the purchase of recreational vehicles that are used as the equivalent of second homes. These laws and regulations have historically been amended frequently, and it is likely that further amendments and additional regulations will be applicable to us and our products in the future. Amendments to these laws and regulations and the implementation of new regulations could have a material adverse effect on our results of operations.

Our operations are subject to a variety of federal and state environmental regulations relating to noise pollution and the use, generation, storage, treatment, emission and disposal of hazardous materials and wastes. Our failure to comply with present or future regulations could result in fines, potential civil and criminal liability, suspension of production or operations, alterations to the manufacturing process, costly cleanup or capital expenditures. Climate change regulations at the federal, state or local level could require us to change our manufacturing processes or product portfolio or undertake other activities that may require us to incur additional expense, which may be material.



**Our operating results may fluctuate significantly on a quarter-to-quarter basis.**

Our quarterly operating results depend on a variety of factors including the timing and volume of orders, the completion of product inspections and acceptance by our customers, and various restructuring initiatives that may be undertaken from time to time. In addition, our Fleet Vehicles and Services segment experiences seasonality whereby product shipments in the first and fourth quarters are generally lower than other quarters as a result of the busy holiday delivery operations experienced by some of its largest customers. Accordingly, our financial results may be subject to significant and/or unanticipated quarter-to-quarter fluctuations.

**Our businesses are cyclical, and this can lead to fluctuations in our operating results.**

The industries in which we operate are highly cyclical and there can be substantial fluctuations in our manufacturing, shipments and operating results, and the results for any prior period may not be indicative of results for any future period. Companies within these industries are subject to volatility in operating results due to external factors such as economic, demographic and political changes. Factors affecting the manufacture of chassis, specialty vehicles, delivery vehicles and other of our products include but are not limited to:

- Commodity prices;
- Fuel availability and prices.
- Unemployment trends;
- International tensions and hostilities;
- General economic conditions;
- Various tax incentives;
- Strength of the U.S. dollar compared to foreign currencies;
- Overall consumer confidence and the level of discretionary consumer spending;
- Dealers' and manufacturers' inventory levels; and
- Interest rates and the availability of financing.

**Economic, legal and other factors could impact our customers' ability to pay accounts receivable balances due from them.**

In the ordinary course of business, customers are granted terms related to the sale of goods and services delivered to them. These terms typically include a period between when the goods and services are tendered for delivery to the customer and when the customer needs to pay for these goods and services. The amounts due under these payment terms are listed as accounts receivable on our balance sheet. Prior to collection of these accounts receivable, our customers could encounter drops in sales, unexpected increases in expenses, or other factors which could impact their ability to continue as a going concern and which could affect the collectability of these amounts. Writing off uncollectible accounts receivable could have a material adverse effect on our earnings and cash flow as we have major customers with material accounts receivable balances at any given time.

**Our business operations could be disrupted if our information technology systems fail to perform adequately or experience a security breach.**

We rely on our information technology systems to effectively manage our business data, communications, supply chain, product engineering, manufacturing, accounting and other business processes. If these systems are damaged, cease to function properly or are subject to a cyber-security breach such as ransomware, phishing, infection with viruses or intentional attacks aimed at theft or destruction of sensitive data, we may suffer an interruption in our ability to manage and operate the business, and our results of operations and financial condition may be adversely affected.

Like most corporations, our information systems are a target of attacks. In addition, third-party providers of data hosting or cloud services, as well as our suppliers, may experience cyber-security incidents that may involve data we share with them. There can be no assurance that such incidents will not have a material adverse effect on us in the future. In order to address risks to our information systems, we continue to make investments in personnel, technologies and training of personnel.

**Fuel shortages, or higher prices for fuel, could have a negative effect on sales.**

Gasoline or diesel fuel is required for the operation of the specialty vehicles we manufacture. There can be no assurance that the supply of these petroleum products will continue uninterrupted, that rationing will not be imposed or that the price of or tax on these petroleum products will not significantly increase in the future. Increases in gasoline and diesel prices and speculation about potential fuel shortages have had an unfavorable effect on consumer demand for motor homes from time to time in the past and may continue to do so in the future. This, in turn, may have a material adverse effect on our sales volume. Increases in the price of oil also can result in significant increases in the price of many of the components in our products, which may have an adverse impact on margins or sales volumes.

**We could incur asset impairment charges for goodwill, intangible assets or other long-lived assets.**

We have a significant amount of goodwill, intangible assets and other long-lived assets. At least annually, we review goodwill and non-amortizing intangible assets for impairment. Identifiable intangible assets, goodwill and other long-lived assets are also reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. If the operating performance at one or more of our reporting units fails to meet future forecasts, or if future cash flow estimates decline, we could be required, under current U.S. accounting rules, to record impairment charges for our goodwill, intangible assets or other long-lived assets. Any write-off of a material portion of such assets could negatively affect our results of operations or financial position. See “Note 2 – *Discontinued Operations*” and “Note 6 – *Goodwill and Intangible Assets*” of the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K for further discussion of goodwill, intangibles and other long-lived assets.

**Risk Applicable to Our Securities**

**Our stock price has been and may continue to be volatile, which may result in losses to our shareholders.**

The market price of our common stock has been and may continue to be subject to wide fluctuations in response to, among other things, quarterly fluctuations in operating results, a failure to meet published estimates of or changes in earnings estimates by securities analysts, sales of common stock by existing stockholders, loss of key personnel, market conditions in our industries, shortages of key product inventory components and general economic conditions.

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

We operate facilities in a total of 17 locations, 16 throughout the U.S. and one location in Mexico. The number of physical locations we operate has grown significantly in recent years as part of our strategy to develop coast-to-coast manufacturing and distribution capabilities.

Our Fleet Vehicles and Services segment operates facilities in Bristol, Indiana; Charlotte, Michigan; Landisville, Pennsylvania; North Charleston, South Carolina; Kansas City, Missouri; and Saltillo, Mexico. All of these facilities are leased except for facilities in Charlotte, which are owned by the Company.

Our Specialty Vehicles segment operates facilities in Charlotte, Michigan; Carson, McClellan Park, and Montebello, California; Dallas and Weatherford, Texas; Mesa, Arizona; Waterville, Maine; and Pompano Beach and West Palm Beach, Florida. All of these facilities are leased except for the Charlotte and Pompano Beach facilities, which are owned by the Company.

In addition, our corporate headquarters are located in an office building and showroom in Novi, Michigan, that we lease. We also have certain corporate functions that operate out of our campus in Charlotte and Plymouth, Michigan.

We consider our properties to generally be in good condition, well maintained, and suitable and adequate to meet our business requirements for the foreseeable future. We do not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities.

**Item 3. Legal Proceedings.**

At December 31, 2021, we were parties, both as plaintiff or defendant, to a number of lawsuits and claims arising out of the normal conduct of our businesses. Our management does not currently expect our financial position, future operating results or cash flows to be materially affected by the final outcome of these legal proceedings.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Our common stock is traded on the NASDAQ Global Select Market under the symbol "SHYF."

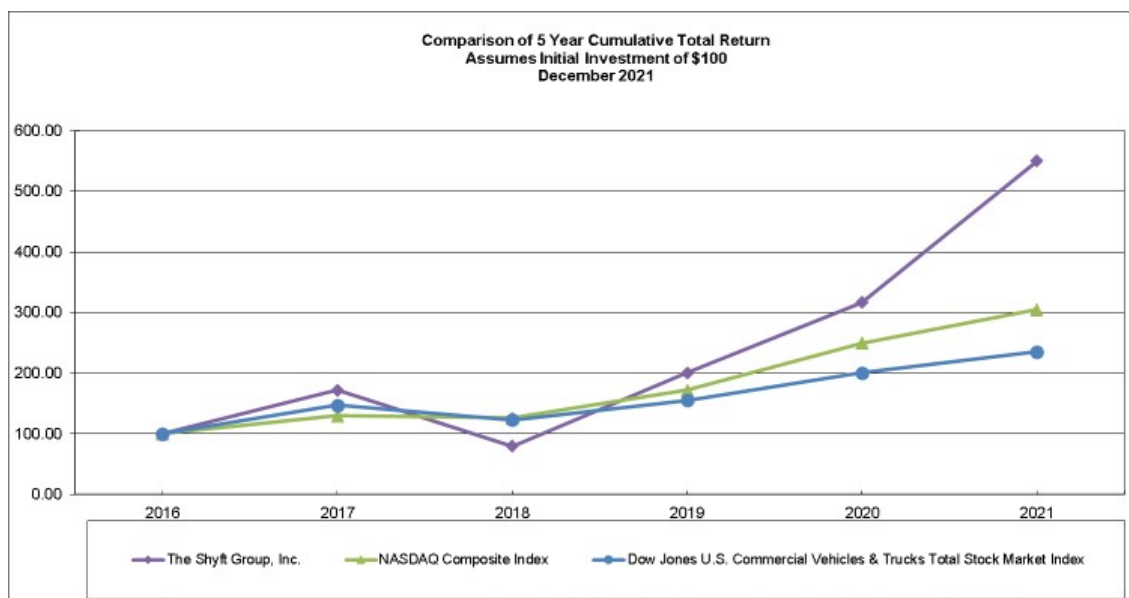
We paid dividends on our outstanding common shares in 2021 and 2020 as shown in the table below.

Date dividend declared	Record date	Payment date	Dividend per share (\$)
Nov. 5, 2021	Nov. 16, 2021	Dec. 16, 2021	0.025
Aug. 6, 2021	Aug. 18, 2021	Sep. 15, 2021	0.025
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

On February 3, 2022, our Board of Directors authorized an increase in the Company's quarterly dividend from \$0.025 to \$0.05 per share payable on or before March 17, 2022, to shareholders of record at the close of business on February 17, 2022.

No assurance, however, can be given that any future distributions will be made or, if made, as to the amounts or timing of any future distributions as such distributions are subject to earnings, financial condition, liquidity, capital requirements, and such other factors as our Board of Directors deems relevant. The number of shareholders of record of our common stock on February 14, 2022 was 273. See Item 12 below for information concerning our equity compensation plans.

The following graph compares the cumulative total stockholder return on our common stock with the cumulative total return on the NASDAQ Composite Index and the Dow Jones U.S. Commercial Vehicles & Trucks Total Stock Market Index for the period beginning on December 31, 2016 and ending on the last day of 2021. The graph assumes an investment of \$100 in our stock, the NASDAQ Composite Index, and the Dow Jones U.S. Commercial Vehicles & Trucks Total Stock Market Index on December 31, 2016, and further assumes the reinvestment of all dividends. Stock price performance, presented for the period from December 31, 2016 to December 31, 2021, is not necessarily indicative of future results.



	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021
The Shyft Group, Inc.	\$ 100.00	\$ 171.79	\$ 79.60	\$ 200.73	\$ 316.81	\$ 549.80
NASDAQ Composite Index	\$ 100.00	\$ 129.64	\$ 125.96	\$ 172.18	\$ 249.51	\$ 304.85
Dow Jones U.S. Commercial Vehicles & Trucks Total Stock Market Index	\$ 100.00	\$ 147.21	\$ 123.26	\$ 155.54	\$ 200.33	\$ 235.69

The stock price performance graph and related information shall not be deemed “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference by any general statement incorporating by reference this annual report on Form 10-K into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate this information by reference.

#### 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. At December 31, 2021 there were 0.4 million shares remaining under this repurchase authorization. In January 2022, we repurchased the remaining 0.4 million shares for \$18.9 million.

On February 17, 2022, our Board of Directors authorized the repurchase of up to \$250.0 million of our common stock in open market transactions. We believe that we have sufficient resources to fund any potential stock buyback in which we may engage.

During the quarter ended December 31, 2021, no shares were repurchased under this authorization. A summary of our purchases of our common stock during the fourth quarter of 2021 is as follows:

Period	Total Number of Shares Purchased (1)	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 (2)
October 2021	-	\$ -	-	408,994
November 2021	544	43.00	-	408,994
December 2021	-	-	-	408,994
Total	<u>544</u>			<u>408,994</u>

(1) During the quarter ended December 31, 2021, 544 shares were delivered by employees in satisfaction of tax withholding obligations that occurred upon the vesting of restricted shares. These shares are not repurchased pursuant to the Board of Directors authorization disclosed above.

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

Item 6. **[Reserved]**

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**General**

The Shyft Group, Inc. was organized as a Michigan corporation 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 as well as truck accessories.

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 cyclicalities. 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 growing opportunities that we have capitalized on in last mile delivery as a result of the rapidly changing e-commerce market is an excellent example of our ability to generate growth and profitability by quickly fulfilling customer needs.

We believe we can best carry out our long-term business plan and obtain optimal financial flexibility by using a combination of borrowings under our credit facilities, as well as internally or externally generated equity capital, as sources of expansion capital.

**COVID-19 Pandemic**

On March 11, 2020, the World Health Organization classified the COVID-19 outbreak as 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. As a result, certain of our manufacturing facilities were temporarily suspended or cut back on operating levels and shifts as a result of government orders. Since June 30, 2020 and throughout 2021, 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 employees, 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, including the resurgence of COVID-19 and its variants in regions recovering from the impacts of the pandemic, the effectiveness of COVID-19 vaccines, and the speed at which populations are vaccinated around the globe, the impact of COVID-19 on economic activity, and regulatory actions taken to contain its impact on public health and the global economy. 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 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.

**Executive Overview**

- Sales of \$991.8 million in 2021, compared to \$676.0 million in 2020
- Gross margin of 20.1% in 2021, compared to 21.6% in 2020
- Operating expense of \$115.2 million, or 11.6% of sales in 2021, compared to \$97.4 million, or 14.4% of sales in 2020
- Operating income of \$84.1 million in 2021, compared to \$48.9 million in 2020
- Income tax expense of \$14.5 million in 2021, compared to \$9.9 million in 2020
- Income from continuing operations of \$70.0 million in 2021, compared to \$38.3 million in 2020
- Diluted earnings per share from continuing operations of \$1.91 in 2021, compared to \$1.05 in 2020
- Operating cash flow of \$74.0 million in 2021, compared to \$64.3 million in 2020
- Order backlog of \$963.6 million in 2021, compared to \$478.7 million at December 31, 2020

The following table shows our sales by market for the years ended December 31, 2021, 2020 and 2019 as a percentage of total sales:

	2021	2020	2019
Fleet vehicles sales	63.0%	63.3%	64.2%
Motor home chassis sales	17.0%	16.0%	16.8%
Other specialty vehicles sales	14.6%	14.0%	8.1%
Aftermarket parts and accessories sales	5.4%	6.7%	10.9%
<b>Total sales</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

We continue to seek out opportunities to grow the business, both organically and by acquisition, by expanding relationships with existing customers, seeking out new business wins, and pursuing acquisitions in a strategic fashion.

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 we serve. Some of our recent innovations and strategic developments include:

- In June 2021, we announced the creation of Shyft Innovations™, our dedicated corporate mobility research and development team, initially focused on introducing a Class 3 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 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.
- 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 Consolidated Financial Statements and related Notes thereto appearing in Item 8 of this Form 10-K.



## Results of Operations

The discussion of our 2020 consolidated operating results compared to our 2019 consolidated operating results is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of our [2020 Annual Report on Form 10-K filed March 25, 2021](#) and is incorporated by reference into this MD&A.

The following table sets forth, for the periods indicated, the components of our consolidated statements of operations, as a percentage of sales (percentages may not sum due to rounding):

	Year Ended December 31,	
	2021	2020
Sales	100.0	100.0
Cost of products sold	79.9	78.4
Gross profit	20.1	21.6
Operating expenses:		
Research and development	0.9	0.6
Selling, general and administrative	10.8	13.8
Operating income	8.5	7.2
Other expense, net	-	(0.1)
Income from continuing operations before income taxes	8.5	7.1
Income tax expense	1.5	1.5
Income from continuing operations	7.1	5.7
Loss from discontinued operations, net of income taxes	-	(0.8)
Non-controlling interest	0.1	0.1
Net income attributable to The Shyft Group, Inc.	6.9	4.9

### Sales

Consolidated sales for the year ended December 31, 2021 increased by \$315.8 million, or 46.7% to \$991.8 million from \$676.0 million in 2020. This increase reflects favorable sales volume driven by strong demand, acquired business and favorable pricing versus lower sales in the COVID-19 impacted prior year. Sales in our FVS segment increased by \$196.0 million, primarily due to an increase in vehicle sales driven by the introduction of the Velocity F2, class 2 walk-in van in 2021 and favorable pricing. Sales in our SV segment increased by \$119.8 million driven by higher sales in other specialty chassis and vehicle sales and by sales attributable to business acquisitions. These changes in sales are discussed more fully in the discussion of our segments below.

### Cost of Products Sold

Cost of products sold increased by \$262.8 million, or 49.6%, to \$792.5 million for the year ended December 31, 2021 from \$529.7 million in 2020. Cost of products sold increased \$251.5 million due to higher sales volumes and mix including acquired business, \$2.3 million of pre-production costs and \$22.8 million due to higher material, labor, and other costs. These costs increases were partially offset by productivity and other cost reductions of \$13.8 million. As a percentage of sales, cost of products sold increased to 79.9% in 2021, compared to 78.4% in 2020.

### Gross Profit

Gross profit increased by \$53.0 million, or 36.2%, to \$199.3 million in 2021 from \$146.3 million in 2020. The increase was due to favorable volume of \$65.7 million and productivity and cost reductions of \$13.8 million. These increases were partially offset by higher material, labor, and other costs of \$22.8 million, pre-production costs of \$2.3 million, and unfavorable product mix and pricing of \$1.5 million. Gross margin decreased to 20.1% in 2021 from 21.6% over the year ended in 2020 due to the items mentioned above.

### Operating Expenses

Operating expenses for the year ended December 31, 2021 increased by \$17.8 million, or 18.3%, to \$115.2 million from \$97.4 million in 2020. Research and development expense increased \$4.2 million in 2021 primarily related to the electric vehicle development initiatives. Selling, general and administrative expense increased by \$13.6 million, or 14.6 %, to \$106.7 million in 2021 from \$93.1 million in 2020. This increase was primarily due to \$14.6 million in compensation expense related to growth and acquisition versus cost reduction actions taken in 2020 and higher professional services of \$4.5 million. These increases were partially offset by the accelerated depreciation of the ERP system and write-off of related construction in process of \$5.5 million in the second quarter of 2020 that did not recur in 2021.

#### Other Income and Expense

Interest expense for the year ended December 31, 2021 decreased by \$0.9 million, or 68.0%, to \$0.4 million from \$1.3 million in 2020. The decrease was due to the paydown of debt principal. Interest and other income was \$0.8 million for the year ended December 31, 2021 compared to interest and other income of \$0.6 million for the year ended December 31, 2020.

#### Income Tax Expense

Income tax expense from continuing operations for the year ended December 31, 2021 was \$14.5 million as compared to the prior year at \$9.9 million. Our effective tax rate in 2021 was 17.2%, compared to 20.5% in 2020.

The lower Income tax rate for the year ended December 31, 2021 as compared to the prior year primarily reflects the favorable impact of increased R&D credits from years 2015-2020. The Company recorded additional R&D credits of \$3.8 million for the six-year period as a result of the conclusion of a study in the fourth quarter of 2021 and has filed the appropriate amended tax returns.

#### Income from Continuing Operations

Income from continuing operations for the year ended December 31, 2021 increased by \$31.7 million, or 82.8%, to \$70.0 million compared to \$38.3 million in 2020. On a diluted per share basis, income from continuing operations increased \$0.86 to \$1.91 in 2021 compared to \$1.05 per share in 2020. Driving this increase were the factors noted above.

#### Income (Loss) from Discontinued Operations, Net of Income Taxes

Income from discontinued operations for the year ended December 31, 2021 increased to \$0.2 million compared to \$5.1 million loss in 2020. The increase is primarily attributable to the divestiture of ERV on February 1, 2020 compared to a full year of results in 2021 without the divested business.

### **Our Segments**

As of October 1, 2021, the composition of both reportable segments changed due to an internal reorganization as certain businesses previously managed and reported within FVS are now a part of SV. Corresponding items of segment information for earlier periods have been recast.

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.

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.

Our management uses 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.

	Year Ended December 31, 2021		Year Ended December 31, 2020	
Income from continuing operations	\$	69,974	\$	38,289
Net (income) attributable to non-controlling interest		(1,230)		(347)
Interest expense		414		1,293
Income tax expense		14,506		9,867
Depreciation and amortization expense		11,356		13,903
Restructuring and other related charges		505		1,873
Acquisition related expenses and adjustments		1,585		1,332
Non-cash stock-based compensation expense		8,745		7,706
Loss from write-off of construction in process		-		2,430
Loss from liquidation of JV		643		-
Non-recurring professional fees		1,568		-
Adjusted EBITDA	\$	108,066	\$	76,346

Our FVS segment consists of our operations at our Bristol, Indiana; Charlotte, Michigan; Kansas City, Missouri; Landisville, Pennsylvania; North Charleston, South Carolina; and Saltillo, Mexico locations. This segment focuses on designing and manufacturing walk-in vans for the parcel delivery, mobile retail, and trades and construction industries; the production of commercial truck bodies, supply of related aftermarket parts and services under the Utilimaster brand name.

Our SV segment consists of our Charlotte, Michigan operations that engineer and manufacture motor home chassis, other specialty chassis and distribute related aftermarket parts and assemblies. We also provide vocation-specific equipment upfit services, which are marketed and sold under the Strobes-R-U's brand, through our manufacturing operations in Pompano and West Palm Beach, Florida. Our service truck bodies operations include locations in Carson, McClellan Park, and Montebello, California; Mesa, Arizona; Dallas and Weatherford, Texas; and Waterville, Maine.

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." Interest expense and Taxes on income 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. Appropriate expense amounts are allocated to the two reportable segments and are included in their reported operating income or loss.

For certain financial information related to each segment, see "Note 17 – Business Segments" of the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K.

### Fleet Vehicles and Services

#### **Segment Financial Data**

(Dollars in Thousands)

	Year Ended December 31,					
	2021		2020		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Sales	\$ 659,432	100.0%	\$ 463,455	100.0%	\$ 557,702	100.0%
Adjusted EBITDA	\$ 108,621	16.5%	\$ 83,292	18.0%	\$ 59,227	10.6%
Segment assets	\$ 174,799		\$ 118,444		\$ 137,446	

#### Year ended December 31, 2021 compared to year ended December 31, 2020

Sales in our FVS segment increased by \$195.9 million, or 42.3%, to \$659.4 million in 2021 from \$463.5 million in 2020. This increase was primarily due to a \$191.8 million net increase in sales volume and mix driven by strong demand for the Velocity F2, class 2 walk-in van, and a \$4.2 million increase in favorable pricing.

Adjusted EBITDA in our FVS segment was \$108.6 million for the year ended December 31, 2021, an increase of \$25.3 million compared to \$83.3 million for the year ended December 31, 2020. This increase was due to \$39.0 million in higher sales volumes, other productivity and cost reductions of \$12.7 million, and favorable pricing of \$4.2 million, partially offset by higher material and labor costs of \$13.7 million, unfavorable mix of \$9.8 million, \$2.3 million of pre-production costs, and \$4.8 million of increased operating expense.

Order backlog for our FVS segment increased by \$437.9 million, or 103.9%, to \$859.4 million at December 31, 2021 compared to \$421.5 million at December 31, 2020, driven by new orders for walk-in vans. Our backlog enables visibility into future sales which can normally range from two to twelve months depending on the product. This visibility allows us to more effectively plan and predict our sales and production activity.

Year ended December 31, 2020 compared to year ended December 31, 2019

Sales in our FVS segment decreased by \$94.2 million, or 16.9%, to \$463.5 million in 2020 from \$557.7 million in 2019. This decrease was driven by a \$91.4 million decrease in pass-through chassis revenue and a decrease of \$2.8 million in vehicle sales mainly due to lower unit volumes.

Adjusted EBITDA in our FVS segment was \$83.3 million for the year ended December 31, 2020, an increase of \$24.1 million compared to \$59.2 million for the year ended December 31, 2019. Product mix contributed \$22.0 million and productivity improvements and cost reductions generated \$5.6 million. These increases were partially offset by \$3.5 million of higher selling, general and administrative expenses.

Order backlog for our FVS segment increased by \$118.6 million, or 39.2%, to \$421.5 million at December 31, 2020 compared to \$302.9 million at December 31, 2019, driven by new orders for walk-in vans offset by the build out of the USPS contract that originated in 2017 and was completed in 2019.

**Specialty Vehicles**

**Segment Financial Data**

(Dollars in Thousands)

	Year Ended December 31,					
	2021		2020		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Sales	\$ 332,360	100.0%	\$ 212,518	100.0%	\$ 204,118	100.0%
Adjusted EBITDA	\$ 32,668	9.8%	\$ 20,900	9.8%	\$ 22,152	10.9%
Segment assets	\$ 202,302		\$ 190,306		\$ 154,469	

Year ended December 31, 2021 compared to year ended December 31, 2020

Sales in our SV segment increased by \$119.8 million or 56.4%, to \$332.4 million in 2021 compared to \$212.5 million in 2020. This increase was due to a sales volume increases in motor chassis and service bodies including acquired business and favorable pricing.

Adjusted EBITDA for our SV segment was \$32.7 million for the year ended December 31, 2021, an increase of \$11.8 million compared to \$20.9 million for the year ended December 31, 2020. This increase was due to \$17.7 million in higher sales volumes including acquired business and favorable pricing and mix of \$4.3 million. These increases were partially offset by higher material and labor costs of \$9.1 million and \$1.1 million of higher operating expenses due to acquisition.

Order backlog for our SV segment increased by \$47.0 million, or 82.3%, to \$104.1 million at December 31, 2021 compared to \$57.1 million at December 31, 2020. This increase was due to an increase in the Class A diesel motor home market demand and service body orders. Our backlog enables visibility into future sales which can normally range from less than one month to twelve months depending on the product. This visibility allows us to more effectively plan and predict our sales and production activity.

Year ended December 31, 2020 compared to year ended December 31, 2019

Sales in our SV segment increased by \$8.4 million or 4.1%, to \$212.5 million in 2020 compared to \$204.1 million in 2019. This increase was driven by sales attributable to business acquisitions of \$43.5 million and was partially offset by a decrease of \$35.1 million in other specialty vehicle sales due to lower unit volumes.

Adjusted EBITDA for our SV segment was \$20.9 million for the year ended December 31, 2020, a decrease of \$1.3 million compared to \$22.2 million for the year ended December 31, 2019. This decrease was driven by \$6.7 million attributable to volume in motor home chassis and \$2.8 million attributable to mix. This decrease was partially offset by \$1.3 million from overhead reductions and \$6.9 million from business acquisitions.

Order backlog for our SV segment increased by \$23.3 million, or 69.2%, to \$57.1 million at December 31, 2020 compared to \$33.8 million at December 31, 2019. This increase was due to an increase in the Class A diesel motor home market demand and service body orders.

## Liquidity and Capital Resources

### Cash Flows

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows appearing in Item 8 of this Form 10-K, are summarized in the following table (in thousands):

	Year Ended December 31,	
	2021	2020
Cash provided by (used in):		
Operating activities	\$ 74,009	\$ 64,332
Investing activities	(22,076)	14,916
Financing activities	(35,770)	(77,602)
Net increase in cash and cash equivalents	\$ 16,163	\$ 1,646

During 2021, cash and cash equivalents increased by \$16.2 million to a balance of \$37.2 million as of December 31, 2021. 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 \$74.0 million of cash from operating activities during the year ended December 31, 2021, an increase in cash provided of \$9.7 million from \$64.3 million of cash provided by operating activities during the year ended December 31, 2020. Cash flow from operating activities increased due to a \$10.3 million increase in net income adjusted for non-cash charges to operations partially offset by a \$0.6 million decrease in the change in net working capital. The change in net working capital is primarily attributable to a \$33.6 million decrease in the change in inventories, \$28.5 million decrease in the change in receivables and contract assets partially offset by a \$45.6 increase in payables, \$14.8 million increase in other assets and liabilities.

The change in net working capital was primarily due to increased sales of \$315.8 million, or 46.7% in 2021, compared to the same period in 2020, primarily 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. Receivables and contract assets increased by \$34.5 million due to increased sales with accounts receivables being partially offset by improved timing of cash receipts. Inventories increased by \$20.8 million and payables increased by \$35.0 million, both due to increased sales with payables being partially offset by the Company's continued focus on extending payment terms with suppliers. As of December 31, 2021, contract assets increased \$12.1 million to \$21.5 million compared to \$9.4 million in the prior year, primarily due to increased production and industry wide supply chain constraints.

#### Cash Flow from Investing Activities

We used \$22.1 million in investing activities during the year ended December 31, 2021, a \$37.0 million increase compared to the \$14.9 million generated during the year ended December 31, 2020. The increase in cash used in investing activities is primarily attributable to \$47.5 million of proceeds from the sale of the ERV business in 2020 not repeated in 2021, \$8.5 million of purchases of property, plant and equipment, partially offset by \$19.0 million of lower cost of business acquisition.

#### Cash Flow from Financing Activities

We used \$35.8 million of cash through financing activities during the year ended December 31, 2021, compared to \$77.6 million used during the year ended December 31, 2020. This \$41.8 million of less cash used in financing activities is primarily attributable to \$29.0 million of increased proceeds from long-term debt and to \$13.6 million lower principal payments on long-term debt.

#### 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. 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 7A of this Form 10-K for further information regarding commodity cost fluctuations.

## Contingent Liabilities

### *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 December 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 November 30, 2021, we entered into an Amended and Restated Credit Agreement (the "Credit Agreement") by and among us and certain of our subsidiaries as borrowers, Wells Fargo Bank, N.A. ("Wells Fargo"), as administrative agent, and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A., PNC Bank, National Association and Bank of America, N.A. (the "Lenders"). Certain of our other subsidiaries have executed guaranties guarantying the borrowers' obligations under the Credit Agreement.

Under the Credit Agreement, we may borrow up to \$400.0 million from the Lenders under a secured revolving credit facility which matures November 30, 2026. We may also request an increase in the facility of up to \$200.0 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 \$10.0 million, subject to certain limitations and restrictions. 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 the margin was 1.10% (or one-month LIBOR plus 1.00%) at December 31, 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 December 31, 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 \$376.8 million and \$125.8 million at December 31, 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 December 31, 2021 and December 31, 2020, we were in compliance with all covenants in our Credit Agreement.

In the year ended December 31, 2021 the Company paid down \$22.4 million of long-term debt, net of borrowings.

### Material Cash Requirements

We are party to contractual obligations involving commitments to make payments to third parties, and such commitments require a material amount of cash. As part of our normal course of business, we enter into contracts with suppliers for purchases of certain raw materials, components, and services to facilitate adequate supply of these materials and services. These arrangements may contain fixed or minimum quantity purchase requirements.

Our current cash position, available borrowing capacity on our credit facilities, and the cash flows we expect to generate from continuing operations are expected to be sufficient to finance our foreseeable operating and capital needs, including day to day operations, capital expenditures, research and development, investments in information technology systems, dividends and potential future acquisitions.

Our future contractual obligations, as described above, are summarized below.

	Payments Due by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Debt (1)	\$ 1,224	241	185	38	760
Operating lease obligations	50,658	8,072	14,703	10,804	17,079
Purchase obligations	11,741	11,741	-	-	-
<b>Total contractual obligations</b>	<b>\$ 63,623</b>	<b>\$ 20,054</b>	<b>\$ 14,888</b>	<b>\$ 10,842</b>	<b>\$ 17,839</b>

(1) Debt includes line of credit revolver estimated interest payments and payments on finance leases. The interest payments on the related variable rate debt were calculated using the effective interest rate of 1.0% at December 31, 2021.

### Equity Securities

On April 28, 2016, our Board of Directors authorized the repurchase of up to 1.0 million additional shares of our common stock in open market transactions. We repurchased a total of 100,000, 300,000; and 101,006 shares of our common stock during the years ended December 31, 2021, 2020 and 2019, respectively. In January 2022, we repurchased the remaining 408,994 shares for \$18.9 million.

On February 17, 2022, our Board of Directors authorized the repurchase of up to \$250.0 million of our common stock in open market transactions. We believe that we have sufficient resources to fund any potential stock buyback in which we may engage.

### Dividends

We paid dividends on our outstanding common shares in 2021 and 2020 as shown in the table below.

Date dividend declared	Record date	Payment date	Dividend per share (\$)
Nov. 5, 2021	Nov. 6, 2021	Dec. 16, 2021	0.025
Aug. 6, 2021	Aug. 18, 2021	Sep. 15, 2021	0.025
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

On February 3, 2022, our Board of Directors authorized an increase in the Company's quarterly dividend from \$0.025 to \$0.05 per share payable on or before March 17, 2022, to shareholders of record at the close of business on February 17, 2022.

### **Critical Accounting Policies and Estimates**

The following discussion of critical accounting policies and estimates is intended to supplement "Note 1 – Nature of Operations and Basis of Presentation" of the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K. These policies were selected because they are broadly applicable within our operating units and they involve additional management judgment due to the sensitivity of the methods, assumptions and estimates necessary in determining the related statement of income, asset and/or liability amounts.

### Revenue Recognition

Essentially all of our revenue is generated through contracts with our customers. We may recognize revenue over time or at a point in time when or as obligations under the terms of a contract with our customer are satisfied, depending on the terms and features of the contract and the products supplied. Our contracts generally do not have any significant variable consideration. The collectability of consideration on the contract is reasonably assured before revenue is recognized. On certain vehicles, payment may be received in advance of us satisfying our performance obligations. Such payments are recorded in Deposits from customers on the Consolidated Balance Sheets. The corresponding performance obligations are generally satisfied within one year of the contract inception. We have elected to utilize the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred because the amortization period for the prepaid costs that would have otherwise been deferred and amortized is one year or less. We use an observable price to allocate the stand-alone selling price to separate performance obligations within a contract or a cost-plus margin approach when an observable price is not available. The estimated costs to fulfill our base warranties are recognized as expense when the products are sold.

Revenue for parts sales for both segments is recognized at the time that control and risk of ownership has passed to the customer, which is generally, when the ordered part is shipped to the customer. Historical return rates on parts sales have been immaterial.

Revenue for upfit and field service contracts and walk-in vans and truck bodies built on a chassis owned and controlled by the customer is recognized over time, as equipment is installed in the customer's vehicle, repairs and enhancements are made to the customer's vehicles, or as the vehicles are built.

For certain of our vehicles and chassis, we sell separately priced service contracts that provide roadside assistance or extend certain warranty coverage beyond our base warranty agreements. These separately priced contracts range from one to six years from the date of the shipment of the related vehicle or chassis. We receive payment with the shipment of the related vehicle or at the inception of the extended service contract, if later, and recognize revenue over the coverage term of the agreement, generally on a straight-line basis, which approximates the pattern of costs expected to be incurred in satisfying the obligations under the contract.

### Business Combinations

When acquiring other businesses, we recognize identifiable assets acquired and liabilities assumed at their acquisition date estimated fair values, and separately from any goodwill that may be required to be recognized. Goodwill, when recognizable, is measured as the excess amount of any consideration transferred, which is measured at fair value, over the acquisition date fair values of the identifiable assets acquired and liabilities assumed. Amounts recorded in a business combination may change during the measurement period, which is a period not to exceed one year from the date of acquisition, as additional information about conditions existing at the acquisition date becomes available.

Accounting for such acquisitions requires us to make significant assumptions and estimates and are adjusted during the measurement period for a period of up to one year after the acquisition date. Costs incurred to effect an acquisition, such as legal, accounting, valuation or other third-party costs, as well as internal general and administrative costs incurred are charged to expense in the periods incurred.

### Goodwill and Other Indefinite-Lived Intangible Assets

In accordance with authoritative guidance on goodwill and other indefinite-lived intangible assets, such assets are tested for impairment at least annually, and written down when and to the extent impaired. We perform our annual impairment test for goodwill and indefinite-lived intangible assets as of October 1 of each year, or more frequently if an event occurs or conditions change that would more likely than not reduce the fair value of the asset below its carrying value.

As of October 1, 2021 the most recent annual goodwill impairment assessment date, two reporting units were determined for goodwill impairment testing: Fleet Vehicles and Services and Specialty Vehicles, which is a change from the prior year where three reporting units were determined for goodwill impairment testing: Fleet Vehicles and Services, Specialty Vehicles, and Service Truck Bodies. As we continued integrating the newly acquired DuraMag business with the Royal operations in 2021, further similarities between these two businesses and the other Specialty Vehicles business were identified that allowed us to run operations with shared manufacturing facilities, engineering resources and capital equipment. As a result, the entirety of goodwill at the former Service Truck Bodies reporting unit was combined into the Specialty Vehicles reporting unit. We qualitatively assessed goodwill assigned to the Fleet Vehicles and Services and Specialty Vehicles reporting units and found no indicators of impairment. We completed a quantitative assessment of the Service Truck Bodies reporting unit immediately before the reporting unit change and a qualitative assessment of the Special Vehicles reporting unit post reorganization and determined that no impairment existed.



We first assess qualitative factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and current and forecasted financial performance to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, we are not required to calculate the fair value of a reporting unit. We have the option to bypass this qualitative assessment and proceed to a quantitative goodwill impairment assessment. If we elect to bypass the qualitative assessment, or if after completing the assessment it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying value, we perform an impairment test by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The fair value of the reporting unit is determined by estimating the future cash flows of the reporting unit to which the goodwill relates, and then discounting the future cash flows at a market-participant-derived weighted-average cost of capital ("WACC"). In determining the estimated future cash flows, we consider current and projected future levels of income based on our plans for that business; business trends, prospects and market and economic conditions; and market-participant considerations. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered to not be impaired. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to the excess, up to the value of the goodwill.

We evaluate the recoverability of our indefinite lived intangible assets by comparing the estimated fair value of the trade names with their carrying values. We estimate the fair value of our trade names based on estimates of future royalty payments that are avoided through our ownership of the trade name, discounted to their present value. In determining the estimated fair value of the trade names, we consider current and projected future levels of revenue based on our plans for branded products, business trends, prospects and market and economic conditions.

Significant judgments inherent in these analyses include assumptions about appropriate sales growth rates, WACC and the amount of expected future net cash flows. The judgments and assumptions used in the estimate of fair value are generally consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. The determination of fair value is highly sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fair value of the reporting units and trade name.

See "Note 6 – *Goodwill and Intangible Assets*" in the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K for further details on our goodwill and indefinite-lived intangible assets.

#### Warranties

Our policy is to record a provision for the estimated cost of warranty-related claims at the time of the sale, and periodically adjust the warranty liability to reflect actual experience. The amount of warranty liability accrued reflects actual historical warranty cost, which is accumulated on specific identifiable units. From that point, there is a projection of the expected future cost of honoring our obligations under the warranty agreements. Historically, the cost of fulfilling our warranty obligations has principally involved replacement parts and labor for field retrofit campaigns and recalls, which increase the reserve. Our estimates are based on historical experience, the number of units involved, and the extent of features and components included in product models. See "Note 11 – *Commitments and Contingent Liabilities*" in the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K for further information regarding warranties.

#### Provision for Income Taxes

We account for income taxes under a method that requires deferred income tax assets and liabilities to be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Authoritative guidance also requires deferred income tax assets, which include state tax credit carryforwards, operating loss carryforwards and deductible temporary differences, be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

We evaluate the likelihood of realizing our deferred income tax assets by assessing our valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include our forecast of future taxable income, the projected reversal of temporary differences and available tax planning strategies that could be implemented to realize the net deferred income tax assets.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. Although management believes the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals.

Interest and penalties attributable to income taxes are recorded as a component of income taxes.

#### **New and Pending Accounting Policies**

See "Note 1 – *Nature of Operations and Basis of Presentation*" in the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K.

#### **Item 7A. 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 December 31, 2021, we had no debt outstanding under our revolving line of credit agreement. An increase of 100 basis points in interest rates would result in no additional interest expense 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 "Note 13 – *Debt*" below. On July 27, 2017, the Financial Conduct Authority in the U.K. announced that it would phase out LIBOR by the end of 2021. On November 30, 2020, the ICE Benchmark Administration Limited (ICE) announced plans to delay the phase out of LIBOR to June 30, 2023. The U.S. Federal Reserve is considering replacing U.S. dollar LIBOR with a newly created index called the Secured Overnight Funding Rate (SOFR), a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. Our credit facility provides for the transition to a replacement for LIBOR, and it also provides for an alternative to LIBOR. When LIBOR ceases to exist, our interest expense is not expected to increase materially. 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 7 of this Form 10-K for information on the impacts of changes in input costs during the year ended December 31, 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 near term. In this discussion, "near term" means a period of one year following the date of the most recent balance sheet contained in this report.

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 Annual Report on Form 10-K for a discussion of the limitations on our responsibility for such statements.

**Item 8. Financial Statements and Supplementary Data.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of The Shyft Group, Inc.

**Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheet of The Shyft Group, Inc. and subsidiaries (the "Company") as of December 31, 2021, the related consolidated statements of operations, shareholders' equity, and cash flows, for the year ended December 31, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and the results of its operations and its cash flows for the year ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021 based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

**Basis for Opinions**

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audit of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of this critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

### Goodwill— Refer to Notes 1 and 6 to the consolidated financial statements

#### *Critical Audit Matter Description*

The Company conducts its annual goodwill impairment test on October 1 of each year, as well as whenever events or changes in circumstances indicate a possible impairment. The fair value of the reporting unit is determined by estimating the future cash flows of the reporting unit to which the goodwill relates, and then discounting the future cash flows at a market-participant-derived weighted average cost of capital ("WACC"). The fair value estimates contain uncertainties as they require management to make assumptions including, but not limited to future cash flows of its reporting units and an appropriate WACC. The Company performed a quantitative assessment of goodwill assigned to the Service Truck Bodies reporting unit prior to a reporting unit change that became effective October 1, 2021. The estimated fair value of the Service Truck Bodies reporting unit exceeded its carrying value. The goodwill balance of the Service Truck Bodies reporting unit was \$33 million.

Given the significant judgments made by management to estimate the fair value of the Service Truck Bodies reporting unit, and the difference between its fair value and carrying value, performing audit procedures to evaluate the reasonableness of management's assumptions related to future cash flows and WACC required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

#### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to future cash flows and WACC for the Service Truck Bodies reporting unit included the following, among others:

- We tested the effectiveness of controls over the Company's goodwill impairment test and determination of related assumptions, including those over future cash flows and WACC.
- We evaluated management's ability to reasonably forecast future cash flows by comparing actual reporting unit results to management's historical forecasts.
- We evaluated the reasonableness of management's forecast of future cash flows by comparing the estimate of future cash flows to:
  - Historical sales and EBITDA
  - Internal communications to management and the Board of Directors.
  - Forecasted information included in Company press releases, analyst and industry reports of the Company and companies in its peer group.
- With the assistance of our fair value specialists, we tested the underlying source information, and the mathematical accuracy of the estimate of future cash flows within the fair value calculations.
- With the assistance of our fair value specialists, we evaluated the WACC by:
  - testing the underlying source information and the mathematical accuracy of the calculation.
  - developing a range of independent estimates and compared those to the rate used by management.

/s/ Deloitte & Touche LLP

Detroit, Michigan  
February 24, 2022

We have served as the Company's auditor since 2021.

**Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
The Shyft Group, Inc.  
Novi, Michigan

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheet of The Shyft Group Inc. (the “Company”) as of December 31, 2020, the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the two years in the period ended December 31, 2020, and the related notes and financial statement schedule (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We served as the Company’s auditor from 2007 to 2020.

Grand Rapids, Michigan

March 25, 2021, except for Notes 4, 6 and 17, as to which the date is February 24, 2022

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

	December 31, 2021	December 31, 2020
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 37,158	\$ 20,995
Accounts receivable, less allowance of \$187 and \$116	87,262	64,695
Contract assets	21,483	9,414
Inventories	67,184	46,428
Other receivables – chassis pool agreements	9,926	6,503
Other current assets	10,813	8,172
<b>Total current assets</b>	<b>233,826</b>	<b>156,207</b>
Property, plant and equipment, net	61,057	45,734
Right of use assets – operating leases	43,316	43,430
Goodwill	48,880	49,481
Intangible assets, net	52,981	56,386
Other assets	2,927	2,052
Net deferred tax assets	4,880	5,759
<b>TOTAL ASSETS</b>	<b>\$ 447,867</b>	<b>\$ 359,049</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 82,442	\$ 47,487
Accrued warranty	5,975	5,633
Accrued compensation and related taxes	19,064	17,134
Deposits from customers	988	756
Operating lease liability	7,934	7,508
Other current liabilities and accrued expenses	9,256	8,121
Short-term debt – chassis pool agreements	9,926	6,503
Current portion of long-term debt	252	221
<b>Total current liabilities</b>	<b>135,837</b>	<b>93,363</b>
Other non-current liabilities	8,108	5,447
Long-term operating lease liability	36,329	36,662
Long-term debt, less current portion	738	23,418
<b>Total liabilities</b>	<b>181,012</b>	<b>158,890</b>
<b>Commitments and contingent liabilities</b>		
<b>Shareholders' equity:</b>		
Preferred stock, no par value: 2,000 shares authorized (none issued)	-	-
Common stock, no par value: 80,000 shares authorized; 35,416 and 35,344 outstanding	95,375	91,044
Retained earnings	171,379	109,286
<b>Total Shyft Group, Inc. shareholders' equity</b>	<b>266,754</b>	<b>200,330</b>
Non-controlling interest	101	(171)
<b>Total shareholders' equity</b>	<b>266,855</b>	<b>200,159</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 447,867</b>	<b>\$ 359,049</b>

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2021	2020	2019
Sales	\$ 991,792	\$ 675,973	\$ 756,542
Cost of products sold	792,527	529,696	639,515
<b>Gross profit</b>	<b>199,265</b>	<b>146,277</b>	<b>117,027</b>
Operating expenses:			
Research and development	8,541	4,361	4,864
Selling, general and administrative	106,672	93,068	64,549
Total operating expenses	115,213	97,429	69,413
<b>Operating income</b>	<b>84,052</b>	<b>48,848</b>	<b>47,614</b>
Other income (expense):			
Interest expense	(414)	(1,293)	(1,839)
Interest and other income	842	601	1,370
Total other income (expense)	428	(692)	(469)
Income from continuing operations before income taxes	84,480	48,156	47,145
Income tax expense	14,506	9,867	10,355
Income from continuing operations	69,974	38,289	36,790
Income (loss) from discontinued operations, net of income taxes	181	(5,123)	(49,216)
Net income (loss)	70,155	33,166	(12,426)
Less: net income attributable to non-controlling interest	1,230	347	140
<b>Net income (loss) attributable to Shyft Group, Inc.</b>	<b>\$ 68,925</b>	<b>\$ 32,819</b>	<b>\$ (12,566)</b>
<b>Basic earnings (loss) per share</b>			
Continuing operations	\$ 1.94	\$ 1.07	\$ 1.03
Discontinued operations	0.01	(0.14)	(1.39)
Basic earnings per share	\$ 1.95	\$ 0.93	\$ (0.36)
<b>Diluted earnings (loss) per share</b>			
Continuing operations	\$ 1.91	\$ 1.05	\$ 1.03
Discontinued operations	-	(0.14)	(1.39)
Diluted earnings per share	\$ 1.91	\$ 0.91	\$ (0.36)
Basic weighted average common shares outstanding	35,333	35,479	35,318
Diluted weighted average common shares outstanding	36,097	36,039	35,416

See accompanying Notes to Consolidated Financial Statements

**THE SHYFT GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(In thousands, except per share data)

	Number of Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Non- Controlling Interest	Total Shareholders' Equity
Balance at January 1, 2019	35,321	353	82,816	103,571	(658)	186,082
Transition adjustment for adoption of new lease standard	-	-	-	(113)	-	(113)
Balance at January 1, 2019, Adjusted	35,321	353	82,816	103,458	(658)	185,969
Issuance of common stock and tax impact of stock incentive plan	28	-	(766)	-	-	(766)
Dividends declared (\$0.10 per share)	-	-	-	(3,572)	-	(3,572)
Purchase and retirement of common stock	(101)	(1)	(236)	(556)	-	(793)
Cancellation of common stock related to investment in subsidiary	-	-	(1,946)	-	-	(1,946)
Issuance of restricted stock, net of cancellation	96	1	(1)	-	-	-
Stock-based compensation expense	-	-	5,281	-	-	5,281
Net income (loss)	-	-	-	(12,566)	140	(12,426)
Balance at December 31, 2019	35,344	\$ 353	\$ 85,148	\$ 86,764	\$ (518)	\$ 171,747
Issuance of common stock and tax impact of stock incentive plan	14	-	(1,534)	-	-	(1,534)
Dividends declared (\$0.10 per share)	-	-	-	(3,565)	-	(3,565)
Purchase and retirement of common stock	(300)	(3)	(768)	(6,732)	-	(7,503)
Issuance of restricted stock, net of cancellation	286	2	(2)	-	-	-
Stock-based compensation expense	-	-	7,848	-	-	7,848
Reclassification upon removal of par value on common stock	-	90,692	(90,692)	-	-	-
Net income	-	-	-	32,819	347	33,166
Balance at December 31, 2020	35,344	\$ 91,044	\$ -	\$ 109,286	\$ (171)	\$ 200,159
Issuance of common stock and tax impact of stock incentive plan	11	(2,950)	-	-	-	(2,950)
Dividends declared (\$0.10 per share)	-	-	-	(3,744)	-	(3,744)
Purchase and retirement of common stock	(100)	(260)	-	(3,088)	-	(3,348)
Purchase of non-controlling interest	-	(1,204)	-	-	(958)	(2,162)
Issuance of restricted stock, net of cancellation	161	-	-	-	-	-
Stock-based compensation expense	-	8,745	-	-	-	8,745
Net income	-	-	-	68,925	1,230	70,155
Balance at December 31, 2021	35,416	\$ 95,375	\$ -	\$ 171,379	\$ 101	\$ 266,855

See accompanying Notes to Consolidated Financial Statements.



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

	Year Ended December 31,		
	2021	2020	2019
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 70,155	\$ 33,166	\$ (12,426)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	11,356	14,187	11,180
Deferred income taxes	880	19,790	(18,225)
Non-cash stock based compensation expense	8,745	7,848	5,281
Loss on sale of business	-	3,852	-
Loss (gain) on disposal of assets	(110)	82	(14)
Loss from write-off of construction in process	-	2,430	-
Impairment of goodwill and intangible assets	-	-	13,856
Impairment of assets held for sale	-	-	39,275
Changes in fair value of contingent consideration	-	(599)	-
Changes in accounts receivable and contract assets	(34,522)	(6,037)	12,700
Changes in inventories	(20,756)	12,834	(14,783)
Changes in accounts payable	34,954	(10,674)	(20,404)
Changes in accrued compensation and related taxes	1,930	971	7,737
Changes in accrued warranty	53	(60)	853
Changes in other assets and liabilities	1,324	(13,458)	9,151
<b>Net cash provided by operating activities</b>	<b>74,009</b>	<b>64,332</b>	<b>34,181</b>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment	(23,002)	(14,534)	(10,042)
Proceeds from sale of property, plant and equipment	22	-	15
Acquisition of businesses, net of cash acquired	904	(18,050)	(88,938)
Proceeds from sale of business	-	47,500	-
<b>Net cash provided by (used in) investing activities</b>	<b>(22,076)</b>	<b>14,916</b>	<b>(98,965)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from long-term debt	45,000	16,000	92,000
Payments on long-term debt	(67,400)	(81,000)	(30,175)
Payments of debt issuance costs	(1,360)	-	-
Payments of dividends	(3,551)	(3,565)	(3,572)
Purchase and retirement of common stock	(3,348)	(7,503)	(793)
Exercise and vesting of stock incentive awards	(2,949)	(1,534)	(766)
Purchase of non-controlling interest	(2,162)	-	-
<b>Net cash provided by (used in) financing activities</b>	<b>(35,770)</b>	<b>(77,602)</b>	<b>56,694</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>16,163</b>	<b>1,646</b>	<b>(8,090)</b>
Cash and cash equivalents at beginning of year	20,995	19,349	27,439
<b>Cash and cash equivalents at end of year</b>	<b>\$ 37,158</b>	<b>\$ 20,995</b>	<b>\$ 19,349</b>

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

See accompanying Notes to Consolidated Financial Statements.

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

**NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

As used herein, the term “Company”, “we”, “us” or “our” refers to The Shyft Group, Inc. and its subsidiaries unless designated or identified otherwise.

*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, 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 as well as truck accessories.

*COVID-19 Pandemic*

On March 11, 2020, the World Health Organization classified the COVID-19 outbreak as 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. As a result, certain of our manufacturing facilities were temporarily suspended or cut back on operating levels and shifts as a result of government orders. Since June 30, 2020 and throughout 2021, 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 employees, 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 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.

*Principles of Consolidation*

The consolidated financial statements include our accounts and the accounts of our wholly owned subsidiary, The Shyft Group USA, Inc. and its subsidiaries. All inter-company transactions have been eliminated.

Non-Controlling Interest. At December 31, 2021, The Shyft Group USA, Inc. held a 50% share in Spartan-Gimaex, however, due to the management and operational structure of the joint venture, The Shyft Group USA, Inc. was considered to have had the ability to control the operations of Spartan-Gimaex. Accordingly, Spartan-Gimaex is reported as a consolidated subsidiary of The Shyft Group, Inc. The joint venture is not currently active and the liquidation is substantially complete. In December 2021, the Company purchased the remaining 20% ownership interest in Strobes-R-U’s (“SRUS”) for \$2,162 and, thus, there was no non-controlling interest in SRUS as of December 31, 2021.

Use of Estimates. In the preparation of our financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”), management uses estimates and makes judgments and assumptions that affect asset and liability values and the amounts reported as income and expense during the periods presented. Certain of these estimates, judgments and assumptions, such as the allowance for credit losses, warranty expenses, impairment assessments of tangible and intangible assets, and the provision for income taxes, are particularly sensitive. If actual results are different from estimates used by management, they may have a material impact on the financial statements.

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

**Revenue Recognition.** Essentially all of our revenue is generated through contracts with our customers. We may recognize revenue over time or at a point in time when or as obligations under the terms of a contract with our customer are satisfied, depending on the terms and features of the contract and the products supplied. Our contracts generally do not have any significant variable consideration. The collectability of consideration on the contract is reasonably assured before revenue is recognized. On certain vehicles, payment may be received in advance of us satisfying our performance obligations. Such payments are recorded in Deposits from customers on the Consolidated Balance Sheets. The corresponding performance obligations are generally satisfied within one year of the contract inception. In such cases, we have elected to apply the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component. The financing impact on contracts that contain performance obligations that are not expected to be satisfied within one year are expected to be immaterial to our consolidated financial statements.

We have elected to utilize the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred because the amortization period for the prepaid costs that would have otherwise been deferred and amortized is one year or less. We use an observable price to allocate the stand-alone selling price to separate performance obligations within a contract or a cost-plus margin approach when an observable price is not available. The estimated costs to fulfill our base warranties are recognized as expense when the products are sold (see "Note 11 – *Commitments and Contingent Liabilities*" for further information on warranties). Our contracts with customers do not contain a provision for product returns, except for contracts related to certain parts sales.

Revenue for parts sales for all segments is recognized at the time that control and risk of ownership has passed to the customer, which is generally when the ordered part is shipped to the customer. Historical return rates on parts sales have been immaterial.

For certain of our vehicles and chassis, we sell separately priced service contracts that provide roadside assistance or extend certain warranty coverage beyond our base warranty agreements. These separately priced contracts range from one to six years from the date of the shipment of the related vehicle or chassis. We receive payment with the shipment of the related vehicle or at the inception of the extended service contract, if later, and recognize revenue over the coverage term of the agreement, generally on a straight-line basis, which approximates the pattern of costs expected to be incurred in satisfying the obligations under the contract.

Distinct revenue recognition policies for our segments are as follows:

**Fleet Vehicles and Services ("FVS").**

Our walk-in vans and truck bodies are generally built on a chassis that is owned and controlled by the customer. Due to the customer ownership of the chassis, the performance obligation for these walk-in vans and truck bodies is satisfied as the vehicles are built. Accordingly, the revenue and corresponding cost of products sold associated with these contracts are recognized over time based on the inputs completed for a given performance obligation during the reporting period. Certain contracts will specify that a walk-in van or truck body is to be built on a chassis that we purchase and subsequently sell to the customer. The revenue on these contracts is recognized at the time that the performance obligation is satisfied, and control and risk of ownership has passed to the customer, which is generally upon shipment of the vehicle from our manufacturing facility to the customer or receipt of the vehicle by the customer, depending on contract terms. We have elected to treat shipping and handling costs subsequent to transfer of control as fulfillment activities and, accordingly, recognize these costs as the revenue is recognized.

Revenue for upfit and field service contracts is recognized over time, as equipment is installed in the customer's vehicle or as repairs and enhancements are made to the customer's vehicles. Revenue and the corresponding cost of products sold is estimated based on the inputs completed for a given performance obligation. Our performance obligation for upfit and field service contracts is satisfied when the equipment installation or repairs and enhancements of the customer's vehicle have been completed. Our receivables are generally collected in less than three months, in accordance with our underlying payment terms.

**Specialty Vehicles ("SV").**

We recognize revenue and the corresponding cost of products sold on the sale of motorhome chassis when the performance obligation is completed and control and risk of ownership of the chassis has passed to our customer, which is generally upon shipment of the chassis or vehicle to the customer.

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

Revenue and the corresponding cost of products sold associated with other specialty vehicles is recognized over time based on the inputs completed for a given performance obligation during the reporting period. Other specialty vehicles are generally built on a chassis that is owned and controlled by the customer. Due to the customer ownership of the chassis, the performance obligations for other specialty chassis contracts are satisfied as the products are assembled. Our receivables will generally be collected in less than three months, in accordance with our underlying payment terms.

Some of our service truck bodies are built on a chassis that is owned and controlled by the customer. Due to the customer ownership of the chassis, the performance obligation for these truck bodies is satisfied as the vehicles are built. Accordingly, the revenue and corresponding cost of products sold associated with these contracts are recognized over time based on the inputs completed for a given performance obligation during the reporting period. Certain contracts will specify that a truck body is to be built on a chassis that we purchase and subsequently sell to the customer. The revenue on these contracts is recognized at the time that the performance obligation is satisfied, and control and risk of ownership has passed to the customer, which is generally upon shipment of the vehicle from our manufacturing facility to the customer or receipt of the vehicle by the customer, depending on contract terms. We have elected to treat shipping and handling costs subsequent to transfer of control as fulfillment activities and, accordingly, recognize these costs as the revenue is recognized.

Revenue for upfit and field service contracts is recognized over time, as equipment is installed in the customer's vehicle or as repairs and enhancements are made to the customer's vehicles. Revenue and the corresponding cost of products sold is estimated based on the inputs completed for a given performance obligation. Our performance obligation for upfit and field service contracts is satisfied when the equipment installation or repairs and enhancements of the customer's vehicle have been completed. Our receivables are generally collected in less than three months, in accordance with our underlying payment terms.

Business Combinations. When acquiring other businesses, we recognize identifiable assets acquired and liabilities assumed at their acquisition date estimated fair values, and separately from any goodwill that may be required to be recognized. Goodwill, when recognizable, is measured as the excess amount of any consideration transferred, which is measured at fair value, over the acquisition date fair values of the identifiable assets acquired and liabilities assumed. Amounts recorded in a business combination may change during the measurement period, which is a period not to exceed one year from the date of acquisition, as additional information about conditions existing at the acquisition date becomes available.

Accounting for such acquisitions requires us to make significant assumptions and estimates and are adjusted during the measurement period for a period of up to one year after the acquisition date. Costs incurred to effect an acquisition, such as legal, accounting, valuation or other third-party costs, as well as internal general and administrative costs incurred are charged to expense in the periods incurred.

Shipping and Handling of Products. Costs incurred related to the shipment and handling of products are classified in cost of products sold. Amounts billed to customers for shipping and handling of products are included in sales.

Cash and Cash Equivalents include cash on hand, cash on deposit, treasuries and money market funds. We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable. Our receivables are subject to credit risk, and we do not typically require collateral on our accounts receivable. We perform periodic credit evaluations of our customers' financial condition and generally require a security interest in the products sold. Receivables generally are due within 30 to 60 days. We maintain an allowance for customer accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance for doubtful accounts consistent with it reflecting related lifetime expected credit losses, management considers relevant information about past events, current conditions and reasonable and supportable forecasts that affect the collectability of financial assets.

Inventories are stated at the lower of first-in, first-out cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less cost to sell and considers our current assessment of general market and economic conditions, slow-moving inventory, and future demands.

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

Contract Assets arise upon the transfer of goods or services to a customer before the customer pays consideration. The Company presents the contract as either a contract asset or as a receivable, depending on the nature of the entity's right to consideration for its performance. Contract assets are a right to consideration in exchange for goods or services that the Company has transferred to a customer, when the right is conditioned on something other than the passage of time.

Property, Plant and Equipment is stated at cost and the related assets are depreciated over their estimated useful lives on a straight-line basis for financial statement purposes and an accelerated method for income tax purposes. Cost includes an amount of interest associated with significant capital projects. Estimated useful lives range from 20 years for buildings and improvements, three to 15 years for plant machinery and equipment, three to seven years for furniture and fixtures and three to five years for vehicles. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the asset. Maintenance and repair costs are charged to earnings, while expenditures that increase asset lives are capitalized. We review our property, plant and equipment, along with all other long-lived assets that have finite lives, including finite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. See "Note 7 – *Property, Plant and Equipment*" for further information on our property and equipment.

Assets and Liabilities Held for Sale We classify assets and liabilities (disposal groups) to be sold as held for sale in the period in which all of the following criteria are met: management, having the authority to approve the action, commits to a plan to sell the disposal group; the disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such disposal groups; an active program to locate a buyer and other actions required to complete the plan to sell the disposal group have been initiated; the sale of the disposal group is probable, and transfer of the disposal group is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond the Company's control extend the period of time required to sell the disposal group beyond one year; the disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

We initially measure a disposal group that is classified as held for sale at the lower of its carrying value or fair value less costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized on the sale of a disposal group until the date of sale. We assess the fair value of a disposal group each reporting period it remains classified as held for sale and any subsequent changes are reported as an adjustment to the carrying value of the disposal group, as long as the new carrying value does not exceed the carrying value of the disposal group at the time it was initially classified as held for sale.

Upon determining that a disposal group meets the criteria to be classified as held for sale, the Company reports the assets and liabilities of the disposal group, if material, in the line items assets held for sale and liabilities held for sale in the Consolidated Balance Sheets. Depreciation is not recorded during the period in which the long-lived assets, included in the disposal group, are classified as held for sale.

Additionally, we report the reporting results for a disposal group in discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations if the disposal represents a strategic shift that has or will have a major effect on our operations and financial results.

Goodwill and Other Intangible Assets. Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired. Goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to impairment tests on an annual basis, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is allocated to the reporting unit from which it was created. A reporting unit is an operating segment or sub-segment to which goodwill is assigned when initially recorded. We review indefinite lived intangible assets annually for impairment by comparing the carrying value of those assets to their fair value.

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

Other intangible assets with finite lives are amortized over their estimated useful lives and are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

We perform our annual goodwill and indefinite lived intangible assets impairment test as of October 1 and monitor for interim triggering events on an ongoing basis. For goodwill we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Under authoritative guidance, we are not required to calculate the fair value of a reporting unit unless we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. We have the option to bypass the qualitative assessment and proceed to a quantitative impairment test.

If we elect to bypass the qualitative assessment for a reporting unit, or if after completing the assessment we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we perform a quantitative impairment test, whereby we compare the fair value of a reporting unit with its carrying amount, including goodwill. The fair value of the reporting unit is determined by estimating the future cash flows of the reporting unit to which the goodwill relates, and then discounting the future cash flows at a market-participant-derived weighted-average cost of capital ("WACC"). In determining the estimated future cash flows, we consider current and projected future levels of income based on our plans for that business; business trends, prospects and market and economic conditions; and market-participant considerations. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered to not be impaired. If the carrying amount of the reporting unit exceeds its estimated fair value, an impairment loss is recognized in an amount equal to the excess, up to the carrying value of the goodwill.

We evaluate the recoverability of our indefinite lived intangible assets by comparing the estimated fair value of the trade names with their carrying values. We estimate the fair value of our trade names based on estimates of future royalty payments that are avoided through our ownership of the trade name, discounted to their present value. In determining the estimated fair value of the trade names, we consider current and projected future levels of sales based on our plans for those branded products, business trends, prospects and market and economic conditions.

Significant judgments inherent in these assessments and analyses include assumptions about macroeconomic and industry conditions, appropriate sales growth rates, WACC and the amount of expected future net cash flows. The judgments and assumptions used in the estimate of fair value are generally consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change because of changing economic and competitive conditions. The determination of fair value is highly sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fair value of the reporting units and trade names. See "Note 2 – *Discontinued Operations*" for further details on our goodwill and indefinite-lived intangible assets related to the ERV business. See "Note 6 – *Goodwill and Intangible Assets*" for further details on our goodwill and other intangible assets.

**Warranties.** Our policy is to record a provision for the estimated cost of warranty-related claims at the time of the sale, and periodically adjust the warranty liability to reflect actual experience. The amount of warranty liability accrued reflects management's best estimate of the expected future cost of honoring our obligations under the warranty agreements. Expense related to warranty liabilities accrued for product sales, as well as adjustments to pre-existing warranty liabilities, are reflected within Cost of products sold on our Consolidated Statements of Operations. Our estimates are based on historical experience, the number of units involved, and the extent of features and components included in product models. See "Note 11 – *Commitments and Contingent Liabilities*" for further information regarding warranties.

**Deposits from Customers.** We sometimes receive advance payments from customers for product orders and record these amounts as liabilities. We accept such deposits when presented by customers seeking improved pricing in connection with orders that are placed for products to be manufactured and sold at a future date. Sales associated with these deposits are recognized over time based on the inputs completed for a given performance obligation during the reporting period or deferred and recognized upon shipment of the related product to the customer depending on the terms of the contract.

**Research and Development.** Our research and development costs, which consist of compensation costs, travel and entertainment, administrative expenses and new product development among other items, are expensed as incurred.

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

**Taxes on Income.** We recognize deferred income tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Deferred tax liabilities generally represent tax expense recognized for which payment has been deferred, or expenses which have been deducted in our tax returns, but which have not yet been recognized as an expense in our financial statements.

We establish valuation allowances for deferred income tax assets in accordance with GAAP, which provides that such valuation allowances shall be established unless realization of the income tax benefits is more likely than not. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. At each reporting period, we consider the scheduled reversal of deferred tax liabilities, available taxes in carryback periods, tax planning strategies and projected future taxable income in making this assessment.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals.

Interest and penalties attributable to income taxes are recorded as a component of income taxes. See "Note 9 – *Taxes on Income*" for further details on our income taxes.

**Earnings Per Share.** Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share also include the dilutive effect of additional potential common shares issuable from stock-based awards and are determined using the treasury stock method. Basic earnings per share represents net earnings divided by basic weighted average number of common shares outstanding during the period. Diluted earnings per share represents net earnings divided by diluted weighted average number of common shares outstanding, which includes the average dilutive effect of all potentially dilutive securities that are outstanding during the period. Our unvested restricted stock units and performance stock units are included in the number of shares outstanding for diluted earnings per share calculations, unless a net loss is reported, in which situation unvested stock awards are excluded from the number of shares outstanding for diluted earnings per share calculations. See "Note 14 – *Stock-Based Compensation*" and "Note 16 – *Earnings Per Share*" for further details.

**Stock-Based Compensation.** Stock based compensation cost for equity-based awards is measured on the grant date based on the estimated fair value of the award at that date, and is recognized over the requisite service period, net of estimated forfeitures. Fair value of restricted stock awards, restricted stock units and performance stock units subject to a performance condition is based upon the quoted market price of the common stock on the date of grant. Fair value of performance stock units subject to a market condition is calculated using the Monte Carlo simulation model. Our stock-based compensation plans are described in more detail in "Note 14 – *Stock Based Compensation*".

**Fair Value.** We are required to disclose the estimated fair value of our financial instruments. The carrying value at December 31, 2021 and 2020 of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to their short-term nature. The carrying value of variable rate debt instruments approximate their fair value based on their relative terms and market rates.

**Segment Reporting.** We identify our reportable segments based on our management structure and the financial data utilized by the 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. More detailed information about our reportable segments can be found in "Note 17 – *Business Segments*".

**Supplemental Disclosures of Cash Flow Information.** Cash paid for interest was \$592, \$1,757, and \$1,844 for 2021, 2020, and 2019. Cash paid for income taxes, net of refunds, was \$12,199, \$608, and \$4,942 for 2021, 2020 and 2019. Non-cash investing in 2021 included \$1,511 of capital expenditures and \$1,496 in 2020. The Company has Chassis Pool Agreements, where it participates in a chassis converter pool that is a non-cash arrangement and is offsetting between current assets and current liabilities on the Company's Consolidated Balance Sheets. See "Note 13 – *Debt*" for further information about the Chassis Pool Agreements.

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

Except for the changes below, we have consistently applied the accounting policies to all periods presented in these consolidated financial statements.

Adoption of Simplifications to Accounting for Income Taxes Accounting Policy. 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 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.

Adoption of Current Expected Credit Losses Accounting Policy. Effective January 1, 2020, we adopted ASU 2016- 13 and all related amendments, which require entities to use a new impairment model based on current expected credit losses (“CECL”) rather than incurred losses, which recognized credit losses when it was probable a loss had been incurred. Credit losses under CECL are determined using a method that reflects lifetime expected credit losses by considering relevant information about past events, current conditions and reasonable and supportable forecasts that affect the collectability of financial assets. We applied ASU 2016- 13 using the modified retrospective method and the cumulative effect of adoption was not material. Therefore, the comparative information has not been adjusted and continues to be reported under prior accounting guidance.

**NOTE 2 – DISCONTINUED OPERATIONS**

On February 1, 2020, we completed the sale of our 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 \$3,383 for the year ended December 31, 2020, which are portions of the Loss from discontinued operations, net of tax in the 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 Loss from discontinued operations, net of tax in the Consolidated Statements of Operations for the years ended December 31, 2021, 2020 and 2019. We continue to have an open Transition Services Agreement with the buyer for the provision of certain transition support services, which will continue for certain services into 2022.

The Loss from discontinued operations presented in the Consolidated Statement of Operations for the years ended December 31, 2021, 2020 and 2019 consisted of:

	Year Ended December 31,		
	2021	2020	2019
Sales	\$ -	\$ 19,167	\$ 261,860
Cost of products sold	-	18,678	245,785
Gross profit	-	489	16,075
Operating expenses	-	4,484	28,864
Operating loss	-	(3,995)	(12,789)
Loss on asset impairments	-	-	53,131
Other income (expense)	243	(3,383)	1,021
Income (loss) from discontinued operations before taxes	243	(7,378)	(64,899)
Income tax (expense) benefit	(62)	2,255	15,683
Net income (loss) from discontinued operations	\$ 181	\$ (5,123)	\$ (49,216)

In the annual goodwill and intangible assets impairment test as of October 1, 2019, we determined that the fair value of our ERV business and Smeal trade name were less than their carrying values due to under-performance in 2019 which was expected to continue in future periods. As a result, we recorded impairment expense of \$13,856 to write off the goodwill and indefinite lived intangible assets. In conjunction with the classification of the ERV business as held for sale as of December 31, 2019, we recorded a loss of \$39,275 to write down the carrying values of the associated assets and liabilities to their fair values less estimated costs to sell of \$3,604. As of December 31, 2021 and 2020, due to the sale of the ERV business, there were no assets or liabilities related to discontinued operations on the Consolidated Balance Sheets.



**THE SHYFT GROUP, INC. AND SUBSIDIARIES**  
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(Dollar amounts in thousands, except per share data)

Total depreciation and amortization and capital expenditures for the discontinued operations for the years ended December 31, 2021, 2020 and 2019:

	Year Ended December 31,		
	2021	2020	2019
Depreciation and amortization	\$ -	\$ 284	\$ 5,106
Capital expenditures	\$ -	\$ 84	\$ 2,431

**NOTE 3 – ACQUISITION ACTIVITIES**

*DuraMag Acquisition*

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 13 – Debt". DuraMag is part of our Specialty Vehicle segment. During the year ended 2021 and 2020, we recorded pretax charges totaling \$81 and \$970, respectively, for legal expenses and other transaction costs related to the acquisition, which were reported in Selling, general and administrative expense on the Consolidated Statements of Operations.

*DuraMag 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 excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired of \$5,401 was recorded as goodwill, which is expected to be deductible for tax purposes.

The initial fair values of the net assets acquired were based on a preliminary valuation and the estimates and assumptions were subject to change within the measurement period. In the third quarter of 2021, the Company finalized the purchase price allocation for adjustments related to accrued warranty of \$289. The valuation and the estimates and assumptions were finalized during the year ended December 31, 2021, as the measurement period has concluded.

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As of December 31, 2021, the final allocation of purchase price to assets acquired and liabilities assumed is as follows:

Accounts receivable	\$	2,315
Inventories		3,659
Other current assets		15
Property, plant and equipment, net		2,949
Right of use assets-operating leases		8,469
Intangible assets		5,590
Goodwill		5,401
Total assets acquired		<u>28,398</u>
Accounts payable		(1,662)
Accrued Warranty		(289)
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		<u>(11,099)</u>
Total purchase price	<u>\$</u>	<u>17,299</u>

*DuraMag Goodwill Assigned*

Intangible assets totaling \$5,590 have 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 (in years)
Customer relationships	\$ 2,200	15
Trade names and trademarks	2,420	Indefinite
Unpatented technology	540	9
Non-competition agreements	430	6
	<u>\$ 5,590</u>	

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 \$278 for 2021 and estimated to be \$278, \$299, and \$295 for the years 2022 through 2024, respectively.

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.

*Royal Acquisition*

On September 9, 2019, the Company completed the acquisition of Fortress Resources, LLC d/b/a Royal Truck Body pursuant to which the Company acquired all the outstanding equity interests of Royal. The Company paid \$89,217 in cash, which was financed by borrowing from our existing line of credit, as described in "Note 13 – Debt".

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*Royal Purchase Price Allocation*

The Royal 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, trade names and trademarks, patented technology and non-competition agreements. The excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired of \$27,476 was initially recorded as goodwill, which is expected to be deductible for tax purposes.

The initial fair values of the net assets acquired were based on a preliminary valuation and the estimates and assumptions were subject to change within the measurement period. In the second quarter of 2020, the Company agreed to a working capital adjustment with the seller and made certain adjustments which resulted in a decrease to goodwill of \$152. The valuation and the estimates and assumptions were finalized during the year ended December 31, 2020, as the measurement period has concluded.

As of December 31, 2020, the final allocation of purchase price to assets acquired and liabilities assumed is as follows:

Cash and cash equivalents	\$	431
Accounts receivable, less allowance		5,019
Contract assets		1,499
Inventories		6,453
Other receivables – chassis pool agreements		10,424
Property, plant and equipment, net		4,980
Right of use assets – operating leases		12,767
Intangible assets		47,150
Goodwill		27,324
Total assets acquired		<u>116,047</u>
Accounts payable		(1,658)
Customer prepayments		(255)
Accrued warranty		(98)
Operating lease liabilities		(1,693)
Accrued compensation and related taxes		(569)
Other current liabilities and accrued expenses		(30)
Short-term debt – chassis pool agreements		(10,424)
Long-term operating lease liability		(11,074)
Long-term debt, less current portion		(1,029)
Total liabilities assumed		<u>(26,830)</u>
Total purchase price	<u>\$</u>	<u>89,217</u>

*Royal Goodwill Assigned*

Intangible assets totaling \$47,150 have been assigned to customer relationships, trade names and trademarks, patented technology and non-competition agreements as a result of the acquisition and consist of the following:

	Amount	Useful Life (in years)
Customer relationships	\$ 30,000	15
Trade names and trademarks	13,000	Indefinite
Patented technology	2,200	8
Non-competition agreements	1,950	5
	<u>\$ 47,150</u>	

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The Company amortizes the customer relationships utilizing an accelerated approach and patented technology and non-competition agreements assets utilizing a straight-line approach. Amortization expense, including the intangible assets recorded from the Royal acquisition, is \$2,665 and \$2,665 for 2021 and 2020, respectively, and estimated to be \$3,162, and \$3,072 for the years 2022 through 2023, respectively.

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.

**NOTE 4 – REVENUE**

Contract Assets and Liabilities

The tables below disclose changes in contract assets and liabilities as of the periods indicated.

	December 31, 2021	December 31, 2020
<u>Contract Assets</u>		
Contract assets, beginning of year	\$ 9,414	\$ 10,898
Reclassification of the beginning contract assets to receivables, as the result of rights to consideration becoming unconditional	(9,414)	(10,898)
Contract assets recognized, net of reclassification to receivables	21,483	9,414
Contract assets, end of year	21,483	9,414
<u>Contract Liabilities</u>		
Contract liabilities, beginning of year	756	2,640
Reclassification of the beginning contract liabilities to revenue, as the result of performance obligations satisfied	(743)	(2,640)
Cash received in advance and not recognized as revenue	975	756
Contract liabilities, end of year	988	756

As of October 1, 2021, the composition of both reportable segments changed due to an internal reorganization as certain businesses previously managed and reported within FVS are now a part of SV. Corresponding items of segment information for earlier periods have been recast.

The aggregate amount of the transaction price allocated to remaining performance obligations in existing contracts that are yet to be completed in the FVS and SV segments are \$859,442 and \$104,117, respectively, with substantially all revenue expected to be recognized within one year as of December 31, 2021.

For performance obligations that are satisfied over time, revenue is expected to be recognized evenly over the time period to complete the contract due to the assembly line nature of the business operations. For performance obligations that are satisfied at a point in time, revenue is expected to be recognized when the customer obtains control of the product, which is generally upon shipment from our facility. No amounts have been excluded from the transaction prices above related to the guidance on constraining estimates of variable consideration.

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In the following tables, revenue is disaggregated by primary geographical market and timing of revenue recognition for the years ended December 31, 2021, 2020, and 2019. The tables also include a reconciliation of the disaggregated revenue with the reportable segments.

Year Ended December 31, 2021					
	FVS	SV	Total Reportable Segments	Other	Total
<u>Primary geographical markets</u>					
United States	\$ 647,842	\$ 332,293	\$ 980,135	\$ -	\$ 980,135
Other	11,590	67	11,657	-	11,657
Total sales	<u>\$ 659,432</u>	<u>\$ 332,360</u>	<u>\$ 991,792</u>	<u>\$ -</u>	<u>\$ 991,792</u>
<u>Timing of revenue recognition</u>					
Products transferred at a point in time	\$ 34,558	\$ 198,852	\$ 233,410	\$ -	\$ 233,410
Products and services transferred over time	624,874	133,508	758,382	-	758,382
Total sales	<u>\$ 659,432</u>	<u>\$ 332,360</u>	<u>\$ 991,792</u>	<u>\$ -</u>	<u>\$ 991,792</u>
Year Ended December 31, 2020					
	FVS	SV	Total Reportable Segments	Other	Total
<u>Primary geographical markets</u>					
United States	\$ 454,403	\$ 212,109	\$ 666,512	\$ -	\$ 666,512
Other	9,055	406	9,461	-	9,461
Total sales	<u>\$ 463,458</u>	<u>\$ 212,515</u>	<u>\$ 675,973</u>	<u>\$ -</u>	<u>\$ 675,973</u>
<u>Timing of revenue recognition</u>					
Products transferred at a point in time	\$ 44,418	\$ 127,801	\$ 172,219	\$ -	\$ 172,219
Products and services transferred over time	419,040	84,714	503,754	-	503,754
Total sales	<u>\$ 463,458</u>	<u>\$ 212,515</u>	<u>\$ 675,973</u>	<u>\$ -</u>	<u>\$ 675,973</u>

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Year Ended December 31, 2019

	FVS	SV	Total Reportable Segments	Other	Total
<b>Primary geographical markets</b>					
United States	\$ 536,499	\$ 203,960	\$ 740,459	\$ (5,278)	\$ 735,181
Other	21,203	158	21,361	-	21,361
Total sales	<u>\$ 557,702</u>	<u>\$ 204,118</u>	<u>\$ 761,820</u>	<u>\$ (5,278)</u>	<u>\$ 756,542</u>
<b>Timing of revenue recognition</b>					
Products transferred at a point in time	\$ 152,336	\$ 149,995	\$ 302,331	\$ (5,278)	\$ 297,053
Products and services transferred over time	405,366	54,123	459,489	-	459,489
Total sales	<u>\$ 557,702</u>	<u>\$ 204,118</u>	<u>\$ 761,820</u>	<u>\$ (5,278)</u>	<u>\$ 756,542</u>

**NOTE 5 – INVENTORIES**

Inventories are summarized as follows:

	December 31,	
	2021	2020
Finished goods	\$ 2,990	\$ 4,200
Work in process	2,471	1,908
Raw materials and purchased components	61,723	40,320
Total Inventories	<u>\$ 67,184</u>	<u>\$ 46,428</u>

**NOTE 6 – GOODWILL AND INTANGIBLE ASSETS**

Goodwill

We test goodwill for impairment at the reporting unit level on an annual basis as of October 1, or whenever an event or change in circumstances occurs that would more likely than not reduce the fair value of a reporting unit below its carrying amount. See "Goodwill and Other Intangible Assets" within "Note 1 – Nature of Operations and Basis of Presentation" for a description of our accounting policies regarding goodwill and other intangible assets.

As of October 1, 2021 the most recent annual goodwill impairment assessment date, two reporting units were determined for goodwill impairment testing: Fleet Vehicles and Services and Specialty Vehicles, which is a change from the prior year where three reporting units were determined for goodwill impairment testing: Fleet Vehicles and Services, Specialty Vehicles, and Service Truck Bodies. As we continued integrating the newly acquired DuraMag business with the Royal operations in 2021, further similarities between these two businesses and the other Specialty Vehicles business were identified that allowed us to run operations with shared manufacturing facilities, engineering resources and capital equipment. As a result, the entirety of goodwill at former Service Truck Bodies reporting unit was combined into the Specialty Vehicles reporting unit. We qualitatively assessed goodwill assigned to the Fleet Vehicles and Services and Specialty Vehicles reporting units and found no indicators of impairment. We completed a quantitative assessment of the Service Truck Bodies reporting unit immediately before the reporting unit change and a qualitative assessment of the Special Vehicles reporting unit post reorganization and determined that no impairment existed.

As discussed in "Note 1 – Nature of Operations and Basis of Presentation" there are significant judgments inherent in our impairment assessments and discounted cash flow analyses. These discounted cash flow analyses are most sensitive to the weighted-average cost of capital ("WACC") assumption.

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As of October 1, 2021, the composition of both reportable segments changed due to an internal reorganization as certain businesses previously managed and reported within FVS are now a part of SV. Corresponding items of segment information for earlier periods have been recast.

The change in the carrying amount of goodwill for the year ended December 31, 2021 and 2020 were as follows (in thousands):

	FVS		SV		Total	
	December 31,		December 31,		December 31,	
	2021	2020	2021	2020	2021	2020
Goodwill, beginning of year	\$ 15,323	\$ 15,323	\$ 34,158	\$ 28,309	\$ 49,481	\$ 43,632
Acquisition and measurement period adjustments	-	-	(601)	5,849	(601)	5,849
Goodwill, end of year	<u>\$ 15,323</u>	<u>\$ 15,323</u>	<u>\$ 33,557</u>	<u>\$ 34,158</u>	<u>\$ 48,880</u>	<u>\$ 49,481</u>

Other Intangible Assets

At December 31, 2021, we had other intangible assets, including customer and dealer relationships, non-compete agreements, trade names, trademarks, unpatented technology, patented technology. Certain non-compete agreements and certain other intangible assets are being amortized over their expected remaining useful lives based on the pattern of estimated after-tax operating income generated, or on a straight-line basis. Unpatented technology, patented technology and certain non-compete agreements are amortized utilizing a straight-line approach over the estimated useful lives. We amortize the customer relationships utilizing an accelerated approach over the estimated remaining life. The Royal, DuraMag, Magnum, Utilimaster, and Strobes-R-Us trade names and trademarks are considered to have indefinite lives and are not amortized.

We evaluate the recoverability of our indefinite lived intangible assets, which, as of October 1, 2021, consisted of our Royal, DuraMag, and Magnum trade names, by comparing the estimated fair value of the trade names with their carrying values. We estimate the fair value of our trade names based on estimates of future royalty payments that are avoided through our ownership of the trade name, discounted to their present value. In determining the estimated fair value of the trade names, we consider current and projected future levels of sales based on our plans for these trade name branded products, business trends, prospects and market and economic conditions. The fair value of our Royal, DuraMag, and Magnum trade names exceeded their carrying values, and therefore do not result in an impairment. We qualitatively assessed Utilimaster and Strobes-R-Us trade names and trademarks and found no indicators of impairment.

The following table provides information regarding our other intangible assets:

	As of December 31, 2021			As of December 31, 2020		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Customer relationships	\$ 39,080	\$ 9,188	\$ 29,892	\$ 39,770	\$ 7,390	\$ 32,380
Unpatented technology	540	75	465	540	15	525
Patented technology	2,200	619	1,581	2,200	344	1,856
Non-compete agreements	2,980	1,327	1,653	3,380	1,145	2,235
Trade Names	19,390	-	19,390	19,390	-	19,390
	<u>\$ 64,190</u>	<u>\$ 11,209</u>	<u>\$ 52,981</u>	<u>\$ 65,280</u>	<u>\$ 8,894</u>	<u>\$ 56,386</u>

We recorded \$3,405, \$3,265, and \$1,200 of intangible asset amortization expense during 2021, 2020 and 2019.

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The estimated remaining amortization associated with finite-lived intangible assets is expected to be expensed as follows:

	Amount
2022	\$ 3,903
2023	3,810
2024	3,477
2025	3,070
2026	2,944
Thereafter	16,387
<b>Total</b>	<b>\$ 33,591</b>

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT**

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

	December 31,	
	2021	2020
Land and improvements	\$ 9,810	\$ 8,721
Buildings and improvements	45,724	40,077
Plant machinery and equipment	49,305	41,054
Furniture and fixtures	20,421	16,259
Vehicles	2,607	2,404
Construction in process	12,700	8,724
Subtotal	140,567	117,239
Less accumulated depreciation	(79,510)	(71,505)
<b>Total property, plant and equipment, net</b>	<b>\$ 61,057</b>	<b>\$ 45,734</b>

We recorded depreciation expense of \$7,977, \$10,638, and \$5,892 during 2021, 2020, and 2019, respectively. There were no capitalized interest costs in 2021, 2020, or 2019. 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, in 2020, we recorded depreciation expense of \$3,060 attributable to accelerated depreciation and a loss of \$2,430 from the write-off of related construction in process. The total after-tax impact on Income from continuing operations was an expense of \$4,365 for 2020.

**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 18 years, some of which include options to extend the leases for up to 15 years. Our leases do not contain residual value guarantees. As of December 31, 2021 and 2020, assets recorded under finance leases were immaterial (See "Note 13 – Debt"). Lease expense totaled \$8,679, \$6,913, and \$4,146 for the years ended December 31, 2021, 2020 and 2019, respectively.



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

	Year ended December 31, 2021	Year ended December 31, 2020
Operating leases	\$ 8,233	\$ 6,699
Short-term leases (1)	446	214
<b>Total lease expense</b>	<b>\$ 8,679</b>	<b>\$ 6,913</b>

(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:

	Year ended December 31, 2021	Year ended December 31, 2020
Weighted average remaining lease term of operating leases (in years)	8.9	9.4
Weighted average discount rate of operating leases	3.0%	3.1%

Supplemental cash flow information related to leases was as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flow for operating leases	\$ 7,958	\$ 6,338
<b>Right of use assets obtained in exchange for lease obligations:</b>		
Operating leases	\$ 7,137	\$ 16,829
Finance leases	\$ 271	\$ 141

Maturities of operating lease liabilities as of December 31, 2021 are as follows:

<b>Years ending December 31:</b>	
2022	\$ 8,072
2023	7,565
2024	7,138
2025	6,247
2026	4,557
Thereafter	17,079
<b>Total lease payments</b>	<b>50,658</b>
<b>Less: imputed interest</b>	<b>(6,395)</b>
<b>Total lease liabilities</b>	<b>\$ 44,263</b>

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**NOTE 9 – TAXES ON INCOME**

Income taxes consist of the following:

	Year Ended December 31,		
	2021	2020	2019
Taxes on income from continuing operations	\$ 14,506	\$ 9,867	\$ 10,355
Income tax expense (benefit) from discontinued operations	62	(2,255)	(15,683)
<b>Total taxes on income</b>	<b>\$ 14,568</b>	<b>\$ 7,612</b>	<b>\$ (5,328)</b>

Income taxes from continuing operations consist of the following:

	Year Ended December 31,		
	2021	2020	2019
<b>Current (benefit):</b>			
Federal	\$ 10,891	\$ 8,191	\$ 9,883
State	2,745	2,474	1,664
Foreign	286	156	128
<b>Total current</b>	<b>13,922</b>	<b>10,821</b>	<b>11,675</b>
<b>Deferred (benefit):</b>			
Federal	554	(975)	(705)
State	30	21	(615)
<b>Total deferred</b>	<b>584</b>	<b>(954)</b>	<b>(1,320)</b>
<b>Total taxes on income</b>	<b>\$ 14,506</b>	<b>\$ 9,867</b>	<b>\$ 10,355</b>

Enacted on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“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 in 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 was able to carry back the NOL 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. Based upon current accounting guidance, which requires that the impact of tax law changes be recorded in continuing operations, we recorded a \$2,610 tax benefit in continuing operations in 2020 resulting from the rate difference as a component of Income tax expense.

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Differences between the expected income tax expense derived from applying the federal statutory income tax rate to earnings from continuing operations before taxes on income and the actual tax expense are as follows:

	Year Ended December 31,		
	2021	2020	2019
Federal income taxes at the statutory rate	\$ 17,741	\$ 10,113	\$ 9,901
State tax expense, net of federal income tax benefit	2,481	1,895	577
Increase (decrease) in income taxes resulting from:			
Tax rate benefit from NOL carryback due to CARES Act	-	(2,610)	-
Other deferred income tax adjustment	-	174	(75)
Non-deductible compensation	958	1,162	511
Other non-deductible expenses	-	94	115
Foreign derived intangible income deduction	-	-	(45)
Stock based compensation	(1,504)	(666)	(136)
Foreign tax expense	-	156	128
Valuation allowance adjustment	(82)	(254)	135
Unrecognized tax benefit adjustment	-	(14)	(61)
Federal research and development tax credit	(4,413)	(329)	(591)
Foreign tax credit	-	(32)	(38)
Other	(675)	178	(66)
Total	<u>\$ 14,506</u>	<u>\$ 9,867</u>	<u>\$ 10,355</u>

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Temporary differences which give rise to deferred income tax assets (liabilities) are as follows:

	December 31,	
	2021	2020
<b>Deferred income tax assets:</b>		
Operating lease liability	\$ 10,917	\$ 11,073
Warranty reserve	1,330	1,239
Inventory costs and reserves	1,862	2,066
Deferment of employer's portion Social Security tax payment	526	979
Contract assets	2,518	732
Stock-based compensation	1,361	853
Net operating loss carry-forwards, net of federal income tax benefit	880	1,664
Compensation related accruals	609	549
Credit carry-forwards net of federal income tax benefit	1,332	1,018
Other	837	445
<b>Total deferred income tax assets</b>	<b>\$ 22,172</b>	<b>\$ 20,618</b>
<b>Deferred income tax liabilities:</b>		
Right of use assets	\$ (10,682)	\$ (10,912)
Depreciation	(4,846)	(2,832)
Intangible assets	(1,693)	(879)
Prepaid expenses	(71)	(154)
<b>Total deferred income tax liabilities</b>	<b>\$ (17,292)</b>	<b>\$ (14,777)</b>
<b>Net deferred income tax assets</b>	<b>\$ 4,880</b>	<b>\$ 5,841</b>
Valuation allowance	-	(82)
<b>Net deferred tax asset</b>	<b>\$ 4,880</b>	<b>\$ 5,759</b>

Based upon an assessment of the available positive and negative evidence at December 31, 2021, the total deferred income tax assets are more likely than not to be realized based on the consideration of deferred tax liability reversals and projected future taxable income. The valuation allowance for net deferred income tax assets relates to a state credit carryforward as of December 31, 2020.

At December 31, 2021 and 2020, we had state tax net operating loss carry-forwards of \$1,114, which expire between years 2027-2042, and \$2,106, which begin expiring in 2021, respectively. At December 31, 2021 and 2020, we had state tax credit carry-forwards of \$2,289 which expire between years 2022-2031, and \$1,289, which begin expiring in 2021, respectively. At December 31, 2020, due to a current year loss in a certain state jurisdiction, we recorded a valuation allowance against the deferred tax assets related to the same state's credit carryforward of \$82.

A reconciliation of the change in the unrecognized tax benefits ("UTB") for the three years ended December 31, 2021, 2020 and 2019 is as follows:

	2021	2020	2019
Balance at January 1,	\$ 1,234	\$ 1,270	\$ 827
Increase (decrease) related to prior year tax positions	2,935	(109)	103
Increase related to current year tax positions	1,161	101	578
Expiration of statute	(83)	(28)	(238)
<b>Balance at December 31,</b>	<b>\$ 5,247</b>	<b>\$ 1,234</b>	<b>\$ 1,270</b>

As of December 31, 2021, we had an ending UTB balance of \$5,247 along with \$530 of interest and penalties, for a total liability of \$5,777, of which \$5,301 is recorded as a non-current liability and \$476 as a credit offsetting deferred tax assets. The change in interest and penalties amounted to an increase of \$199 in 2021, an increase of \$92 in 2020, and a decrease of \$209 in 2019, which were reflected in Income tax expense within our Consolidated Statement of Operations. The total amount of UTB that, if recognized, would impact our effective tax rate is \$4,989 in 2021, \$1,234 in 2020, and \$1,270 in 2019.

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The significant increase in UTB relates primarily to amounts claimed for the research and development credits. As of December 31, 2021, we are no longer subject to examination by federal taxing authorities for 2016 and earlier years, however federal carryforwards from 2016 and earlier are open to adjustment.

We also file tax returns in several states and those jurisdictions remain subject to audit in accordance with relevant state statutes. These audits can involve complex issues that may require an extended period of time to resolve and may cover multiple years. To the extent we prevail in matters for which reserves have been established or are required to pay amounts in excess of our reserves, our effective income tax rate in a given fiscal period could be impacted. However, we do not expect such impacts to be material to our financial statements. An unfavorable tax settlement may require use of our cash and could result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement could result in a reduction in our effective income tax rate in the period of resolution. We do not expect the total amount of UTB to significantly increase or decrease over the next twelve months.

**NOTE 10 – TRANSACTIONS WITH MAJOR CUSTOMERS**

Major customers are defined as those with sales greater than 10 percent of consolidated sales in a given year. We had certain customers whose sales individually represented 10 percent or more of the Company's total sales as follows:

Year	Number of major customers	Combined percentage of consolidated sales	Segment
2021	1	25.1%	FVS
2020	1	29.3%	FVS
2019	2	37.9%	FVS

**NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES**

At December 31, 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 during the years ended December 31, 2021 and 2020 were as follows:

	2021	2020
Balance of accrued warranty at January 1	\$ 5,633	\$ 5,694
Provisions for current period sales	2,211	3,587
Cash settlements	(4,234)	(3,205)
Changes in liability for pre-existing warranties	2,076	(443)
Acquisitions	289	-
Balance of accrued warranty at December 31	<u>\$ 5,975</u>	<u>\$ 5,633</u>

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*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 December 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 12 – DEFINED CONTRIBUTION PLANS**

We sponsor defined contribution retirement plans which cover all employees who meet length of service and minimum age requirements. Our matching contributions vest over five years and were \$2,572, \$1,762, and \$1,654 in 2021, 2020, and 2019. These amounts are expensed as incurred.

**NOTE 13 – DEBT**

Short-term debt consists of the following:

	December 31, 2021	December 31, 2020
Chassis pool agreements	\$ 9,926	\$ 6,503
Total short-term debt	<u>\$ 9,926</u>	<u>\$ 6,503</u>

*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, nor expects to in the future settle, any related obligations in cash. 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 December 31, 2021 and December 31, 2020, the Company's outstanding chassis converter pool with manufacturers totaled \$9,926 and \$6,503, respectively, and the Company has included this financing agreement on the Company's 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 Consolidated Balance Sheets.

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Long-term debt consists of the following:

	December 31, 2021	December 31, 2020
Line of credit revolver:	\$ -	\$ 22,400
Finance lease obligations	450	473
Other	540	766
Total debt	990	23,639
Less current portion of long-term debt	(252)	(221)
Total long-term debt	<u>\$ 738</u>	<u>\$ 23,418</u>

*Line of Credit Revolver*

On November 30, 2021, we entered into an Amended and Restated Credit Agreement (the "Credit Agreement") by and among us and certain of our subsidiaries as borrowers, Wells Fargo Bank, N.A. ("Wells Fargo"), as administrative agent, and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A., PNC Bank, National Association and Bank of America, N.A. (the "Lenders"). Certain of our other subsidiaries have executed guaranties guarantying the borrowers' obligations under the Credit Agreement.

Under the Credit Agreement, we may borrow up to \$400,000 from the Lenders under a secured revolving credit facility which matures November 30, 2026. We may also request an increase in the facility of up to \$200,000 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 \$10,000, subject to certain limitations and restrictions. 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 the margin was 1.10% (or one-month LIBOR plus 1.00%) at December 31, 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 December 31, 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 \$376,776 and \$125,836 at December 31, 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 December 31, 2021 and December 31, 2020, we were in compliance with all covenants in our Credit Agreement.

In the year ended December 31, 2021 the Company paid down \$22,400 of long-term debt, net of borrowings.

**NOTE 14 – STOCK BASED COMPENSATION**

We have stock incentive plans covering certain employees and non-employee directors. Shares reserved for stock awards under these plans total 4,056,250. Total shares remaining available for stock incentive grants under these plans totaled 1,666,736 at December 31, 2021. We are currently authorized to grant new stock options, restricted stock, restricted stock units, stock appreciation rights and performance stock units under our Stock Incentive Plan of 2016.

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Restricted Stock

We issue restricted stock, at no cash cost, to our key employees. Shares awarded entitle the shareholder to all rights of common stock ownership except that the shares are subject to the risk of forfeiture and may not be sold, transferred, pledged, exchanged or otherwise disposed of during the vesting period, which is three years. The unearned stock-based compensation related to restricted stock awards, using the market price on the date of grant, is being amortized to compensation expense over the applicable vesting periods.

We receive an excess tax benefit or liability during the period the restricted shares vest. The excess tax benefit (liability) is determined by the excess (shortfall) of the market price of the stock on date of vesting over (under) the grant date market price used to amortize the awards to compensation expense. As required, any excess tax benefits or liabilities are reported in the Consolidated Statements of Cash Flows as operating cash flows.

Restricted stock activity for the years ended December 31, 2021, 2020, and 2019, is as follows:

	Total Number of Non-vested Shares (000)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Vesting Life (Years)
Non-vested shares outstanding at January 1, 2019	977	\$ 7.97	
Granted	279	9.38	
Vested	(467)	7.50	
Forfeited	(78)	12.13	
Non-vested shares outstanding at December 31, 2019	<u>711</u>	8.58	0.9
Granted	172	13.07	
Vested	(460)	8.42	
Forfeited	(53)	11.85	
Non-vested shares outstanding at December 31, 2020	<u>370</u>	10.02	1.0
Granted	85	36.76	
Vested	(230)	11.26	
Forfeited	(35)	20.45	
Non-vested shares outstanding at December 31, 2021	<u>190</u>	\$ 21.81	1.0

The weighted-average grant date fair value of non-vested shares granted was \$36.76, \$13.07, and \$9.38 for the years ended December 31, 2021, 2020 and 2019. During 2021, 2020 and 2019, we recorded compensation expense, net of cancellations, of \$2,542, \$2,637, and \$3,983, related to restricted stock awards and direct stock grants. The total income tax benefit related to restricted stock awards was \$595, \$453, and \$759 for 2021, 2020 and 2019. For the years ended December 31, 2021, 2020 and 2019, restricted shares vested with a fair market value of \$1,929, \$3,876, and \$3,507. As of December 31, 2021, we had unearned stock-based compensation of \$2,904 associated with these restricted stock grants, which will be recognized over a weighted average of 1.5 years.

Performance Stock Units

During the year ended December 31, 2021, 2020, and 2019, we granted 84,740, 214,299, and 218,148 performance stock units ("PSUs"), respectively, to certain employees, which are earned over a three-year service period.

After completion of the performance period, the number of performance units earned will be issued as shares of common stock. The aggregate number of shares of common stock that ultimately may be issued under performance units where the performance period has not been completed can range from 0% to 200% of the target amount. The awards will generally be forfeited if a participant leaves the Company for reasons other than retirement, disability or death.

A dividend equivalent is calculated based on the actual number of units earned at the end of the performance period equal to the dividends that would have been payable on the earned units had they been held during the entire performance period as common stock. At the end of the performance period, the dividend equivalents are paid in the form of cash at the discretion of the Human Resources and Compensation Committee.



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30,770, 74,319, and 87,260 of the performance units granted in 2021, 2020, and 2019, respectively, are earned based on our three-year cumulative GAAP net income, subject to such adjustments as approved by the Company's Human Resources and Compensation Committee in its sole discretion (Net Income PSUs), which is a performance condition. 7,814, 28,505, and none of the performance units granted in 2021, 2020, and 2019, respectively, were based on certain performance criteria, subject to such adjustments as approved by the Company's Human Resources and Compensation Committee in its sole discretion (Exceptional Performance PSUs), which is a performance condition. The number of shares that may be earned under the Net Income PSUs and Exceptional Performance PSUs can range from 0% to 200% of the target amount. The Net Income PSUs and Exceptional Performance PSUs are expensed and recorded in Common stock on the Consolidated Balance Sheets over the performance period based on the probability that the performance conditions will be met. The expense recorded will be adjusted as the estimate of the total number of Net Income PSUs and Exceptional Performance PSUs that will ultimately be earned changes. The grant date fair value per unit is equal to the closing price of the Company's stock on the date of grant.

46,156, 111,475, and 130,888 of the performance units granted in 2021, 2020, and 2019, respectively, are earned based on achievement of certain total shareholder return results relative to a comparison group of companies ("TSR PSUs"), which is a market condition. The number of shares that may be earned under the TSR PSUs can range from 0% to 200% of the target amount. The TSR PSUs are expensed and recorded in Common stock on the Consolidated Balance Sheets over the performance period.

The fair value of the TSR PSUs granted was calculated using the Monte Carlo simulation model which resulted in the grant date fair value for these TSR PSUs of \$57.11 per unit in 2021, \$18.08 per unit in 2020, and \$13.71 per unit in 2019.

The Monte Carlo simulation was computed using the following assumptions:

	Granted in 2021	Granted in 2020	Granted in 2019
Three-year risk-free interest rate (1)	0.29%	0.27%	2.37%
Expected term (in years)	2.8	2.7	2.7
Estimated volatility (2)	61.9%	58.2%	53.7%

(1) Based on the U.S. government bond benchmark on the grant date.

(2) Represents the historical price volatility of the Company's common stock for the three-year period preceding the grant date.

The total PSU expense and associated tax benefit for all outstanding awards for the year ended December 31, 2021 was \$3,663 and \$310, respectively, for the year ended December 31, 2020 was \$2,809 and \$369, respectively, and for the year ended December 31, 2019 was \$642 and \$93, respectively.

The PSU activity for the years ended December 31, 2021, 2020, and 2019, is as follows:

	Total Number of Non-vested Shares (000)	Weighted-Average Grant Date Fair Value per Unit
Non-vested as of January 1, 2019	-	\$ -
Granted	218	11.82
Non-vested as of December 31, 2019	218	11.82
Granted	214	15.28
Forfeited	(22)	11.82
Non-vested as of December 31, 2020	410	13.63
Granted	85	48.08
Forfeited	(12)	26.94
Non-vested as of December 31, 2021	483	\$ 19.33

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As of December 31, 2021 there was \$4,504 of remaining unrecognized compensation cost related to non-vested PSUs, which is expected to be recognized over a remaining weighted-average period of 1.6 years.

Restricted Stock Units

During the year ended December 31, 2021, 2020, and 2019, we awarded 110,599 and 194,445, and 182,333, restricted stock units ("RSUs"), respectively, to certain employees and Board members. These RSUs vest ratably over three years after the date of grant for employees and vest one year after date of grant for Board members, at which time the units will be issued as unrestricted shares of common stock. RSUs are expensed and recorded in Common stock on the Consolidated Balance Sheets over the requisite service period based on the value of the underlying shares on the date of grant. Upon vesting, the dividend equivalents are paid in the form of cash at the discretion of the Human Resources and Compensation Committee.

The RSU expense and associated tax benefit for all outstanding awards for the year ended December 31, 2021 was \$2,540 and \$499, respectively, for the year ended December 31, 2020 was \$1,752 and \$362, respectively, and for the year ended December 31, 2019 was \$656 and \$130, respectively.

As of December 31, 2021 there was \$3,159 of remaining unrecognized compensation cost related to non-vested RSUs, which is expected to be recognized over a weighted-average period of 1.4 years.

The RSU activity for the years ended December 31, 2021, 2020, and 2019, is as follows:

	Total Number of Non-vested Shares (000)	Weighted-Average Grant Date Fair Value per Unit
Non-vested as of January 1, 2019	-	\$ -
Granted	182	8.98
Non-vested as of December 31, 2019	182	8.98
Granted	194	13.45
Forfeited	(6)	16.17
Vested	(158)	9.56
Non-vested as of December 31, 2020	212	12.43
Granted	111	36.76
Forfeited	(3)	37.09
Vested	(119)	14.08
Non-vested as of December 31, 2021	201	\$ 24.51

Employee Stock Purchase Plan

We instituted an employee stock purchase plan ("ESPP") beginning on October 1, 2011 whereby essentially all employees who meet certain service requirements can purchase our common stock on quarterly offering dates at 90% of the fair market value of the shares on the purchase date. A maximum of 750,000 shares are authorized for purchase. During the years ended December 31, 2021, 2020, and 2019, we received proceeds of \$389, \$198, and \$231 for the purchase of 11,000, 12,000, and 22,000 shares under the ESPP.

**NOTE 15 – SHAREHOLDERS EQUITY**

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.

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The following table represents our purchases of our common stock during the years ended December 31, 2021 and 2020 under the share repurchase program.

Year Ended December 31,	Shares purchased (000)	Purchase value	Remaining shares allowable to be purchased
2021	100	\$ 3,348	409
2020	300	7,503	509

In January 2022, we repurchased the remaining 0.4 million shares for \$18,884. On February 3, 2022, our Board of Directors authorized an increase in the Company's quarterly dividend from \$0.025 to \$0.05 per share payable on or before March 17, 2022, to shareholders of record at the close of business on February 17, 2022. On February 17, 2022, our Board of Directors authorized the repurchase of up to \$250,000 of our common stock in open market transactions. We believe that we have sufficient resources to fund any potential stock buyback in which we may engage.

Effective as of November 6, 2020, we amended our articles of incorporation to delete any reference to par value with respect to our common stock, which previously had a par value of \$0.01 per share. The amendment was approved by our Board of Directors, pursuant to the authority granted it under the Michigan Business Corporation Act. As a result, we reclassified all amounts in Additional paid in capital to Common stock on our Consolidated Balance Sheets.

On November 6, 2020, the Company filed a Certificate of Elimination of Series B Preferred Stock (the "Series B Preferred Stock") with the State of Michigan, thereby removing the Certificate of Designation of such Series B Preferred Stock from the Company's Restated Articles of Incorporation, as amended. No shares of the Series B Preferred Stock were outstanding nor were there any options, warrants, or other rights issued by the Company that could require the issuance of any such shares. The Certificate of Elimination became effective upon filing.

**NOTE 16 – EARNINGS PER SHARE**

The table below reconciles basic weighted average common shares outstanding to diluted weighted average shares outstanding for 2021, 2020, and 2019 (in thousands). Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share also include the dilutive effect of additional potential common shares issuable from stock-based awards and are determined using the treasury stock method. Basic earnings per share represents net earnings divided by basic weighted average number of common shares outstanding during the period. Diluted earnings per share represents net earnings divided by diluted weighted average number of common shares outstanding, which includes the average dilutive effect of all potentially dilutive securities that are outstanding during the period. Our unvested restricted stock units and performance stock units are included in the number of shares outstanding for diluted earnings per share calculations, unless a net loss is reported, in which situation unvested stock awards are excluded from the number of shares outstanding for diluted earnings per share calculations.

	Year Ended December 31,		
	2021	2020	2019
Basic weighted average common shares outstanding	35,333	35,479	35,318
Plus dilutive effect of Restricted Stock Units and Performance Stock Units	764	560	98
Diluted weighted average common shares outstanding	36,097	36,039	35,416

**NOTE 17 – 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.

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We evaluate the performance of our reportable segments based on Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), which is defined 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.

As of October 1, 2021, the composition of both reportable segments changed due to an internal reorganization as certain businesses previously managed and reported within FVS are now a part of SV. Corresponding items of segment information for earlier periods have been recast.

Our FVS segment consists of our operations at our Bristol, Indiana; Landisville, Pennsylvania; North Charleston, South Carolina; Charlotte, Michigan locations along with our operations at our upfit centers in Kansas City, Missouri; North Charleston, South Carolina; and Saltillo, Mexico. The segment focuses on designing and manufacturing walk-in vans for parcel delivery, mobile retail, and trades and construction industries, the production of commercial truck bodies, and the distribution of related aftermarket parts and accessories.

Our SV segment consists of our Charlotte, Michigan operations that engineer and manufacture motor home chassis, other specialty chassis and distribute related aftermarket parts and assemblies. Our service truck bodies operations include locations in Carson, McClellan Park, and Montebello, California; Mesa, Arizona; Dallas and Weatherford, Texas; and Waterville, Maine. We also provide vocation-specific equipment upfit services, which are marketed and sold under the Strobes-R-U's brand, through our manufacturing operations in Pompano and West Palm Beach, Florida.

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 Taxes on income are not included in the information utilized by the chief operating decision makers to assess segment performance and allocate resources, and accordingly, are excluded from the segment results presented below.

Sales to customers outside the United States were \$11,657, \$9,461, and \$21,361 for the years ended December 31, 2021, 2020, and 2019, or 1.2%, 1.4%, and 2.8%, respectively, of sales for those years. All of our long-lived assets are located in the United States.

Sales and other financial information by business segment are as follows:

Year Ended December 31, 2021

	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicles sales	\$ 624,874	\$ -	\$ -	\$ 624,874
Motor home chassis sales	-	168,166	-	168,166
Other specialty vehicles sales	-	145,134	-	145,134
Aftermarket parts and accessories sales	34,558	19,060	-	53,618
<b>Total sales</b>	<b>\$ 659,432</b>	<b>\$ 332,360</b>	<b>\$ -</b>	<b>\$ 991,792</b>
Depreciation and amortization expense	\$ 2,654	\$ 6,832	\$ 1,870	\$ 11,356
Adjusted EBITDA	108,621	32,668	(33,223)	108,066
Segment assets	174,799	202,302	70,766	447,867
Capital expenditures	16,647	4,198	2,163	23,008

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Year Ended December 31, 2020

	Segment			Consolidated
	FVS	SV	Eliminations and Other	
Fleet vehicles sales	\$ 428,499	\$ -	\$ -	\$ 428,499
Motor home chassis sales	-	107,849	-	107,849
Other specialty vehicles sales	-	94,633	-	94,633
Aftermarket parts and accessories sales	34,956	10,036	-	44,992
<b>Total sales</b>	<b>\$ 463,455</b>	<b>\$ 212,518</b>	<b>\$ -</b>	<b>\$ 675,973</b>
Depreciation and amortization expense	\$ 3,018	\$ 6,323	\$ 4,562	\$ 13,903
Adjusted EBITDA	83,292	20,900	(27,846)	76,346
Segment assets	118,444	190,306	50,299	359,049
Capital expenditures	9,423	4,263	2,260	15,946

Year Ended December 31, 2019

	Segment			Consolidated
	FVS	SV	Eliminations and Other	
Fleet vehicles sales	\$ 485,831	\$ 5,278	\$ (5,278)	\$ 485,831
Motor home chassis sales	-	127,130	-	127,130
Other specialty vehicles sales	-	61,259	-	61,259
Aftermarket parts and accessories sales	71,871	10,451	-	82,322
<b>Total sales</b>	<b>\$ 557,702</b>	<b>\$ 204,118</b>	<b>\$ (5,278)</b>	<b>\$ 756,542</b>
Depreciation and amortization expense	\$ 2,168	\$ 2,402	\$ 1,503	\$ 6,073
Adjusted EBITDA	59,227	22,152	(17,334)	64,045
Segment assets	137,446	154,469	67,897	359,812
Capital expenditures	2,743	2,328	2,525	7,596

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Annual Report and concluded that our disclosure controls and procedures were effective as of December 31, 2021.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate "internal control over financial reporting," as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2021.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, as stated in their report which is included herein.

Remediation of Previously Reported Material Weaknesses in Internal Control over Financial Reporting

As previously disclosed in our Annual Report on Form 10-K for the period ended December 31, 2020, the assessment of the Company's internal control over financial reporting determined that a material weakness in our internal controls existed as of December 31, 2020, relating to internal controls over certain processes for non-routine divestiture and business combination transactions. Specifically:

- There was insufficient management review of certain non-routine journal entries and account reconciliations related to the divestiture within our Charlotte, MI location.
- The design and implementation of internal controls related to business combination accounting. Specifically, the controls over the DuraMag transaction were not designed effectively as it relates to the determination of the fair value of and accounting for assets acquired and liabilities assumed.

These control deficiencies created a reasonable possibility that a material misstatement to the consolidated financial statements would not be prevented or detected on a timely basis, and therefore, we concluded that the deficiencies represented a material weakness in our internal control over financial reporting, and our internal control over financial reporting was not effective as of December 31, 2020.

Throughout 2021, management increased accounting personnel to devote additional time and resources to internal controls over financial reporting to ensure sufficient management review specifically for the preparation, review, and approval of journal entries and account reconciliations at the Charlotte, MI location. Management conducted trainings on internal control over financial reporting for key business unit management and strengthened account reconciliation and journal entry policies and procedures within our Charlotte, MI location.

Management evaluated the design, attributes, and precision of the management review controls related to key methodologies, assumptions and inputs used by the third-party specialist with respect to the acquisition valuation and the management review controls related to accounting for the opening balances of assets acquired and liabilities assumed. An acquisition valuation review checklist was implemented that includes specific review attributes to ensure sufficient evidence of review is documented and maintained to support management's conclusions over business combination accounting, fair value, asset acquisition and assumed liabilities resulting from a business combination. Business acquisition, divestiture, and business combination controls were evaluated, updated, and designed in 2021 to ensure fair value of and accounting for assets acquired and liabilities assumed are properly designed to mitigate the associated risks over the internal controls for financial reporting.

Throughout fiscal year 2021, the Company completed the testing of the design and operating effectiveness of the new procedures and controls. As a result, as of December 31, 2021, management concluded that the Company had remediated the previously reported material weakness in the internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

An effective internal control system, no matter how well designed, has inherent limitations, including the possibility of human error or overriding of controls, and therefore can provide only reasonable assurance with respect to reliable financial reporting. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect all misstatements, including the possibility of human error, the circumvention or overriding of controls, or fraud. Effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements.

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 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.

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

Information regarding our executive officers is included in Part I of this Form 10-K under the heading “Information about our Executive Officers.”

The Code of Ethics is available on the "Corporate Responsibility" portion of the Company's website under the "Policies and Charters" link. The Company's website address is [www.theshyftgroup.com](http://www.theshyftgroup.com).

The information required by this item is incorporated by reference from our definitive proxy statement for the 2022 Annual Meeting of Shareholders

Item 11. Executive Compensation.

The information required by this item is incorporated by reference from our definitive proxy statement for the 2022 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item (other than as set forth below) is incorporated by reference from our definitive proxy statement for the 2022 Annual Meeting of Shareholders

The following table provides information about our equity compensation plans regarding the number of securities to be issued under these plans upon the exercise of outstanding options, the weighted-average exercise prices of options outstanding under these plans, and the number of securities available for future issuance as of December 31, 2021.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (4)
Equity compensation plans approved by security holders (1)	683,323	N/A (3)	1,611,592
Equity compensation plans not approved by security holders (2)	-	N/A	55,144
<b>Total</b>	<b>683,323</b>	<b>N/A</b>	<b>1,666,736</b>

(1) Consists of The Shyft Group, Inc. Stock Incentive Plan of 2016 (the “2016 Plan”). See “Note 14 – Stock-Based Compensation” for more information regarding this plan.

- (2) Consists of The Shyft Group, Inc. Directors' Stock Purchase Plan. This plan provides that non-employee directors of the Company may elect to receive at least 25% and up to 100% of their "director's fees" in the form of the Company's common stock. The term "director's fees" means the amount of income payable to a non-employee director for his or her service as a director of the Company, including payments for attendance at meetings of the Company's Board of Directors or meetings of committees of the Board, and any retainer fee paid to such persons as members of the Board. A non-employee director who elects to receive Company common stock in lieu of some or all of his or her director's fees will, on or shortly after each "applicable date," receive a number of shares of common stock (rounded down to the nearest whole share) determined by dividing (1) the dollar amount of the director's fees payable to him or her on the applicable date that he or she has elected to receive in common stock by (2) the market value of common stock on the applicable date. The term "applicable date" means any date on which a director's fee is payable to the participant. 1,106 shares have been issued under this plan.
- (3) The number of shares reflected in column (a) in the table above represents shares issuable pursuant to outstanding PSUs and RSUs, for which there is no exercise price.
- (4) Each of the plans reflected in the above table contains customary anti-dilution provisions that are applicable in the event of a stock split or certain other changes in the Company's capitalization. In addition, the 2016 Plan provides that if a stock option is canceled, surrendered, modified, expires or is terminated during the term of the plan but before the exercise of the option, the shares subject to the option will be available for other awards under the plan.

The numbers of shares reflected in column (c) in the table above with respect to the 2016 Plan represent new shares that may be granted by the Company, and not shares issuable upon the exercise of an existing option, warrant or right.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference from our definitive proxy statement for the 2022 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services.

The information required by this item is about aggregate fees billed to us by our principal accountant, Deloitte & Touche LLP [PCAOB ID No.34] incorporated by reference from our definitive proxy statement for the 2022 Annual Meeting of Shareholders.



PART IV

Item 15. Exhibits, Financial Statement Schedules.

Item 15(a)(1). List of Financial Statements.

The following consolidated financial statements of the Company and its subsidiaries, and reports of our registered independent public accounting firm, are filed as a part of this report under Item 8 - Financial Statements and Supplementary Data:

Independent Registered Public Accounting Firm's Report on Consolidated Financial Statements and Internal Control over Financial Reporting – Year Ended December 31, 2021

Independent Registered Public Accounting Firm's Report on Consolidated Financial Statements – Years Ended December 31, 2020 and 2019 (BDO USA, LLP; Grand Rapids, Michigan; PCAOB ID #243)

Consolidated Balance Sheets – December 31, 2021 and December 31, 2020

Consolidated Statements of Operations – Years Ended December 31, 2021, 2020 and 2019

Consolidated Statements of Shareholders' Equity – Years Ended December 31, 2021, 2020 and 2019

Consolidated Statements of Cash Flows – Years Ended December 31, 2021, 2020 and 2019

Notes to Consolidated Financial Statements

Item 15(a)(2). Financial Statement Schedules. Attached as Appendix A.

The following consolidated financial statement schedule of the Company and its subsidiaries is filed as part of this report:

Schedule II-Valuation and Qualifying Accounts

All other financial statement schedules are not required under the related instructions or are inapplicable and therefore have been omitted.

Item 15(a)(3). List of Exhibits. The following exhibits are filed as a part of this report:

<u>Exhibit Number</u>	<u>Document</u>
3.1	<a href="#">The Shyft Group, Inc. Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Form 10-K filed March 25, 2021).</a>
3.2	<a href="#">The Shyft Group, Inc. Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Form 10-K filed March 16, 2020).</a>
4.1	<a href="#">The Shyft Group, Inc. Restated Articles of Incorporation. See Exhibit 3.1 above.</a>
4.2	<a href="#">The Shyft Group, Inc. Amended and Restated Bylaws. See Exhibit 3.2 above.</a>
4.3	<a href="#">Description of Common Stock (incorporated by reference to Exhibit 4.3 to the Form 10-K filed March 16, 2020).</a>

Exhibit  
Number

- 10.1 [The Shyft Group, Inc. Directors' Stock Purchase Plan \(incorporated by reference to Exhibit 4.5 to the Form S-8 filed August 14, 2002\).\\*](#)
- 10.2 [Form of Indemnification Agreement for directors and executive officers.\\*](#)
- 10.3 [The Shyft Group, Inc. Leadership Team Compensation Plan \(incorporated by reference to Exhibit 10.1 to the Form 10-! filed August 5, 2015\).\\*](#)
- 10.4 [The Shyft Group, Inc. Management Severance Plan effective July 26, 2017 \(incorporated by reference to Exhibit 10.1 to the Form 10-Q filed May 3, 2018\).\\*](#)
- 10.5 [Supplemental Executive Retirement Plan \(incorporated by reference to Exhibit 10.14 to the Form 10-K filed March 14, 2008\).\\*](#)
- 10.6 [The Shyft Group, Inc. Stock Incentive Plan of 2016, as amended by the First Amendment to Stock Incentive Plan \(incorporated by reference to Appendix B to the definitive proxy statement on Schedule 14A filed April 10, 2020\).\\*](#)
- 10.7 [Form of Restricted Stock Agreement \(incorporated by reference to Exhibit 10.1 to the Form 10-Q filed August 7, 2009\).\\*](#)
- 10.8 [Form of Performance Share Unit Agreement \(incorporated by reference to Exhibit 10.15 to the Form 10-K filed March 25, 2021\).\\*](#)
- 10.9 [Form of Restricted Stock Unit Agreement \(employees\) \(incorporated by reference to Exhibit 10.16 to the Form 10-K filed March 25, 2021\).\\*](#)
- 10.10 [Form of Restricted Stock Unit Agreement \(non-employee directors\).\\*](#)
- 10.11 [Employment Offer Letter dated July 22, 2014, from the Company to Daryl M. Adams \(incorporated by reference to Exhibit 10.1 to the Form 10-Q filed November 4, 2014\).\\*](#)
- 10.12 [Employment Offer Letter dated January 21, 2020 from the Company to Jonathan C. Douyard \(incorporated by reference to Exhibit 10.25 to the Form 10-K filed March 16, 2020\).\\*](#)
- 10.13 [Employment Offer Letter dated May 31, 2019 from the Company to Todd A. Heavin \(incorporated by reference to Exhibit 10.1 to the Form 10-Q filed August 1, 2019\).\\*](#)
- 10.14 [Employment Offer Letter dated December 23, 2014 from the Company to Steve Guillaume \(incorporated by reference to Exhibit 10.24 to the Form 10-K filed March 9, 2016\), as updated by a letter dated May 11, 2015 from the Company to Mr. Guillaume \(incorporated by reference to Exhibit 10.25 to the Form 10-K filed March 9, 2016\).\\*](#)
- 10.15 [Amended and Restated Credit Agreement dated November 30, 2021, by and among the Company and certain of Company's subsidiaries, as borrowers, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto \(incorporated by reference to Exhibit 10.1 to the Form 8-K filed December 1, 2021\).](#)
- 21 [Subsidiaries of Registrant](#)
- 23.1 [Consent of Deloitte & Touche LLP, Independent Registered Public Accounting firm.](#)
- 23.2 [Consent of BDO USA, LLP, Independent Registered Public Accounting firm.](#)
- 31.1 [Certification of 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.](#)

<u>Exhibit Number</u>	
32	<a href="#">Certification pursuant to 18 U.S.C. § 1350.</a>
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)

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\*Management contract or compensatory plan or arrangement.

The Company will furnish a copy of any exhibit listed above to any shareholder of the Company without charge upon written request to: Chief Financial Officer, The Shyft Group, Inc., 41280 Bridge Street, Novi, Michigan 48375.

Item 16. [Form 10-K Summary](#)

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

THE SHYFT GROUP, INC.

February 24, 2022

By /s/ Jonathan C. Douyard  
Jonathan C. Douyard  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

February 24, 2022

By /s/ Daryl M. Adams  
Daryl M. Adams  
Director, President and Chief Executive Officer  
(Principal Executive Officer)

February 24, 2022

By /s/ Jonathan C. Douyard  
Jonathan C. Douyard  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

February 24, 2022

By /s/ James A. Sharman  
James A. Sharman, Director

February 24, 2022

By /s/ Thomas R. Clevinger  
Thomas R. Clevinger, Director

February 24, 2022

By /s/ Michael Dinkins  
Michael Dinkins, Director

February 24, 2022

By /s/ Ronald E. Harbour  
Ronald E. Harbour, Director

February 24, 2022

By /s/ Angela K. Freeman  
Angela K. Freeman, Director

February 24, 2022

By /s/ Paul A. Mascarenas  
Paul A. Mascarenas, Director

February 24, 2022

By /s/ Terri Pizzuto  
Terri Pizzuto, Director

February 24, 2022

By /s/ Mark Rourke  
Mark Rourke, Director

APPENDIX A

SCHEDULE II  
VALUATION AND QUALIFYING ACCOUNTS  
THE SHYFT GROUP, INC. AND SUBSIDIARIES

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts (Acquisition)	Deductions	Balance at End of Period
Year ended December 31, 2021:					
Allowance for doubtful accounts	\$ 116	\$ 149	\$ -	\$ (78)	\$ 187
Year ended December 31, 2020:					
Allowance for doubtful accounts	\$ 228	\$ 69	\$ -	\$ (181)	\$ 116
Year ended December 31, 2019:					
Allowance for doubtful accounts	\$ 99	\$ 415	\$ -	\$ (286)	\$ 228

**THE SHYFT GROUP, INC.**  
**INDEMNIFICATION AGREEMENT**

This Indemnification Agreement (the "Agreement") is made as of the day \_\_\_\_ of \_\_\_\_\_, 20\_\_, by and between THE SHYFT GROUP, INC., a Michigan corporation (the "Company"), and \_\_\_\_\_ ("Indemnitee").

Indemnitee is serving the Company in a Corporate Status. It is reasonable, prudent, and necessary for the Company to indemnify persons serving it in a Corporate Status to the fullest extent permitted by applicable law so that they will serve or continue to serve in such status free from undue concern that they will not be so indemnified. The rights and benefits provided to Indemnitee pursuant to this Agreement are in addition to any rights and benefits provided pursuant to the Company's Restated Articles of Incorporation, bylaws, or other organizational documents and shall not be deemed substitutes therefor, nor to diminish or abrogate any rights of the Indemnitee thereunder.

THEREFORE, the Company and Indemnitee agree:

**Section 1. Definitions.** As used in this Agreement:

- (a) "Corporate Status" describes the status of any individual who is or was an officer or director of the Company, or is or was serving at the request of the Company as an officer, director, manager, employee or agent of another corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise.
  - (b) "Expenses" shall mean all reasonable costs, expenses, and obligations actually paid or incurred in connection with investigating, litigating, being a witness in, defending, or participating in, or preparing to litigate, defend, be a witness in, or participate in any matter that is the subject of a Proceeding (as defined below), including, without limitation, any attorney, accountant and expert fees and court costs.
  - (c) "Independent Legal Counsel" means a law firm, or a member of a law firm, or other licensed attorney, that is experienced in matters of corporate law and neither presently performs, nor in the past five years has performed, services for either (i) the Company or Indemnitee (other than in connection with matters concerning Indemnitee under this Agreement or of other indemnitees under similar agreements) or (ii) any other party to the claim giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, "Independent Legal Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.
  - (d) "Proceeding" shall mean any threatened, pending, or completed action, suit or proceeding, or any inquiry or investigation, whether brought by or in the right of the Company or otherwise, and whether of a civil, criminal, administrative, or investigative nature, in which Indemnitee is, may be, or may have been involved as a party or otherwise by reason of the fact that Indemnitee is or was serving the Company in a Corporate Status, or by reason of any action taken by Indemnitee, or any inaction on Indemnitee's part, while serving the Company in a Corporate Status, or by reason of the fact that Indemnitee is or was elected, appointed or serving the Company in a Corporate Status.
  - (e) "Resolution Costs" shall include any amount paid in connection with a Proceeding and in satisfaction of a judgment, fine or penalty, or any amount paid in settlement of a Proceeding.
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(f) "Change in Control" shall mean a change in control of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A issued under the Securities Exchange Act of 1934, as amended (the "Act"), whether or not the Company is subject to Regulation 14A. Without limiting the inclusiveness of the definition in the preceding sentence, a Change in Control of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions is satisfied: (a) any Person is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities; (b) the failure at any time of the Continuing Directors to constitute at least a majority of the board of directors of the Company; (c) during any period of two consecutive years, individuals who at the beginning of such period constitute the board of directors of the Company cease for any reason to constitute a majority of the board of directors; or (d) any of the following occur: (i) any merger or consolidation of the Company, other than a merger or consolidation in which the voting securities of the Company immediately prior to the merger or consolidation continue to represent (either by remaining outstanding or being converted into securities of the surviving entity) 80% or more of the combined voting power of the Company or surviving entity immediately after the merger or consolidation with another entity; (ii) any sale, exchange, lease, mortgage, pledge, transfer or other disposition (in a single transaction or a series of related transactions) of assets or earning power aggregating more than 50% of the assets or earning power of the Company on a consolidated basis; (iii) any complete liquidation or dissolution of the Company; (iv) any reorganization, reverse stock split or recapitalization of the Company which would result in a Change in Control as otherwise defined herein; or (v) any transaction or series of related transactions having, directly or indirectly, the same effect as any of the foregoing.

(g) "Continuing Directors" means the individuals who were either (a) serving as directors of the Company on October 19, 2021, or (b) subsequently appointed or elected as a director, if appointed or nominated by at least a majority of the Continuing Directors in office at the time of the nomination or appointment.

(h) "Person" has the same meaning as set forth in Sections 13(d) and 14(d)(2) of the Act.

(i) A "Potential Change in Control" shall be deemed to have occurred if (i) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (ii) any person (including the Company) publicly announces an intention to take or to consider taking actions that once consummated would constitute a Change in Control; or (iii) the Board of Directors adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

**Section 2. Agreement To Serve.** Indemnitee agrees to serve in a Corporate Status for so long as Indemnitee is duly elected or appointed or until the tender of Indemnitee's written resignation. Notwithstanding the foregoing, the Indemnitee may at any time and for any reason resign from any such position.

### **Section 3. Indemnification.**

(a) The Company shall indemnify Indemnitee against all Expenses incurred by Indemnitee in connection with any Proceeding, except as otherwise provided in this Agreement. The Company shall indemnify Indemnitee against all Resolution Costs incurred by Indemnitee in connection with any Proceeding other than a Proceeding by or in the right of the Company, except as otherwise provided in this Agreement. The Company or a person challenging indemnification has the burden of proving that indemnification is not permitted by this Agreement. However, no indemnification shall be made under this Agreement if and to the extent that such Expenses or Resolution Costs are:

(i) with respect to a Proceeding in which a final judgment and/or other final adjudication has determined that such indemnification is prohibited by applicable law; or

(ii) on account of any suit in which judgment is rendered against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company pursuant to the provisions of Section 16 of the Act or similar provisions of any federal, state, or local law.

(b) In addition to any indemnification provided under Section 3(a) above, the Company shall indemnify Indemnitee against any Expenses or Resolution Costs incurred by Indemnitee, regardless of the nature of the Proceeding in which the Expenses and/or Resolution Costs were incurred, if the Expenses or Resolution Costs would have been covered, insured or reimbursed under any insurance policy in effect on the effective date of this Agreement or that becomes effective on any later date.

(c) It is the intent of this Agreement that, in addition to any indemnification provided under Section 3(a) and Section 3(b), the Company shall indemnify Indemnitee to the fullest extent allowed by law as presently or hereafter enacted or interpreted, against any Expenses and Resolution Costs incurred by Indemnitee in connection with any Proceeding. If and to the extent that a change in, or in the implementation or interpretation of, the Michigan Business Corporation Act or other applicable law (whether by statute, regulation, judicial decision or otherwise) permits greater indemnification, either by agreement or otherwise, than presently provided by law or this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change.

(d) Without limiting Indemnitee's right to indemnification under any other provision of this Agreement, the Company shall indemnify Indemnitee in accordance with the provisions of this Subsection if Indemnitee is a party to or threatened to be made a party to or otherwise involved in any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of the fact that Indemnitee was or is serving the Company in a Corporate Status against all Expenses and Resolution Costs incurred by Indemnitee, but only if Indemnitee acted in good faith and in a manner that Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; except that no indemnification shall be made under this Subsection in respect of any claim, issue, or matter as to which Indemnitee shall have been adjudged to be liable to the Company in the performance of his or her duty to the Company unless, and only to the extent that, any court in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the relevant circumstances, Indemnitee is fairly and reasonably entitled to indemnity, in which event indemnification shall be limited to reasonable expenses incurred.

(e) Notwithstanding Section 3(c) above or any other provision of this Agreement that would otherwise entitle the Indemnitee to indemnification (other than Section 8 below), prior to a Change in Control, Indemnitee shall not be entitled to indemnification (including, without limitation, advancement of expenses) pursuant to this Agreement in connection with any Proceeding initiated by Indemnitee against the Company or any director, officer, employee, agent, or fiduciary of the Company (in such capacity) unless the Company has joined in or consented to the initiation of such Proceeding or such Proceeding relates to the enforcement by Indemnitee of Indemnitee's rights under this Agreement.



(f) Indemnitee shall, as a condition precedent to indemnification under this Agreement, give written notice to the Company as soon as practicable of any claim for which indemnification will or could be sought under this Agreement. In addition, Indemnitee shall give the Company such information and cooperation as the Company may reasonably require.

(g) Notwithstanding any provision of this Agreement to the contrary, no indemnification, reimbursement, and/or other payment shall be made, paid, or otherwise owed by the Company pursuant to this Agreement if such indemnification, reimbursement, and/or other payment would be in violation of applicable law.

#### **Section 4. Determination and Payment of Indemnification.**

(a) The Company shall pay or reimburse Indemnitee all Expenses and Resolution Costs for which Indemnitee is entitled to indemnification under Section 3, upon written demand for such payment or reimbursement from Indemnitee, promptly if, when and to the extent that a determination has been made, or deemed to have been made, in the manner provided in this Section 4 that Indemnitee is entitled to indemnification under Section 3.

(b) A determination as to whether or not Indemnitee is entitled to indemnification shall be made, no later than 30 days after receipt by the Company of a written demand of Indemnitee for such payment or reimbursement, by: (i) a majority vote of a quorum of directors who are not parties or threatened to be made parties to such Proceeding; (ii) if a quorum cannot be obtained under subsection (i), a majority vote of a committee of two or more directors, duly designated by the board, who are not parties or threatened to be made parties to such Proceeding; or (iii) if a quorum as described in subsection (i) cannot be obtained and a committee as described in subsection (ii) cannot be designated, the board of directors shall refer the determination to Independent Legal Counsel. If such determination is not referred to Independent Legal Counsel, the board of directors, or committee provided in this subsection, shall be deemed to have made a determination that Indemnitee is entitled to indemnification under Section 3 and that the Expenses and Resolution Costs are reasonable, unless within that 30 day period, such board or committee determines, in writing and in unconditional terms, that indemnification is not allowed under Section 3 of this Agreement or that a specified portion of such Expenses and Resolution Costs are not reasonable. Except as provided in Section 4(c), if the determination made under Section 4 is to be made by Independent Legal Counsel then the Independent Legal Counsel shall be selected by (x) a majority vote of a quorum of the board of directors who are not parties or threatened to be made parties to the Proceeding; (y) if a quorum cannot be obtained under subsection (x), a majority vote of two or more directors, duly designated by the board, who are not parties or threatened to be made parties to such Proceeding; or (z) if a quorum as described in subsection (x) cannot be obtained and a committee as described in subsection (y) cannot be designated, the board of directors shall select Independent Legal Counsel by majority vote.

(c) Notwithstanding Section 4(b) above, if a Change in Control has occurred and the Continuing Directors do not constitute a majority of the Board of Directors, the determination to be made under this Section 4 shall be made by Independent Legal Counsel and not the board of directors or a committee of the board of directors. If a Change in Control has occurred, Independent Legal Counsel shall be selected by Indemnitee. The Company shall pay the reasonable fees of the Independent Legal Counsel and fully indemnify such counsel against any and all expenses (including attorney fees), claims, liabilities, and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(d) If the indemnification demand is referred to Independent Legal Counsel under this Section 4, a determination as to whether or not Indemnitee is entitled to indemnification shall be made no later than 45 days after Indemnitee's initial demand to the Company. Independent Legal Counsel shall be deemed to have made a determination that indemnification is allowed under Section 3 of this Agreement and that the Expenses and Resolution Costs are reasonable, unless within that 45 day period, Independent Legal Counsel presents to the Company's board of directors a written opinion stating in unconditional terms that Indemnitee is not entitled to indemnification under Section 3 of this Agreement or that a specified portion of such Expenses and Resolution Costs are not reasonable.

(e) If the Company has not made a determination as to whether or not indemnification is allowed under Section 3 within the 30 day period (or 45 day period if referred to Independent Legal Counsel) prescribed in this Section 4, the Company shall be deemed to have made a determination that Indemnitee is entitled to indemnification under Section 3 and that the Expenses and Resolution Costs are reasonable.

(f) The right to indemnification payments as provided by this Agreement shall be enforceable by Indemnitee in any court of competent jurisdiction in the State of Michigan in which venue is proper. The burden of proving that indemnification is not required or permitted by this Agreement shall be on the Company or on any Person challenging the indemnification. Neither the failure of the Company, including its board of directors, committees, or Independent Legal Counsel, to have made a determination prior to the commencement of any Proceeding that indemnification is proper nor an actual determination by the Company, including its board of directors, committee or Independent Legal Counsel, that indemnification is not proper, shall bar an action by Indemnitee to enforce this Agreement or create a presumption that Indemnitee is not entitled to indemnification under this Agreement. If the board of directors, committee or Independent Legal Counsel determines in accordance with Section 4 that Indemnitee would not be permitted to be indemnified in whole or in part, Indemnitee shall have the right to commence litigation in any court of competent jurisdiction in the State of Michigan in which venue is proper seeking an independent determination by the court or challenging any such determination by the board of directors, committee, or Independent Legal Counsel, and the Company hereby consents to service of process and to appear in any such proceeding. Expenses incurred by Indemnitee in connection with successfully establishing Indemnitee's right to indemnification, in whole or in part, shall also be paid or reimbursed by the Company.

(g) Indemnitee shall not participate in any way in the board of directors' or committees' discussion and approval of indemnification under this Section 4. However, Indemnitee may present Indemnitee's request to the board of directors and respond to any inquiries concerning Indemnitee's involvement in the circumstances giving rise to the administrative proceeding or civil action.

#### **Section 5. Advancement of Expenses.**

(a) The Company shall advance to Indemnitee all Expenses incurred by Indemnitee or which the Indemnitee determines are reasonably likely to be paid or incurred by the Indemnitee in connection with any Proceeding within 30 days after receipt by the Company of a written request for such advancement, whether prior to or after the final disposition of a Proceeding; provided, however, that the Indemnitee shall return, without interest, any such advance of Expenses which remains unspent at the final disposition of the claim to which the advance is related. The Indemnitee's right to such advancement is not subject to the satisfaction of any standard of conduct and is not conditioned upon any prior determination that the Indemnitee is entitled to indemnification under this Agreement with respect to such Proceeding or the absence of any prior determination to the contrary. Advances shall be made without interest and without regard to the prospect of whether the Indemnitee may ultimately be found to be entitled to indemnification under the provisions of this Agreement.

(b) Indemnitee's written request for advancement pursuant to Section 5(a) shall include an unlimited general obligation to repay the amount or amounts advanced by the Company if it is ultimately determined, as provided in this Agreement, that Indemnitee is not entitled to such indemnification. Any required repayment by the Indemnitee shall be made by the Indemnitee to the Company within 10 days following the entry of the final, non-appealable adjudication or arbitration decision that the Indemnitee is not entitled to be indemnified against such Expenses.

**Section 6. Defense of Claim.** Prior to a Change in Control:

(a) The Company, jointly with any other indemnifying party, shall be entitled to assume the defense of any Proceeding as to which Indemnitee requests indemnification. After notice from the Company to Indemnitee of its election to assume the defense of a Proceeding, the Company shall not be liable to Indemnitee under this Agreement for any legal or other Expenses subsequently incurred by Indemnitee in connection with the defense of such matter other than reasonable costs of investigation or as otherwise provided in subsection (c) below.

(b) Except as provided in subsection (c) below, the Company need not, in any action or actions, employ or approve the employment of more than one counsel to represent Indemnitee and any other officer or other party entitled to indemnification pursuant to an agreement similar to this Agreement or otherwise.

(c) Indemnitee may employ his or her own counsel in a Proceeding and be indemnified therefor if (i) the Company approves, in writing, the employment of such counsel, or (ii) either (A) Indemnitee has reasonably concluded that there are conflicts of interest between the Company and Indemnitee or between Indemnitee and other parties represented by counsel employed by the Company to represent Indemnitee in the Proceeding, or (B) the Company has not employed counsel to assume the defense of the Proceeding.

**Section 7. Establishment of Trust.**

(a) If and while there is a pending or threatened Proceeding while a Potential Change in Control of the Company exists, the Company shall, upon written request by Indemnitee, create a trust for the benefit of Indemnitee and from time to time upon written request of Indemnitee shall fund the trust in an amount sufficient to satisfy any and all anticipated Expenses or Resolution Costs that may properly be subject to indemnification under Section 3 above at the time of each request. The amount or amounts to be deposited in the trust pursuant to this funding obligation shall be determined by (i) a majority vote of a quorum consisting of directors who are Continuing Directors and are not parties or threatened to be made parties to the Proceeding; (ii) if a quorum cannot be obtained under subsection (i), a committee of two or more directors, duly designated by the board, who are Continuing Directors and who are not parties to or threatened to be made parties to the Proceeding; (iii) if a quorum as described in subsection (i) cannot be obtained and a committee as described in subsection (ii) cannot be designated, the President of the Company if he or she is not a party to or threatened to be made a party to the Proceeding. If a selection cannot be made as described in subsections (i), (ii) or (iii), the amount or amounts to be deposited in the trust shall be determined by Independent Legal Counsel selected as described above in Section 4.

(b) The terms of the trust shall provide that upon a Change in Control: (i) the trust shall not be revoked or the principal of the trust fund invaded, without the written consent of Indemnitee; (ii) the trustee shall advance, within ten business days of a request by Indemnitee, any amount properly payable to Indemnitee under Section 4 or Section 5 of this Agreement; (iii) the trust shall continue to be funded by the Company in accordance with the funding obligation set forth above; (iv) the trustee shall promptly pay to Indemnitee all amounts that Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise; and (v) all unexpended funds in the trust shall revert to the Company upon a final determination by a court of competent jurisdiction that Indemnitee has been fully indemnified under the terms of this Agreement.

(c) The trustee shall be chosen by the party determining the initial funding of the trust and shall be a national or state bank having a combined capital and surplus of not less than \$20,000,000. At the time of each draw from the trust fund, Indemnitee shall provide the trustee with a written request providing that Indemnitee undertakes to repay the amount to the extent that it is ultimately determined that Indemnitee is not entitled to indemnification.

(d) Any funds, including interest or investment earnings, remaining in the trust fund shall revert and be paid to the Company if: (i) a Change in Control has not occurred; and (ii) if the Board of Directors by vote of a majority of a quorum consisting of Continuing Directors determines that the circumstances giving rise to that particular funding of the trust no longer exists. Nothing in this section shall relieve the Company of any of its obligations under this Agreement.

**Section 8. Partial Indemnification; Successful Defense.** If Indemnitee is entitled under any provision of this Agreement to indemnification, or advance payment or reimbursement by the Company for some portion of the Expenses or Resolution Costs incurred by Indemnitee, but not for the total amount of the Expenses or Resolution Costs, the Company shall nevertheless indemnify Indemnitee or advance payment or reimbursement for the portion of such Expenses or Resolution Costs to which Indemnitee is entitled. Notwithstanding any provision of this Agreement that would otherwise limit an Indemnitee's right to indemnification (other than Section 3(g) above), to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all claims relating in whole or in part to a Proceeding or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified against all Expenses and Resolutions Costs incurred in connection with such Proceeding. The total amount of Expenses and Resolution Costs advanced or indemnified from all sources combined shall not exceed the amount of actual Expenses and Resolution Costs incurred by Indemnitee.

**Section 9. Consent to Settlement.** Unless and until a Change in Control has occurred, the Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding made without the Company's written consent signed by its President. The Company shall not settle any Proceeding in any manner that would impose any penalty or limitation on Indemnitee or involve an admission of illegal conduct without Indemnitee's written consent. Neither the Company nor Indemnitee will unreasonably withhold their consent to any proposed settlement.

**Section 10. Severability.** If this Agreement or any portion hereof (including any provision within a single section, subsection, or sentence) shall be held to be invalid, void, or otherwise unenforceable on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify Indemnitee as to any Expenses or Resolution Costs with respect to any Proceeding to the full extent permitted by law or any applicable portion of this Agreement that shall not have been invalidated, declared void, or otherwise held to be unenforceable.

**Section 11. Indemnification Hereunder Not Exclusive.** The indemnification provided by this Agreement shall be in addition to any other rights to which Indemnitee may be entitled under the Articles of Incorporation or Bylaws of the Company, any vote of shareholders or disinterested directors, the Michigan Business Corporation Act or otherwise, both as to actions in Indemnitee's official capacity and as to actions in another capacity while holding such office. This Agreement supersedes all previous indemnification agreements between the parties.

**Section 12. No Presumption.** For purposes of this Agreement, the termination of any claim, action, suit, or proceeding, by judgment, order, settlement (whether with or without court approval), conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

**Section 13. Liability Insurance.** If the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, Indemnitee shall be covered by the policy or policies to the maximum extent of the coverage available for any director or officer of the Company under such policy or policies. Indemnitee may be covered by the policy or policies whether or not the Company would have the power to indemnify him or her against liability under the Michigan Business Corporation Act or other applicable law.

**Section 14. Subrogation.** In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents reasonably required and shall take all reasonable actions necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

**Section 15. No Duplication of Payments.** The Company shall not be liable under this Agreement to make any payment to the extent Indemnitee has otherwise actually received payment (under any insurance policy, Bylaw, or otherwise) of the amounts otherwise indemnifiable hereunder.

**Section 16. Notice.** All notices and other communications hereunder shall be in writing and shall be delivered personally; sent by email or other electronic transmission (with immediate confirmation thereafter); sent by registered, certified or express mail, postage prepaid, return receipt requested; or sent by a nationally recognized overnight courier service, marked for overnight delivery. Any such notice shall be deemed given when so delivered personally, or sent by email or other electronic transmission (provided confirmation is received immediately thereafter); or if mailed, upon receipt or rejection by the addressee; or if sent by overnight courier, one business day after the date of delivery to the courier service marked for overnight delivery; in each case addressed as provided below or to such other address as the parties hereto may specify from time to time by notice given as provided herein.

If to the Company:

The Shyft Group, Inc.  
41280 Bridge Street  
Novi, Michigan 48375  
Attention: Corporate Secretary

(or to any other individual or address that the Company designates by written notice to Indemnitee)

If to Indemnitee:

Addressed to the address provided in this Agreement or such other address as Indemnitee designates by written notice to Company.

Upon receipt of notice or a communication through email or other electronic transmission, as permitted in this Section, each party agrees to promptly acknowledge and reply to such communication in the same manner in which the communication was received.

**Section 17. Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall constitute an original, and all of which taken together shall constitute a single document.

**Section 18. Continuation of Indemnification.** The indemnification rights provided to Indemnitee under this Agreement shall continue after Indemnitee has ceased to be a person serving the Company in a Corporate Status.

**Section 19. Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and assigns, including any direct or indirect successor by purchase, merger, consolidation, or otherwise to all or substantially all of the business or assets of the Company, and spouses, heirs, administrators and personal and legal representatives of Indemnitee.

**Section 20. Applicable Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Michigan applicable to contracts made and to be performed in Michigan without giving effect to the principles of conflicts of laws, and to the extent applicable the federal laws of the United States of America.

**Section 21. Period of Limitations.** No legal action shall be brought and no cause of action shall be asserted by or on behalf of the Company or any affiliate of the Company against Indemnitee, Indemnitee's spouse, heirs, administrators or personal or legal representatives after two years from the date of accrual of the cause of action, and any such claim or cause of action of the Company or its affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within the two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any cause of action, the shorter period shall govern.

**Section 22. Amendments; Waiver.** No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto or, in the case of waiver, by the party against whom the waiver is asserted. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver of any provision of this Agreement.

**Section 23. Headings.** The section headings in this Agreement are for convenient reference only and shall not affect the construction of this Agreement.

*[The remainder of this page intentionally left blank]*

The parties have executed this Indemnification Agreement as of the date stated in the first paragraph of the Agreement.

The Shyft Group, Inc.

By \_\_\_\_\_

Its \_\_\_\_\_

Indemnitee

\_\_\_\_\_

Address:

\_\_\_\_\_

\_\_\_\_\_

**THE SHYFT GROUP, INC.**  
**RESTRICTED STOCK UNIT AGREEMENT**  
**(Non-Employee Directors)**

This RESTRICTED STOCK UNIT AGREEMENT (the "Agreement") is made and entered into as of [●] (the "Grant Date"), by and between **The Shyft Group, Inc.**, a Michigan corporation (the "Company") and [●] (the "Director").

Background

- A. The Company has adopted the The Shyft Group, Inc. Stock Incentive Plan of 2016 (the "Plan") pursuant to which awards of Restricted Stock Units may be granted.
- B. The Committee has determined that it is in the best interests of the Company and its shareholders to grant the award of Restricted Stock Units provided for in this Agreement.

Agreement

Therefore, the parties, intending to be legally bound, agree as follows:

1. **Grant of Restricted Stock Units.** Pursuant to the Plan, the Company hereby issues to the Director on the Grant Date an Incentive Award consisting of, in the aggregate, [●] Restricted Stock Units (the "RSUs"). Each RSU represents the right to receive one share of Common Stock on the terms and conditions and subject to the restrictions set forth in this Agreement and the Plan. The RSUs shall be credited to a separate account maintained for the Director on the books and records of the Company (the "Account"). Capitalized terms that are used but not defined in this Agreement have the meanings assigned to them in the Plan.
  2. **Consideration.** The grant of the RSUs is made in consideration of the services to be rendered by the Director to the Company.
  3. **Restricted Period; Vesting.** Except as otherwise provided in this Agreement, provided there is no termination of Director's status as a director (as determined in accordance with Section 7.2 of the Plan) as of the applicable vesting date, the RSUs will vest in accordance with the following schedule:
-



Vesting Date

Number of RSUs That Vest

First anniversary of Grant Date

100%

The period over which the RSUs vest is referred to as the "Restricted Period." Once vested, the RSUs become "Vested Units."

4. **Restrictions.** Subject to any exceptions set forth in this Agreement or the Plan, during the Restricted Period and until such time as the RSUs are settled in accordance with Section 8 below, neither the RSUs nor the rights relating to the RSUs may be assigned, alienated, pledged, attached, sold, or otherwise transferred or encumbered by the Director. Any attempt to assign, alienate, pledge, attach, sell, or otherwise transfer or encumber the RSUs or the rights relating to the RSUs shall be wholly ineffective.

5. **Termination of Director Status.**

(a) Except as otherwise expressly provided in this Agreement, if the Director's status as a director of the Company terminates for any reason at any time before all of the Director's RSUs have vested, the Director's unvested RSUs shall be automatically forfeited upon such termination of director status, and neither the Company nor any Subsidiary shall have any further obligations to the Director under this Agreement. For purposes of this Section 5, termination of director status shall be determined in accordance with Section 7.2 of the Plan.

(b) Notwithstanding Section 5(a) above, if the Director's status as a director of the Company terminates during the Restricted Period as a result of the Director's death or Disability, RSUs subject to a Restricted Period shall immediately become vested in full.

6. **Effect of a Change in Control.** Notwithstanding anything to the contrary in this Agreement, if a Change in Control occurs during the Restricted Period, then immediately prior to the Change in Control and without any action by the Committee or the Board, all of the RSUs that are not then vested shall become immediately vested.

7. **Rights as Shareholder; Dividend Equivalents.**

(a) The Director shall not have any rights of a shareholder with respect to the shares of Common Stock underlying the RSUs unless and until the RSUs vest and are settled by the issuance of such shares of Common Stock.

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(b) Upon and following the settlement of the RSUs, the Director shall be the record owner of the shares of Common Stock underlying the RSUs unless and until such shares are sold or otherwise disposed of, and as record owner shall be entitled to all rights of a shareholder of the Company (including voting rights).

(c) Until such time as the RSUs vest, the Director's Account shall be credited with an amount equal to all cash and stock dividends ("Dividend Equivalents") that would have been paid to the Director if one share of Common Stock had been issued on the Grant Date for each RSU granted to the Director as set forth in this Agreement. Dividend Equivalents shall be credited to the Director's Account and interest may be credited on the amount of cash Dividend Equivalents credited to the Director's Account at a rate and subject to such terms as determined by the Committee. Dividend Equivalents shall be subject to the same vesting restrictions as the RSUs to which they are attributable and shall be paid on the same date that the RSUs to which they are attributable are settled in accordance with Section 8 below. Dividend Equivalents credited to a Director's Account shall be distributed in cash or, at the discretion of the Committee, in shares of Common Stock having a Market Value equal to the amount of the Dividend Equivalents and interest, if any.

8. **Settlement of RSUs.** Subject to any withholding for applicable taxes pursuant to the Plan, promptly following the vesting date, and in any event no later than March 15 of the calendar year following the calendar year in which such vesting occurs, the Company shall (a) issue and deliver to the Director the number of shares of Common Stock equal to the number of Vested Units and cash equal to any Dividend Equivalents credited with respect to such Vested Units and the interest thereon or, at the discretion of the Committee, shares of Common Stock having a Market Value equal to such Dividend Equivalents and the interest thereon; and (b) enter the Director's name on the books of the Company as the shareholder of record with respect to the shares of Common Stock delivered to the Director. Notwithstanding the foregoing, the Committee shall have the discretion to settle vested RSUs in cash using the Market Value of the shares of Common Stock underlying the vested RSUs as of the applicable vesting date.

9. **No Right to Continued Service.** Neither the Plan nor this Agreement shall confer upon the Director any right to be retained in any position, as an employee, consultant, or director of the Company. Further, nothing in the Plan or this Agreement shall be construed to limit the discretion of the Company to terminate the Director's service to or status with the Company at any time, with or without cause.

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10. **Adjustments.** If any change is made to the outstanding Common Stock or the capital structure of the Company, if required, the RSUs shall be adjusted or terminated in any manner as contemplated by Section 4.3 of the Plan.

11. **Compliance with Law.** The issuance and transfer of shares of Common Stock shall be subject to compliance by the Company and the Director with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Company's shares of Common Stock may be listed. No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of state and federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel.

12. **Legends.** A legend may be placed on any certificate(s) or other document(s) delivered to the Director indicating restrictions on transferability of the RSUs or the shares of Common Stock issuable upon settlement of the RSUs pursuant to this Agreement or any other restrictions that the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any applicable federal or state securities laws, or any stock exchange on which the shares of Common Stock are then listed or quoted.

13. **Notices.** Any notice required to be delivered to the Company under this Agreement shall be in writing and addressed to the Secretary of the Company at the Company's principal corporate offices. Any notice required to be delivered to the Director under this Agreement shall be in writing and addressed to the Director at the Director's address as shown in the records of the Company. Either party may designate another address in writing (or by such other method approved by the Company) from time to time.

14. **Governing Law.** This Agreement will be construed and interpreted in accordance with the laws of the State of Michigan without regard to conflict of law principles.

15. **Interpretation.** Any dispute regarding the interpretation of this Agreement shall be submitted by the Director or the Company to the Committee for review. The resolution of such dispute by the Committee (excluding any participation by the Director if he or she then serves on the Committee) shall be final and binding on the Director and the Company.

16. **RSUs Subject to Plan.** This Agreement is subject to the Plan as approved by the Company's shareholders. The terms and provisions of the Plan, as it may be amended from time to time, are hereby incorporated in this Agreement by reference. In the event of a conflict between any term or provision contained in this Agreement and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

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17. **Successors and Assigns.** The Company may assign any of its rights under this Agreement. This Agreement will be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth in this Agreement, this Agreement will be binding upon the Director and the Director's beneficiaries, executors, and administrators.

18. **Severability.** The invalidity or unenforceability of any provision of the Plan or this Agreement shall not affect the validity or enforceability of any other provision of the Plan or this Agreement, and each provision of the Plan and this Agreement shall be severable and enforceable to the extent permitted by law.

19. **Discretionary Nature of Plan.** The Plan is discretionary and may be amended, cancelled, or terminated by the Company at any time, in its discretion. The grant of the RSUs in this Agreement does not create any contractual right or other right to receive any RSUs or other Incentive Awards in the future. Future Incentive Awards, if any, will be at the sole discretion of the Company. Any amendment, modification, or termination of the Plan shall not constitute a change or impairment of the terms and conditions of the Director's membership on the Board.

20. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. Counterpart signature pages to this Agreement transmitted by facsimile transmission, by electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

21. **Acceptance.** The Director hereby acknowledges receipt of a copy of the Plan and this Agreement. The Director has read and understands the terms and provisions of the Plan and this Agreement, and accepts the RSUs subject to all of the terms and conditions of the Plan and this Agreement. The Director acknowledges that there may be adverse tax consequences upon the grant, vesting, or settlement of the RSUs or disposition of the underlying shares and that the Director has been advised to consult a tax advisor prior to such grant, vesting or disposition.

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INTENDING TO BE LEGALLY BOUND, the parties have executed this Restricted Stock Unit Agreement as of the Grant Date.

COMPANY:  
**The Shyft Group, Inc.**

DIRECTOR:

\_\_\_\_\_  
By: [•]  
Its:

14695078

Revision0 Dated 29 October 2020

**EXHIBIT 21**

**The Shyft Group, Inc. Significant<sup>(1)</sup> Subsidiary List**

The Shyft Group USA, Inc. (South Dakota corporation)  
Utilimaster Services, LLC (Indiana limited liability company)  
The Shyft Group Upfit Services, Inc. (Michigan corporation)  
The Shyft Group GTB, LLC (Michigan limited liability company)  
Fortress Resources, LLC (California limited liability company)  
Royal at McClellan Park LLC (Michigan limited liability company)  
The Shyft Group DuraMag LLC (Michigan limited liability company)

Certain companies may also use trade names or other assumed names in the conduct of their business.

(1) As defined in Rule 1-02(w) of Regulation S-X, and other more significant operating companies as determined by management.

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements No. 333-98083, No. 333-177088, No. 333-213581, and No. 333-255240 each on Form S-8 of our report dated February 24, 2022, relating to the consolidated financial statements and financial statement schedule of The Shyft Group, Inc. and the effectiveness of The Shyft Group, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended December 31, 2021.

/s/ Deloitte & Touche LLP

Detroit, Michigan  
February 24, 2022

Consent of Independent Registered Public Accounting Firm

The Shyft Group, Inc.  
Novi, Michigan

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-98083, 333-177088, 333-213581 and 333-255240) of The Shyft Group, Inc. of our report dated March 25, 2021, relating to the consolidated financial statements and schedule, which appear in this Form 10-K.

/s/ BDO USA, LLP  
Grand Rapids, Michigan  
February 24, 2022



## CEO CERTIFICATION

I, Daryl M. Adams, certify that:

1. I have reviewed this annual report on Form 10-K of The Shyft Group, Inc.;
2. Based on my knowledge, this annual 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 the 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: February 24, 2022

/s/ Daryl M. Adams

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

## CFO CERTIFICATION

I, Jonathan C. Douyard, certify that:

1. I have reviewed this annual report on Form 10-K of The Shyft Group, Inc.;
2. Based on my knowledge, this annual 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 the 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: February 24, 2022

/s/ Jonathan C. Douyard

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

EXHIBIT 32

CERTIFICATION

Solely for the purpose of complying with 18 U.S.C. § 1350, 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 Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 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 and results of operations of the Company for such period.

Date: February 24, 2022

/s/ Daryl M. Adams

Daryl M. Adams

President and Chief Executive Officer

Date: February 24, 2022

/s/ Jonathan C. Douyard

Jonathan C. Douyard

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.