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

FORM 10-Q

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

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to ________________

Commission File Number 001-33582

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

Michigan (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 Act:

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

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

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

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

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

Class	Outstanding at October 29, 2021
Common Stock	35,345,005 shares

THE SHYFT GROUP, INC.

INDEX

FORWARD-LOOKING STATEMENTS

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

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

Item 1. **Financial Statements**

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

	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,549	$ 20,995
Accounts receivable, less allowance of $145 and $116	67,607	64,695
Contract assets	42,459	9,414
Inventories, net	81,901	46,428
Other receivables – chassis pool agreements	3,995	6,503
Other current assets	8,569	8,172
Total current assets	219,080	156,207
Property, plant and equipment, net	57,374	45,734
Right of use assets – operating leases	44,303	43,430
Goodwill	48,881	49,481
Intangible assets, net	53,832	56,386
Other assets	1,180	2,052
Net deferred tax asset	5,625	5,759
TOTAL ASSETS	$ 430,275	$ 359,049
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 89,601	$ 47,487
Accrued warranty	7,548	5,633
Accrued compensation and related taxes	18,045	17,134
Deposits from customers	2,148	756
Operating lease liability	7,632	7,508
Other current liabilities and accrued expenses	10,631	8,121
Short-term debt – chassis pool agreements	3,995	6,503
Current portion of long-term debt	238	221
Total current liabilities	139,838	93,363
Other non-current liabilities	5,095	5,447
Long-term operating lease liability	37,532	36,662
Long-term debt, less current portion	694	23,418
Total liabilities	183,159	158,890
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock; 2,000 shares authorized (none issued)	-	-
Common stock; 80,000 shares authorized; 35,342 and 35,344 outstanding	94,312	91,044
Retained earnings	151,873	109,286
Total The Shyft Group, Inc. shareholders' equity	246,185	200,330
Non-controlling interest	931	(171)
Total shareholders' equity	247,116	200,159
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 430,275	$ 359,049

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Sales	$ 272,622	$ 203,473	$ 714,492	$ 504,391
Cost of products sold	216,564	152,723	566,542	393,335
Gross profit	56,058	50,750	147,950	111,056
Operating expenses:				
Research and development	2,582	824	4,304	3,496
Selling, general and administrative	25,368	23,525	78,645	69,534
Total operating expenses	27,950	24,349	82,949	73,030
Operating income	28,108	26,401	65,001	38,026
Other income (expense):				
Interest expense	(253)	(11)	(310)	(1,202)
Interest and other income	54	238	743	243
Total other income (expense)	(199)	227	433	(959)
Income from continuing operations before income taxes	27,909	26,628	65,434	37,067
Income tax expense	6,910	7,253	15,952	7,084
Income from continuing operations	20,999	19,375	49,482	29,983
Income (loss) from discontinued operations, net of income taxes	-	(926)	81	(4,947)
Net income	20,999	18,449	49,563	25,036
Less: net income attributable to non-controlling interest	77	41	1,102	178
Net income attributable to The Shyft Group Inc.	$ 20,922	$ 18,408	$ 48,461	$ 24,858
Basic earnings (loss) per share				
Continuing operations	$ 0.59	$ 0.55	$ 1.37	$ 0.84
Discontinued operations	-	(0.03)	-	(0.14)
Basic earnings per share	$ 0.59	$ 0.52	$ 1.37	$ 0.70
Diluted earnings (loss) per share				
Continuing operations	$ 0.58	$ 0.54	$ 1.34	$ 0.83
Discontinued operations	-	(0.03)	-	(0.14)
Diluted earnings per share	$ 0.58	$ 0.51	$ 1.34	$ 0.69
Basic weighted average common shares outstanding	35,346	35,559	35,330	35,491
Diluted weighted average common shares outstanding	36,074	35,989	36,024	35,794

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2021	**2020**
Cash flows from operating activities:		
Net income	$ 49,563	$ 25,036
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	8,312	11,122
Non-cash stock based compensation expense	6,571	6,322
Deferred income taxes	134	17,859
Loss on sale of business	-	2,901
(Gain) on disposal of assets	(104)	-
Loss from write-off of construction in process	-	2,430
Changes in accounts receivable and contract assets	(35,842)	(33,355)
Changes in inventories	(35,473)	12,527
Changes in accounts payable	43,230	(7,263)
Changes in accrued compensation and related taxes	910	(423)
Changes in accrued warranty	1,626	(130)
Change in other assets and liabilities	3,396	(16,033)
Net cash provided by operating activities	42,323	20,993
Cash flows from investing activities:		
Purchases of property, plant and equipment	(18,238)	(8,325)
Proceeds from sale of property, plant and equipment	16	-
Acquisition of business, net of cash acquired	904	152
Proceeds from sale of business	-	55,000
Net cash provided by (used in) investing activities	(17,318)	46,827
Cash flows from financing activities:		
Proceeds from long-term debt	25,000	16,000
Payments on long-term debt	(47,400)	(56,000)
Payment of dividends	(2,660)	(2,662)
Purchase and retirement of common stock	(3,348)	-
Exercise and vesting of stock incentive awards	(3,043)	(1,106)
Net cash used in financing activities	(31,451)	(43,768)
Net increase (decrease) in cash and cash equivalents	(6,446)	24,052
Cash and cash equivalents at beginning of period	20,995	19,349
Cash and cash equivalents at end of period	$ 14,549	$ 43,401

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Number of Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Non-Controlling Interest	Total Shareholders' Equity
Balance at January 1, 2021	35,344	$ 91,044	$ -	$ 109,286	$ (171)	$ 200,159
Issuance of common stock and tax impact of stock incentive plan	3	(2,255)	-	-	-	(2,255)
Dividends declared ($0.025 per share)	-	-	-	(983)	-	(983)
Purchase and retirement of common stock	(100)	(260)	-	(3,088)	-	(3,348)
Issuance of restricted stock, net of cancellation	61	-	-	-	-	-
Non-cash stock based compensation expense	-	1,642	-	-	-	1,642
Net income	-	-	-	11,576	35	11,611
Balance at March 31, 2021	35,308	$ 90,171	$ -	$ 116,791	$ (136)	$ 206,826
Issuance of common stock and tax impact of stock incentive plan	2	(712)	-	-	-	(712)
Dividends declared ($0.025 per share)	-	-	-	(901)	-	(901)
Issuance of restricted stock, net of cancellation	36	-	-	-	-	-
Non-cash stock based compensation expense	-	2,850	-	-	-	2,850
Net income	-	-	-	15,963	990	16,953
Balance at June 30, 2021	35,346	$ 92,309	$ -	$ 131,853	$ 854	$ 225,016
Issuance of common stock and tax impact of stock incentive plan	3	(76)	-	-	-	(76)
Dividends declared ($0.025 per share)	-	-	-	(902)	-	(902)
Issuance of restricted stock, net of cancellation	(7)	-	-	-	-	-
Non-cash stock based compensation expense	-	2,079	-	-	-	2,079
Net income	-	-	-	20,922	77	20,999
Balance at September 30, 2021	35,342	$ 94,312	$ -	$ 151,873	$ 931	$ 247,116

	Number of Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Non-Controlling Interest	Total Shareholders' Equity
Balance at January 1, 2020	35,344	$ 353	$ 85,148	$ 86,764	$ (518)	$ 171,747
Issuance of common stock and tax impact of stock incentive plan	4	-	55	-	-	55
Issuance of restricted stock, net of cancellation	127	1	-	-	-	1
Non-cash stock based compensation expense	-	-	2,132	-	-	2,132
Net income	-	-	-	7,811	67	7,878
Balance at March 31, 2020	35,475	$ 354	$ 87,335	$ 94,575	$ (451)	$ 181,813
Issuance of common stock and tax impact of stock incentive plan	4	-	(1,209)	-	-	(1,209)
Dividends declared ($0.05 per share)	-	-	-	(1,775)	-	(1,775)
Issuance of restricted stock, net of cancellation	80	1	(2)	-	-	(1)
Non-cash stock based compensation expense	-	-	2,126	-	-	2,126
Net income (loss)	-	-	-	(1,361)	70	(1,291)
Balance at June 30, 2020	35,559	$ 355	$ 88,250	$ 91,439	$ (381)	$ 179,663
Issuance of common stock and tax impact of stock incentive plan	3	-	48	-	-	48
Dividends declared ($0.025 per share)	-	-	-	(887)	-	(887)
Issuance of restricted stock, net of cancellation	(12)	-	-	-	-	-
Non-cash stock based compensation expense	-	-	2,064	-	-	2,064
Net income	-	-	-	18,408	41	18,449
Balance at September 30, 2020	35,550	$ 355	$ 90,362	$ 108,960	$ (340)	$ 199,337

See accompanying Notes to Condensed Consolidated Financial Statements.

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

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

Nature of Operations

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

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

Recent Developments

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

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

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

(Dollar amounts in thousands, except per share data)

Recently Adopted Accounting Standards

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

Supplemental Disclosures of Cash Flow Information

Non-cash investing in the nine months ended September 30, 2021, included $394 of capital expenditures. The Company has chassis pool agreements, where it participates in chassis converter pools that are non-cash arrangements and they are offsetting between current assets and current liabilities on the Company's Consolidated Balance Sheets. See "Note 5 – *Debt*" for further information about the chassis pool agreements.

Immaterial Revision of Previously Issued Condensed Consolidated Financial Statements

During the fourth quarter of 2020, errors in the accounting for transactions associated with the divestiture of the Company's ERV business were identified. These errors related to the quarterly condensed consolidated financial statements for the period ended September 30, 2020 resulting in the adjustment of certain balance sheet and statement of operations financial statement accounts, as disclosed in Note 1 – *Nature of Operations and Basis of Presentation* of our Annual Report on Form 10-K for the year ended December 31, 2020. The Company assessed the materiality of these errors considering both qualitative and quantitative factors and determined that for the period ended September 30, 2020, the errors were not material.

The tables below present the impact of the revisions on the Company's condensed consolidated financial statements:

	Three Months Ended September 30, 2020		
	As Previously Reported	Adjustment	As Revised
Loss from discontinued operations, net of income taxes	$ (598)	$ (328)	$ (926)
Net income	18,777	(328)	18,449
Net income attributable to The Shyft Group, Inc.	18,736	(328)	18,408
Basic earnings (loss) per share			
Continuing operations	$ 0.55	$ -	$ 0.55
Discontinued operations	(0.02)	(0.01)	(0.03)
Basic earnings per share	$ 0.53	$ (0.01)	$ 0.52
Diluted earnings (loss) per share			
Continuing operations	$ 0.54	$ -	$ 0.54
Discontinued operations	(0.02)	(0.01)	(0.03)
Basic earnings per share	$ 0.52	$ (0.01)	$ 0.51

	Nine Months Ended September 30, 2020		
	As Previously Reported	Adjustment	As Revised
Loss from discontinued operations, net of income taxes	$ (4,619)	$ (328)	$ (4,947)
Net income	25,364	(328)	25,036
Net income attributable to The Shyft Group, Inc.	25,186	(328)	24,858
Basic earnings (loss) per share			
Continuing operations	$ 0.84	$ -	$ 0.84
Discontinued operations	(0.13)	(0.01)	(0.14)
Basic earnings per share	$ 0.71	$ (0.01)	$ 0.70

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

	Nine Months Ended September 30, 2020		
	As Previously Reported	Adjustment	As Revised
Diluted earnings (loss) per share			
Continuing operations	$ 0.83	$ -	$ 0.83
Discontinued operations	(0.13)	(0.01)	(0.14)
Basic earnings per share	$ 0.70	$ (0.01)	$ 0.69

NOTE 2 – DISCONTINUED OPERATIONS

On February 1, 2020, we completed the sale of our emergency response vehicle ("ERV") business for $55,000 cash subject to certain post-closing adjustments. In September 2020, the Company finalized the post-close net working capital adjustment and subsequently paid $7,500 on October 1, 2020. The Company recognized a loss on sale of $763 and $2,901 in the three and nine months ended September 30, 2020, respectively, which are portions of the Loss from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations. The ERV business included the emergency response chassis operations in Charlotte, Michigan, and operations in Brandon, South Dakota; Snyder and Neligh, Nebraska; and Ephrata, Pennsylvania. The results of the ERV business have been reclassified to Income (loss) from discontinued operations, net of tax in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2020. 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 Income (loss) from discontinued operations presented in the Condensed Consolidated Statement of Operations are summarized below:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2021	**2020**	**2021**	**2020**
Sales	$ -	$ -	-	$ 19,167
Cost of products sold	-	-	-	18,678
Gross profit	-	-	-	489
Operating expenses	-	-	-	4,404
Operating loss	-	-	-	(3,915)
Other income (expense)	-	(1,200)	109	(3,338)
Loss from discontinued operations before taxes	-	(1,200)	109	(7,253)
Income tax (expense) benefit	-	274	(28)	2,306
Net income (loss) from discontinued operations	$ -	$ (926)	$ 81	$ (4,947)

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

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

(Dollar amounts in thousands, except per share data)

NOTE 3 – ACQUISITION ACTIVITIES

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

Purchase Price Allocation

The DuraMag acquisition was accounted for using the acquisition method of accounting with the purchase price allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the date of acquisition. Identifiable intangible assets include customer relationships, DuraMag and Magnum trade names and trademarks, unpatented technology and non-competition agreements. The 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 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. As of September 30, 2021, the valuation and the estimates and assumptions were finalized, as the measurement period has concluded.

As of September 30, 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		2,949
Right of use assets-operating leases		8,469
Intangible assets		5,590
Goodwill		5,401
Total assets acquired		28,398
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		(11,099)
Total purchase price	$	17,299

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

Goodwill and Intangible Assets Assigned

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

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

The Company amortizes the customer relationships utilizing an accelerated approach and unpatented technology and non-competition agreements assets utilizing a straight-line approach. Amortization expense, including the intangible assets, recorded from the DuraMag acquisition is $70 and $209 for the three and nine months ended September 30, 2021.

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

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

NOTE 4 – INVENTORIES

Inventories are summarized as follows:

	September 30, 2021	December 31, 2020
Finished goods	$ 5,119	$ 4,200
Work in process	7,078	1,908
Raw materials and purchased components	72,176	46,576
Reserve	(2,472)	(6,256)
Total inventories, net	$ 81,901	$ 46,428

NOTE 5 – DEBT

Short-term debt consists of the following:

	September 30, 2021	December 31, 2020
Chassis pool agreements	$ 3,995	$ 6,503
Total short-term debt	$ 3,995	$ 6,503

(Dollar amounts in thousands, except per share data)

Chassis Pool Agreements

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

Although the Company is party to related finance agreements with manufacturers, the Company has not historically settled any related obligations in cash, nor does it expect to do so in the future. Instead, the obligation is settled by the manufacturer upon reassignment of the chassis to an accepted dealer, and the dealer is invoiced for the chassis by the manufacturer. Accordingly, as of September 30, 2021 and December 31, 2020, the Company's outstanding chassis converter pool with manufacturers totaled $3,995 and $6,503, respectively and the Company has included this financing agreement on the Company's Condensed Consolidated Balance Sheets within *Other receivables – chassis pool agreements* and *Short-term debt – chassis pool agreements*. Typically, chassis are converted and delivered to customers within 90 days of the receipt of the chassis by the Company. The chassis converter pool is a non-cash arrangement and is offsetting between Current assets and Current liabilities on the Company's Condensed Consolidated Balance Sheets.

Long-term debt consists of the following:

	September 30, 2021	December 31, 2020
Line of credit revolver	$ -	$ 22,400
Finance lease obligation	355	473
Other	577	766
Total debt	932	23,639
Less current portion of long-term debt	(238)	(221)
Total long-term debt	$ 694	$ 23,418

Line of Credit Revolver

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

(Dollar amounts in thousands, except per share data)

As a result, at September 30, 2021, under the Credit Agreement, as amended, we may borrow up to $175,000 from the Lenders under a secured revolving credit facility which matures August 8, 2023. We may also request an increase in the facility of up to $50,000 in the aggregate, subject to customary conditions. The credit facility is also available for the issuance of letters of credit of up to $20,000 and swing line loans of up to $10,000, subject to certain limitations and restrictions as of September 30, 2021. This revolving credit facility carries an interest rate of either (i) the highest of prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted LIBOR plus 1.0%; or (ii) adjusted LIBOR, in each case plus a margin based upon our ratio of debt to earnings from time to time. The applicable borrowing rate including margin was 1.34% (or one-month LIBOR plus 1.25%) at September 30, 2021. The credit facility is secured by security interests in, and liens on, all assets of the borrowers and guarantors, other than real property and certain other excluded assets. At September 30, 2021 and December 31, 2020, we had outstanding letters of credit totaling $760 and $525, respectively, related to our workers' compensation insurance.

Under the terms of our Credit Agreement, available borrowings (exclusive of outstanding borrowings) totaled $169,240 and $125,836 at September 30, 2021 and December 31, 2020, respectively. The Credit Agreement requires us to maintain certain financial ratios and other financial covenants; prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales, all subject to certain exceptions and baskets. At September 30, 2021 and December 31, 2020, we were in compliance with all covenants in our Credit Agreement.

NOTE 6 – REVENUE

Changes in our contract assets and liabilities for the nine months ended September 30, 2021 and 2020 are summarized below:

	September 30, 2021	September 30, 2020
Contract Assets		
Contract assets, beginning of period	$ 9,414	$ 10,898
Reclassification of the beginning contract assets to receivables, as the result of rights to consideration becoming unconditional	(9,414)	(10,777)
Contract assets recognized, net of reclassification to receivables	42,459	9,546
Contract assets, end of period	$ 42,459	$ 9,667
Contract Liabilities		
Contract liabilities, beginning of period	$ 756	$ 2,640
Reclassification of the beginning contract liabilities to revenue, as the result of performance obligations satisfied	(743)	(2,370)
Cash received in advance and not recognized as revenue	2,135	380
Contract liabilities, end of period	$ 2,148	$ 650

The aggregate amount of the transaction price allocated to remaining performance obligations in existing contracts that are yet to be completed in the Fleet Vehicles and Services ("FVS") and Specialty Vehicles ("SV") segments are $758,518 and $94,042 respectively, with substantially all revenue expected to be recognized within one year as of September 30, 2021.

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

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

	Three Months Ended September 30, 2021				
	FVS	SV	Total Reportable Segments	Other	Total
Primary geographical markets					
United States	$ 194,067	$ 74,077	$ 268,144	$ -	$ 268,144
Other	4,473	5	4,478	-	4,478
Total sales	$ 198,540	$ 74,082	$ 272,622	$ -	$ 272,622
Timing of revenue recognition					
Products transferred at a point in time	$ 11,773	$ 47,462	$ 59,235	$ -	$ 59,235
Products and services transferred over time	186,767	26,620	213,387	-	213,387
Total sales	$ 198,540	$ 74,082	$ 272,622	$ -	$ 272,622

	Three Months Ended September 30, 2020				
	FVS	SV	Total Reportable Segments	Other	Total
Primary geographical markets					
United States	$ 144,420	$ 58,263	$ 202,683	$ -	$ 202,683
Other	770	20	790	-	790
Total sales	$ 145,190	$ 58,283	$ 203,473	$ -	$ 203,473
Timing of revenue recognition					
Products transferred at a point in time	$ 11,075	$ 40,962	$ 52,037	$ -	$ 52,037
Products and services transferred over time	134,115	17,321	151,436	-	151,436
Total sales	$ 145,190	$ 58,283	$ 203,473	$ -	$ 203,473

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

	Nine Months Ended September 30, 2021				
	FVS	SV	Total Reportable Segments	Other	Total
Primary geographical markets					
United States	$ 490,382	$ 215,951	$ 706,333	$ -	$ 706,333
Other	8,104	55	8,159	-	8,159
Total sales	$ 498,486	$ 216,006	$ 714,492	$ -	$ 714,492
Timing of revenue recognition					
Products transferred at a point in time	$ 32,842	$ 133,092	$ 165,934	$ -	$ 165,934
Products and services transferred over time	465,644	82,914	548,558	-	548,558
Total sales	$ 498,486	$ 216,006	$ 714,492	$ -	$ 714,492

	Nine Months Ended September 30, 2020				
	FVS	SV	Total Reportable Segments	Other	Total
Primary geographical markets					
United States	$ 373,501	$ 126,032	$ 499,533	$ -	$ 499,533
Other	4,615	243	4,858	-	4,858
Total sales	$ 378,116	$ 126,275	$ 504,391	$ -	$ 504,391
Timing of revenue recognition					
Products transferred at a point in time	$ 44,611	$ 81,729	$ 126,340	$ -	$ 126,340
Products and services transferred over time	333,505	44,546	378,051	-	378,051
Total sales	$ 378,116	$ 126,275	$ 504,391	$ -	$ 504,391

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2021	December 31, 2020
Land and improvements	$ 8,721	$ 8,721
Buildings and improvements	44,810	40,077
Plant machinery and equipment	49,076	41,054
Furniture and fixtures	18,588	16,259
Vehicles	2,590	2,404
Construction in process	10,986	8,724
Subtotal	134,771	117,239
Less accumulated depreciation	(77,397)	(71,505)
Total property, plant and equipment, net	$ 57,374	$ 45,734

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

We recorded depreciation expense of $2,138 and $2,179 during the three months ended September 30, 2021 and 2020, respectively, and $5,778 and $8,440 during the nine months ended September 30, 2021 and 2020, respectively. In the second quarter of 2020, we committed to a plan to phase out the use of an ERP system at certain locations and determined that the estimated useful lives for the related assets had shortened. As a result, we recorded depreciation expense of $2,330 attributable to accelerated depreciation and loss of $2,430 from write-off of related construction in process. The total impact on Income (loss) from continuing operations was an expense of $274 and $3,873 for the three and nine months ended September 30, 2020, respectively.

NOTE 8 – LEASES

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Operating leases	$ 2,048	$ 1,551	$ 5,984	$ 4,657
Short-term leases(1)	135	75	301	159
Total lease expense	$ 2,183	$ 1,626	$ 6,285	$ 4,816

(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:

	Nine Months Ended September 30,	
	2021	**2020**
Weighted average remaining lease term of operating leases (in years)	9.2	7.7
Weighted average discount rate of operating leases	3.0%	3.4%

Supplemental cash flow information related to leases was as follows:

	Nine Months Ended September 30,	
	2021	**2020**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow for operating leases	$ 5,870	$ 4,531
Right of use assets obtained in exchange for lease obligations:		
Operating leases	$ 6,305	$ 7,283
Finance leases	$ 106	$ 136

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

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

Years ending December 31:		
2021[1]	$	2,022
2022		7,607
2023		7,342
2024		7,014
2025		6,247
Thereafter		21,636
Total lease payments		51,868
Less: imputed interest		(6,704)
Total lease liabilities	$	45,164

(1) Excluding the nine months ended September 30, 2021.

NOTE 9 – COMMITMENTS AND CONTINGENT LIABILITIES

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

Warranty Related

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

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

Changes in our warranty liability are summarized below:

	Nine Months Ended September 30,	
	2021	**2020**
Balance of accrued warranty at January 1	$ 5,633	$ 5,694
Provisions for current period sales	2,720	2,687
Cash settlements	(3,052)	(2,411)
Changes in liability for pre-existing warranties	1,958	(406)
Acquired	289	-
Balance of accrued warranty at September 30	$ 7,548	$ 5,564

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 September 2021, the liquidation is substantially complete, and the Company does not expect any material impact to our future operating results.

EPA Information Request

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

NOTE 10 – TAXES ON INCOME

Our effective income tax rate was 24.8% and 27.2% for the three months ended September 30, 2021 and 2020, respectively, compared to 24.4% and 19.1% for the nine months ended September 30, 2021 and 2020, respectively.

The effective tax rate of 24.8% and 24.4% for the three and nine months ended September 30, 2021, respectively, is higher than the U.S. statutory tax rate of 21% primarily because of state income taxes at their statutory rates.

The effective tax rate of 27.2% for the three months ended September 30, 2020 is higher than the US statutory tax rate of 21% primarily because of state income taxes and the unfavorable impact of certain non-deductible compensation expense on our effective tax rate.

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

NOTE 11 – BUSINESS SEGMENTS

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

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

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

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". Adjusted EBITDA in the "Eliminations and Other" column contains corporate related expenses not allocable to the operating segments. Interest expense and Income tax expense (benefit) are not included in the information utilized by the chief operating decision maker to assess segment performance and allocate resources, and accordingly, are excluded from the segment results presented below.

	Three Months Ended September 30, 2021			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 189,591	$ -	$ -	$ 189,591

(Dollar amounts in thousands, except per share data)

Motor home chassis sales	-	42,507	-	42,507
Other specialty vehicle sales	-	26,620	-	26,620
Aftermarket parts and accessories sales	8,949	4,955	-	13,904
Total sales	$ 198,540	$ 74,082	$ -	$ 272,622
Depreciation and amortization expense	$ 924	$ 1,505	$ 553	$ 2,982
Adjusted EBITDA	36,813	5,827	(8,900)	33,740
Segment assets	200,358	199,997	29,920	430,275
Capital expenditures	3,844	465	882	5,191

	Three Months Ended September 30, 2020			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 136,382	$ -	$ -	$ 136,382
Motor home chassis sales	-	38,190	-	38,190
Other specialty vehicle sales	-	17,601	-	17,601
Aftermarket parts and accessories sales	8,808	2,492	-	11,300
Total sales	$ 145,190	$ 58,283	$ -	$ 203,473
Depreciation and amortization expense	$ 934	$ 1,412	$ 632	$ 2,978
Adjusted EBITDA	33,237	7,183	(7,827)	32,593
Segment assets	165,216	149,103	74,474	388,793
Capital expenditures	1,482	371	505	2,358

	Nine Months Ended September 30, 2021			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 474,292	$ -	$ -	$ 474,292
Motor home chassis sales	-	118,666	-	118,666
Other specialty vehicle sales	-	82,914	-	82,914
Aftermarket parts and accessories sales	24,194	14,426	-	38,620
Total sales	$ 498,486	$ 216,006	$ -	$ 714,492
Depreciation and amortization expense	$ 2,302	$ 4,645	$ 1,365	$ 8,312
Adjusted EBITDA	83,310	21,480	(23,309)	81,481
Segment assets	200,358	199,997	29,920	430,275
Capital expenditures	12,489	3,153	1,485	17,127

	Nine Months Ended September 30, 2020			
	Segment			
	FVS	SV	Eliminations and Other	Consolidated
Fleet vehicle sales	$ 351,117	$ -	$ -	$ 351,117
Motor home chassis sales	-	74,840	-	74,840
Other specialty vehicle sales	-	45,316	-	45,316
Aftermarket parts and accessories sales	26,999	6,119	-	33,118
Total sales	$ 378,116	$ 126,275	$ -	$ 504,391
Depreciation and amortization expense	$ 2,591	$ 4,313	$ 3,934	$ 10,838
Adjusted EBITDA	68,625	12,123	(20,429)	60,319
Segment assets	165,216	149,103	74,474	388,793
Capital expenditures	5,306	2,060	875	8,241

(Dollar amounts in thousands, except per share data)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Income from continuing operations	$ 20,999	$ 19,375	$ 49,482	$ 29,983
Net (income) attributable to non-controlling interest	(77)	(41)	(1,102)	(178)
Add (subtract):				
Interest expense	253	11	310	1,202
Depreciation and amortization expense	2,982	2,978	8,312	10,838
Income tax expense	6,910	7,253	15,952	7,084
Restructuring and other related charges	-	303	505	1,857
Acquisition related expenses and adjustments	594	650	808	922
Non-cash stock based compensation expense	2,079	2,064	6,571	6,181
Loss from liquidation of JV	-	-	643	-
Loss from write-off of construction in process	-	-	-	2,430
Adjusted EBITDA	$ 33,740	$ 32,593	$ 81,481	$ 60,319

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

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

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

Recent Developments

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

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

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

Executive Overview

- Revenue of $272.6 million in the third quarter of 2021, an increase of 34.0% compared to $203.5 million in the third quarter of 2020.
- Gross Margin of 20.6% in the third quarter of 2021, compared to 24.9% in the third quarter of 2020.
- Operating expense of $28.0 million, or 10.3% of sales in the third quarter of 2021, compared to $24.3 million, or 12.0% of sales in the third quarter of 2020.
- Operating income of $28.1 million in the third quarter of 2021, compared to $26.4 million in the third quarter of 2020.
- Income tax expense of $6.9 million in the third quarter of 2021, compared to $7.3 million in the third quarter of 2020.
- Income from continuing operations of $21.0 million in the third quarter of 2021, compared to $19.4 million in the third quarter of 2020.
- Diluted earnings per share from continuing operations of $0.58 in the third quarter of 2021, compared to $0.54 in the third quarter of 2020.
- Order backlog of $852.6 million at September 30, 2021, an increase of $572.0 million or 203.8% from our backlog of $280.6 million at September 30, 2020.

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

- In June 2021, we announced the creation of Shyft Innovations™, our dedicated mobility research and development team, initially focused on introducing a Class 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, punctuated with a game-changing automatic access system that opens, closes, and locks interior and exterior doors—without keys or manual effort—for unequaled ease and stop-by-stop efficiency gains.

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

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

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

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

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

RESULTS OF OPERATIONS

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2021	**2020**	**2021**	**2020**
Sales	100.0	100.0	100.0	100.0
Cost of products sold	79.4	75.1	79.3	78.0
Gross profit	20.6	24.9	20.7	22.0
Operating expenses:				
Research and development	0.9	0.4	0.6	0.7
Selling, general and administrative	9.3	11.6	11.0	13.8
Operating income	10.3	13.0	9.1	7.5
Other income (expense), net	(0.1)	0.1	0.1	(0.2)
Income from continuing operations before income taxes	10.2	13.1	9.2	7.3
Income tax expense	2.5	3.6	2.2	1.4
Income from continuing operations	7.7	9.5	6.9	5.9
Income (loss) from discontinued operations, net of income taxes	-	(0.3)	-	(0.9)
Non-controlling interest	-	-	0.2	-
Net income attributable to The Shyft Group, Inc.	7.7	9.2	6.8	5.0

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

Sales

For the quarter ended September 30, 2021, we reported consolidated sales of $272.6 million, compared to $203.5 million for the third quarter of 2020, an increase of $69.1 million or 34.0%. The increase reflects favorable sales volume driven by strong demand, acquired business and favorable pricing versus lower sales in the COVID-19 impacted prior period.

Cost of Products Sold

Cost of products sold was $216.6 million in the third quarter of 2021, compared to $152.7 million in the third quarter of 2020, an increase of $63.9 million or 41.8%. Cost of products sold increased $57.6 million due to higher sales volumes including acquired business and $10.6 million due to higher material, labor and other costs, partially offset by productivity and other cost reductions of $4.3 million.

Gross Profit

Gross profit was $56.1 million for the third quarter of 2021, compared to $50.8 million for the third quarter of 2020, an increase of $5.3 million, or 10.5%. Gross profit increased $17.7 million due to higher sales volume including acquired business and productivity and other cost reductions of $4.3 million, partially offset by higher material, labor and other costs of $10.6 million and unfavorable product mix that more than offset pricing increases for a negative impact of $6.1 million.

Operating Expenses

Operating expenses were $28.0 million for the third quarter of 2021, compared to $24.3 million for the third quarter of 2020, an increase of $3.7 million or 14.8%. Research and development expense in the third quarter of 2021 was $2.6 million, compared to $0.8 million in the third quarter of 2020, an increase of $1.8 million primarily related to the electric vehicle development initiatives. Selling, general and administrative expense was $25.4 million in the third quarter of 2021, compared to $23.5 million for the third quarter of 2020, an increase of $1.9 million, primarily driven by an increase in compensation expense related to growth and acquisition of $1.3 million versus cost reduction actions taken in the third quarter of 2020 and higher professional services of $0.5 million.

Other Income (Expense)

Interest expense was $0.3 million for the third quarter of 2021, compared to an insignificant amount for the third quarter of 2020, driven by higher finance lease costs. Other income was $0.1 million in the third quarter of 2021, compared to $0.2 million for the third quarter of 2020.

Income Tax Expense

Our effective income tax rate was 24.8% in the third quarter of 2021, compared to 27.2% in the third quarter of 2020. The effective tax rates for 2021 and 2020 reflect the impact of current statutory income tax rates on our Income before taxes. The 2021 effective tax rate compared favorably to the comparable period in 2020 primarily due to a favorable change in the effect on the rate from estimated R&D credits and certain non-deductible executive compensation.

Income from Continuing Operations

Income from continuing operations for the quarter ended September 30, 2021 increased by $1.6 million to $21.0 million compared to $19.4 million for the quarter ended September 30, 2020. On a diluted per share basis, income from continuing operations increased $0.04 to $0.58 in the third quarter of 2021 compared to $0.54 per share in the third quarter of 2020. Driving this increase were the factors noted above.

Income (Loss) from Discontinued Operations

Income from discontinued operations, net of income taxes for the quarter ended September 30, 2021 increased by $0.9 million compared to Loss from discontinued operations of $0.9 million for the quarter ended September 30, 2020 due to the completion of the sale of the ERV business in February 2020.

Adjusted EBITDA

Our consolidated Adjusted EBITDA in the third quarter of 2021 was $33.7 million, compared to $32.6 million for the third quarter of 2020, an increase of $1.1 million or 3.5%.

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

Adjusted EBITDA three months ended September 30, 2020	$	32.6
Sales volume including acquired business		17.7
Product pricing and mix		(6.1)
Productivity net of material, labor and other costs		(6.3)
General and administrative costs and other		(4.2)
Adjusted EBITDA three months ended September 30, 2021	$	33.7

Order Backlog

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

	September 30, 2021	September 30, 2020
Fleet Vehicles and Services	$ 758,518	$ 228,870
Specialty Vehicles	94,042	51,756
Total consolidated	$ 852,560	$ 280,626

The consolidated backlog at September 30, 2021, totaled $852.6 million, up 203.8%, compared to $280.6 million at September 30, 2020, which reflects strong demand for vehicles across the Company's product portfolio.

Our Fleet Vehicles and Services backlog increased by $529.6 million, or 231.4%, which reflects strong demand for vehicles across the Company's product portfolio. Our Specialty Vehicles segment backlog increased by $42.3 million, or 81.7%, due to increased motor home chassis and service truck body orders.

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

Nine Months Ended September 30, 2021 Compared to the Nine Months Ended September 30, 2020

Sales

For the nine months ended September 30, 2021, we reported consolidated sales of $714.5 million, compared to $504.4 million for the first nine months of 2020, an increase of $210.1 million or 41.7%. The increase reflects favorable sales volume driven by strong demand and acquired business versus lower sales in the COVID-19 impacted prior period.

Cost of Products Sold

Cost of products sold was $566.5 million in the first nine months of 2021, compared to $393.3 million in the first nine months of 2020, an increase of $173.2 million or 44.0%. Cost of products sold increased $174.5 million due to higher sales volumes including acquired business, $2.3 million of pre-production costs and $10.7 million of higher material and labor costs. These increases were partially offset by productivity and cost reductions of $14.3 million.

Gross Profit

Gross profit was $148.0 million for the first nine months of 2021, compared to $111.1 million for the first nine months of 2020, an increase of $36.9 million, or 33.2%. Gross profit increased $46.2 million due to higher sales volume including acquired business and $14.3 million of productivity and other cost reductions. These increases were partially offset by higher material, labor and other costs of $10.6 million, pre-production costs of $2.3 million, and unfavorable product mix and pricing of $10.7 million.

Operating Expenses

Operating expenses were $82.9 million for the first nine months of 2021, compared to $73.0 million for the first nine months of 2020, an increase of $9.9 million or 13.6%. Research and development expense in the first nine months of 2021 was $4.3 million, compared to $3.5 million in the first nine months of 2020, an increase of $0.8 million primarily related to the electric vehicle development initiatives. Selling, general and administrative expense was $78.6 million in the first nine months of 2021, compared to $69.5 million for the first nine months of 2020, an increase of $9.1 million, primarily driven by an increase in compensation expense related to growth and acquisition of $9.4 million versus cost reduction actions taken in the first nine months of 2020 and higher professional services of $4.2 million. These increases were partially offset by the accelerated depreciation of the ERP system and write-off of related construction in process of $4.5 million in the second quarter of 2020 that did not recur in 2021.

Other Income (Expense)

Interest expense was $0.3 million for the first nine months of 2021, compared to $1.2 million for the first nine months of 2020, driven by lower borrowings and interest support more than offsetting periodic expense. Other income was $0.7 million in the first nine months of 2021 compared to $0.2 million for the first nine months of 2020.

Income Tax Expense

Our effective income tax rate was 24.4% in the first nine months of 2021, compared to 19.1% in the first nine months of 2020. The effective tax rate for 2021 reflects the impact of current statutory income tax rates on our Income before taxes partially offset by a discrete tax benefit related to the difference in stock compensation expense recognized for book purposes and tax purposes upon vesting.

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

Income from Continuing Operations

Income from continuing operations for the nine months ended September 30, 2021, increased by $19.5 million, or 65.0%, to $49.5 million compared to $30.0 million for the nine months ended September 30, 2020. On a diluted per share basis, income from continuing operations increased $0.51 to $1.34 in the first nine months of 2021 compared to $0.83 per share in the first nine months of 2020. Driving this increase were the factors noted above.

Income (Loss) from Discontinued Operations

Income from discontinued operations, net of income taxes for the nine months ended September 30, 2021 increased by $5.0 million to $0.1 million compared to Loss from discontinued operations of $4.9 million for the nine months ended September 30, 2020 due to the completion of the sale of the ERV business in February 2020.

Adjusted EBITDA

Our consolidated Adjusted EBITDA for the nine months ended September 30, 2021 was $81.5 million, compared to $60.3 million for the nine months ended September 30, 2020, an increase of $21.2 million or 35.1%.

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

Adjusted EBITDA nine months ended September 30, 2020	$	60.3
Sales volume including acquired business		46.2
Product pricing and mix		(10.7)
Productivity net of material, labor and other costs		3.7
Pre-production costs		(2.3)
General and administrative costs and other		(15.7)
Adjusted EBITDA nine months ended September 30, 2021	$	81.5

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

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Income from continuing operations	$ 20,999	$ 19,375	$ 49,482	$ 29,983
Net (income) attributable to non-controlling interest	(77)	(41)	(1,102)	(178)
Add (subtract):				
Interest expense	253	11	310	1,202
Depreciation and amortization expense	2,982	2,978	8,312	10,838
Income tax expense	6,910	7,253	15,952	7,084
Restructuring and other related charges	-	303	505	1,857
Acquisition related expenses and adjustments	594	650	808	922
Non-cash stock based compensation expense	2,079	2,064	6,571	6,181
Loss from liquidation of JV	-	-	643	-
Loss from write-off of construction in process	-	-	-	2,430
Adjusted EBITDA	$ 33,740	$ 32,593	$ 81,481	$ 60,319

Our Segments

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

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

Fleet Vehicles and Services

	Financial Data (Dollars in Thousands) Three Months Ended September 30,			
	2021		2020	
	Amount	Percentage	Amount	Percentage
Sales	$ 198,540	100.0%	$ 145,190	100.0%
Adjusted EBITDA	36,813	18.5%	33,237	22.9%

Sales in our FVS segment were $198.5 million for the third quarter of 2021, compared to $145.2 million for the third quarter of 2020, an increase of $53.3 million or 36.7%. This increase was due to a sales volume increase and favorable pricing.

Adjusted EBITDA in our FVS segment for the third quarter of 2021 was $36.8 million compared to $33.2 million in the third quarter of 2020, an increase of $3.6 million or 10.8%. This increase was due to $15.2 million in higher sales volumes and productivity and other cost reductions of $4.3 million, partially offset by higher material and labor costs of $7.5 million, unfavorable pricing and mix of $6.6 million and $1.8 million of higher operating expense.

	Financial Data (Dollars in Thousands) Nine Months Ended September 30,			
	2021		2020	
	Amount	Percentage	Amount	Percentage
Sales	$ 498,486	100.0%	$ 378,116	100.0%
Adjusted EBITDA	83,310	16.7%	68,625	18.1%

Sales in our FVS segment were $498.5 million for the nine months ended September 30, 2021, compared to $378.1 million for the nine months ended September 30, 2020, an increase of $120.4 million or 31.8%. This increase was due to a sales volume increase, partially offset by pricing.

Adjusted EBITDA in our FVS segment for the nine months ended September 30, 2021, was $83.3 million compared to $68.6 million for the nine months ended September 30, 2020, an increase of $14.7 million or 21.4%. This increase was due to $29.5 million in higher sales volumes, and other productivity and cost reductions of $9.4 million, partially offset by higher material and labor costs of $7.5 million, unfavorable pricing and mix of $10.7 million, $2.3 million of pre-production costs, and $3.7 million of increased operating expense.

Specialty Vehicles

	Financial Data (Dollars in Thousands) Three Months Ended September 30,			
	2021		2020	
	Amount	Percentage	Amount	Percentage
Sales	$ 74,082	100.0%	$ 58,283	100.0%
Adjusted EBITDA	5,827	7.9%	7,183	12.3%

Sales in our SV segment were $74.1 million in the third quarter of 2021, compared to $58.3 million in the third quarter of 2020, an increase of $15.8 million or 27.1%. This increase was due to a sales volume increase including acquired business and favorable pricing.

Adjusted EBITDA for our SV segment for the third quarter of 2021 was $5.8 million, compared to $7.2 million in the third quarter of 2020, a decrease of $1.4 million or 18.9%. This decrease was due to $3.1 million in higher material and labor costs and $1.3 million of higher operating expenses due to acquisition. These higher costs were partially offset by $2.5 million in higher sales volumes including acquired business and favorable pricing and mix of $0.5 million.

	Financial Data (Dollars in Thousands) Nine Months Ended September 30,			
	2021		2020	
	Amount	Percentage	Amount	Percentage
Sales	$ 216,006	100.0%	$ 126,275	100.0%
Adjusted EBITDA	21,480	9.9%	12,123	9.6%

Sales in our SV segment were $216.0 million for the nine months ended September 30, 2021, compared to $126.3 million for the nine months ended September 30, 2020, an increase of $89.7 million or 71.1%. This increase was due to a sales volume increase including acquired business and favorable pricing.

Adjusted EBITDA for our SV segment for the nine months ended September 30, 2021, was $21.5 million, compared to $12.1 million for the nine months ended September 30, 2020, an increase of $9.4 million or 77.2%. This increase was due to $13.3 million in higher sales volumes including acquired business and favorable pricing and mix of $0.3 million. These increases were partially offset by higher material and labor costs of $3.1 million and $1.1 million of higher operating expenses due to acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash and cash equivalents decreased by $6.5 million to $14.5 million at September 30, 2021, compared to $21.0 million at December 31, 2020. These funds, in addition to cash generated from future operations and available credit facilities, are expected to be sufficient to finance our foreseeable liquidity and capital needs, including potential future acquisitions.

Cash Flow from Operating Activities

We generated $42.3 million of cash from operating activities during the nine months ended September 30, 2021, an increase in cash provided of $21.3 million from $21.0 million of cash provided by operating activities during the nine months ended September 30, 2020. Cash flow from operating activities increased due to a $1.2 million decrease in net income adjusted for non-cash charges to operations and a $22.5 million increase in the change in net working capital. The change in net working capital is primarily attributable to a $50.5 million increase in the change in payables and a $19.4 million increase in the change in other liabilities partially offset by a $48.0 million decrease in the change in inventories.

These changes were primarily driven by increased sales of $210.1 million, or 41.7% in the nine months ended September 30, 2021, compared to the same period in 2020, driven by strong demand in the current period and the comparatively lower sales resulting from the impact of the COVID-19 pandemic in the comparative period. Corresponding increases in the change in receivables, inventories, and payables resulted from the need to fulfill increased sales in the current period and production in the third quarter of 2021 related to the ramp up of production of new Velocity vehicles. As of September 30, 2021, contract assets increased $33.1 million to $42.5 million compared to $9.4 million as of December 31, 2020, primarily due to increased production and industry wide supply chain constraints.

Cash Flow from Investing Activities

We used $17.3 million of cash for investing activities during the nine months ended September 30, 2021, a decrease of cash used of $64.1 million from $46.8 million of cash provided by investing activities during the nine months ended September 30, 2020. Cash flow from investing activities decreased primarily due to a $9.9 million increase in purchases of property, plant and equipment and $55.0 million of proceeds from the sale of the ERV business not repeated in the current period.

Cash Flow from Financing Activities

We used $31.5 million of cash for financing activities during the nine months ended September 30, 2021, a decrease of cash used of $12.3 million from $43.8 million of cash used by financing activities during the nine months ended September 30, 2020. Cash flow used in financing activities decreased primarily due to a net $17.6 million decrease in payments on long-term debt, partially offset by a $3.3 million increase in the purchase and retirement of common stock and $1.9 million increase in exercise and vesting of stock awards.

Debt

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

As a result, at September 30, 2021, under the Credit Agreement, as amended, we may borrow up to $175.0 million from the Lenders under a secured revolving credit facility which matures August 8, 2023. We may also request an increase in the facility of up to $50.0 million in the aggregate, subject to customary conditions. The credit facility is also available for the issuance of letters of credit of up to $20.0 million and swing line loans of up to $10.0 million subject to certain limitations and restrictions as of September 30, 2021. This revolving credit facility carries an interest rate of either (i) the highest of prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted LIBOR plus 1.0%; or (ii) adjusted LIBOR, in each case plus a margin based upon our ratio of debt to earnings from time to time. The applicable borrowing rate including margin was 1.34% (or one-month LIBOR plus 1.25%) at September 30, 2021. The credit facility is secured by security interests in, and liens on, all assets of the borrowers and guarantors, other than real property and certain other excluded assets. At September 30, 2021, and December 31, 2020, we had outstanding letters of credit totaling $0.8 million and $0.5 million, respectively, related to our workers' compensation insurance.

Under the terms of our Credit Agreement, available borrowings (exclusive of outstanding borrowings) totaled $169.2 million and $125.8 million at September 30, 2021 and December 31, 2020, respectively. The Credit Agreement requires us to maintain certain financial ratios and other financial covenants; prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales, all subject to certain exceptions and baskets. At September 30, 2021 and December 31, 2020, we were in compliance with all covenants in our Credit Agreement.

Equity Securities

On April 28, 2016, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock in open market transactions. At September 30, 2021 there were 0.4 million shares remaining under this repurchase authorization. If we were to repurchase the remaining 0.4 million shares of stock under the repurchase program, it would cost us approximately $16.9 million based on the closing price of our stock on October 29, 2021. We believe that we have sufficient resources to fund any potential stock buyback in which we may engage.

Dividends

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

Date dividend declared	Record date	Payment date	Dividend per share ($)	
Aug. 6, 2020	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

EFFECT OF INFLATION

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are exposed to market risks related to changes in interest rates and the effect of such a change on outstanding variable rate short-term and long-term debt. At September 30, 2021, we had no debt outstanding under our variable rate short-term and long-term debt agreements. An increase of 100 basis points in interest rates would not result in 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 Part 1, Item 1, "Note 5 – *Debt*" of this Form 10-Q. Our credit facility provides for the transition to a replacement for LIBOR, and it also provides for an alternative to LIBOR, as described in Part 1, Item 1, "Note 5 – *Debt*" of this Form 10-Q. If LIBOR ceases to exist, our interest expense may increase. It is also possible that the overall financing market may be disrupted as a result of the phase-out or replacement of LIBOR with SOFR or any other reference rate. Increased interest expense and/or disruption in the financial market could have a material adverse effect on our business, financial condition, or results of operations.

Commodities Risk

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

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

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

Item 4. Controls and Procedures.

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

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

Remediation

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

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See "Note 9 – *Commitments and Contingent Obligations*," included in Part I, Item 1, "Notes to Unaudited Consolidated Financial Statements," within this quarterly report on Form 10-Q.

Item 1A. Risk Factors

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

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

Issuer Purchases of Equity Securities

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
July 1 to July 31	257	$ 38.26	-	408,994
August 1 to August 31	-	-	-	408,994
September 1 to September 30	1,765	42.87	-	408,994
Total	2,022		-	408,994

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

During the quarter ended September 30, 2021, 2,022 shares were delivered by associates in satisfaction of tax withholding obligations that occurred upon the vesting of restricted shares.

Item 6. Exhibits.

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

Exhibit No.	Document
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. § 1350.
101.INS	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (Embedded within the Inline XBRL document and included in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 4, 2021	THE SHYFT GROUP, INC.	
	By	/s/ Jonathan C. Douyard
		Jonathan C. Douyard
		Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION

I, Daryl M. Adams, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 4, 2021

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

EXHIBIT 31.2

CERTIFICATION

I, Jonathan C. Douyard, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 4, 2021

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

EXHIBIT 32

CERTIFICATION

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

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

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

Dated: November 4, 2021	/s/ Daryl M. Adams Daryl M. Adams President and Chief Executive Officer
Dated: November 4, 2021	/s/ Jonathan C. Douyard Jonathan C. Douyard Chief Financial Officer