UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

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: 001-38089

ASV HOLDINGS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**82-1501649**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
840 Lily Lane	
Grand Rapids, MN	**55744**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (218) 327-3434

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, 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 Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

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, par value $0.001 per share	ASV	NASDAQ Capital Market

As of July 29, 2019, the registrant had 9,909,858 shares of common stock, $0.001 par value per share, outstanding.

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P ART I—FINANCI AL INFORMATION

Item 1. Financial Statements.

ASV Holdings, Inc.
Condensed Balance Sheets
(In thousands, except par value)

	June 30, 2019 Unaudited	December 31, 2018
ASSETS		
CURRENT ASSETS		
Cash	$ 8	$ 2
Accounts receivable, net	15,594	18,462
Receivables from affiliates	26	7
Income tax receivable	—	840
Inventory, net	33,241	34,055
Prepaid income tax	65	43
Prepaid expenses and other	745	593
Total current assets	49,679	54,002
Property, plant and equipment, net	11,862	12,662
Operating lease assets, net	1,054	—
Intangible assets, net	19,457	20,730
Other long-term assets	313	237
Total assets	$ 82,365	$ 87,631
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable - current portion	$ 2,012	$ 2,991
Trade accounts payable	13,352	18,834
Payables to affiliates	—	480
Accrued compensation and benefits	1,296	1,394
Accrued warranties	1,405	1,584
Operating lease liability- current portion	287	—
Accrued other current liabilities	1,710	1,405
Total current liabilities	20,062	26,688
Revolving loan facility	18,315	16,026
Notes payable - long term, net	9,139	10,159
Operating lease liability- long term	827	—
Other long-term liabilities	651	727
Total liabilities	48,994	53,600
STOCKHOLDERS' EQUITY		
Preferred stock, $0.001 par value, 5,000 authorized, none outstanding at June 30, 2019 and December 31, 2018, respectively	—	—
Common stock, $0.001 par value, 50,000 authorized, 9,910 and 9,851 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	10	10
Additional paid-in capital	66,094	65,794
Accumulated deficit	(32,733)	(31,773)
Total Stockholders' Equity	33,371	34,031
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 82,365	$ 87,631

The accompanying notes are an integral part of these condensed financial statements.

ASV Holdings, Inc.
Condensed Statements of Operations
(In thousands, except par value and per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
	Unaudited	Unaudited	Unaudited	Unaudited
Net sales	$ 36,018	$ 31,860	$ 63,356	$ 61,729
Cost of goods sold	31,435	27,603	55,338	53,531
Gross profit	4,583	4,257	8,018	8,198
Research and development costs	523	451	1,015	922
Selling, general and administrative expense	3,713	2,934	6,849	6,341
Operating income	347	872	154	935
Other income (expense)				
Interest expense	(570)	(464)	(1,122)	(922)
Other income	—	—	8	7
Total other expense	(570)	(464)	(1,114)	(915)
(Loss) Income before income taxes	(223)	408	(960)	20
Income tax expense (benefit)	—	89	—	8
Net (loss) income	$ (223)	$ 319	$ (960)	$ 12
Earnings per share:				
Basic net (loss) income per share of common stock	$ (0.02)	$ 0.03	$ (0.10)	$ 0.00
Diluted net (loss) income per share of common stock	$ (0.02)	$ 0.03	$ (0.10)	$ 0.00
Weighted average common shares outstanding:				
Basic weighted average common shares outstanding	9,901	9,823	9,882	9,820
Diluted weighted average common shares outstanding	9,901	9,823	9,882	9,820

The accompanying notes are an integral part of these condensed financial statements.

ASV Holdings, Inc.
Statements of Stockholders’ Equity
(Unaudited)
(In thousands, except per share data)

	Common Stock		Additional Paid-in		Total Stockholders'
	Shares	Amounts	Capital	Retained Earnings	Equity
Balances, December 31, 2017	9,806	10	65,434	357	65,801
Stock-based compensation expense	-	-	196	-	196
Incentive plan grant	18	-	-	-	-
Repurchase to satisfy withholding and cancelled	(6)	-	(52)	-	(52)
Net loss	-	-	-	(307)	(307)
Balances, March 31, 2018	9,818	10	65,578	50	65,638
Stock-based compensation expense	-	-	71	-	71
Incentive plan grant	16	-	-	-	-
Repurchase to satisfy withholding and cancelled	-	-	(24)	-	(24)
Net income	-	-	-	319	319
Balances, June 30, 2018	9,834	10	65,625	369	66,004

	Common Stock		Additional Paid-in		Total Stockholders'
	Shares	Amounts	Capital	Accumulated Deficit	Equity
Balances, December 31, 2018	9,851	10	65,794	(31,773)	34,031
Stock-based compensation expense	-	-	218	-	218
Incentive plan grant	49	-	-	-	-
Repurchase to satisfy withholding and cancelled	(3)	-	(9)	-	(9)
Net loss	-	-	-	(737)	(737)
Balances, March 31, 2019	9,897	10	66,003	(32,510)	33,503
Stock-based compensation expense	-	-	91	-	91
Incentive plan grant	13	-	-	-	-
Repurchase to satisfy withholding and cancelled	-	-	-	-	-
Net loss	-	-	-	(223)	(223)
Balances, June 30, 2019	9,910	10	66,094	(32,733)	33,371

The accompanying notes are an integral part of these condensed financial statements.

ASV Holdings, Inc.
Condensed Statements of Cash Flows
(In thousands)

	For the Six Months Ended June 30,	
	2019	2018
	Unaudited	Unaudited
OPERATING ACTIVITIES		
Net (loss) income	$ (960)	$ 12
Adjustments to reconcile to net income to net cash provided by operating activities:		
Depreciation	1,174	1,129
Amortization	1,273	1,273
Share-based compensation	265	251
Loss on sale of fixed assets	36	1
Amortization of deferred finance cost	89	71
Bad debt expense	(5)	23
Changes in operating assets and liabilities		
Accounts receivable	2,873	3,177
Net accounts receivable/payable from affiliates	(498)	(231)
Income tax receivable	840	—
Inventory	744	(4,089)
Prepaid income tax	(22)	(17)
Prepaid expenses	(153)	(69)
Operating lease asset and liabilities	60	—
Trade accounts payable	(5,482)	(90)
Accrued expenses	72	(967)
Other long-term liabilities	(80)	(40)
Net cash provided by operating activities	226	434
INVESTING ACTIVITIES		
Purchase of property and equipment	(336)	(501)
Net cash used in investing activities	(336)	(501)
FINANCING ACTIVITIES		
Principal payments on term debt	(1,984)	(1,001)
Proceeds from long-term note	—	425
Debt issuance costs incurred	(180)	—
Shares repurchased for income tax withholding on share-based compensation	(9)	(76)
Net borrowings on revolving credit facilities	2,289	720
Net cash provided by financing activities	116	68
NET CHANGE IN CASH	6	1
Cash at beginning of period	2	3
Cash at end of period	$ 8	$ 4

The accompanying notes are an integral part of these condensed financial statements.

Note 1. Business Description

Nature of Operations

ASV Holdings, Inc. (the "Company" or "ASV") primarily designs, manufactures and markets compact track loaders and skid steer loaders as well as related parts for use primarily in the construction, landscaping, and agricultural industries. The Company's headquarters and manufacturing facility is located in Grand Rapids, Minnesota. Products are marketed and sold in North America, Australia, New Zealand and Latin America.

Agreement and Plan of Merger

On June 26, 2019, ASV entered into an Agreement and Plan of Merger (the "Merger Agreement") among Yanmar America Corporation, a Georgia corporation ("Yanmar"), Osaka Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Yanmar ("Merger Sub"), and Yanmar Co., Ltd., a company organized under the laws of Japan ("Guarantor").

The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company (the "Merger" and, collectively with the other transactions contemplated by the Merger Agreement, the "Transactions"), with the Company continuing as the surviving corporation and as a wholly owned subsidiary of Yanmar.

At the effective time of the Merger (the "Effective Time"), each share of common stock, par value $0.001 per share, of the Company (the "Common Stock"), issued and outstanding immediately prior to the Effective Time (other than (A) shares of Common Stock held in the treasury of the Company and shares of Common Stock owned by Yanmar or any direct or indirect subsidiary of Yanmar (including Merger Sub) which shall automatically be cancelled without any conversion thereof and no payment or distribution shall be made with respect thereto and (B) shares of Common Stock for which appraisal rights have been validly asserted) shall be converted into the right to receive $7.05 per share in cash, without interest (the "Per Share Merger Consideration"). Guarantor has irrevocably and unconditionally guaranteed to the Company the due and punctual payment and performance of (i) Yanmar's and Merger Sub's obligations under the Merger Agreement, and (ii) Yanmar's and Merger Sub's liability and obligations (including for breach) under the Merger Agreement.

At the Effective Time, any restricted stock units providing for a right to receive shares of Common Stock outstanding immediately prior to the Effective Time that are unvested or are subject to a repurchase option, risk of forfeiture or other condition shall, as of the Effective Time, whether granted prior to the date of the Merger Agreement or granted after the date of the Merger Agreement as permitted by the Merger Agreement, become fully vested and nonforfeitable and shall be cancelled and converted automatically into the right to receive an amount in cash equal to the product of (i) the Merger Consideration multiplied by (ii) the total number of shares of Common Stock subject to such restricted stock units.

The Board of Directors of the Company (the "Board") has unanimously (i) determined that the Merger Agreement and the Transactions, including the Merger, are advisable and fair to, and in the best interests of, the Company's stockholders, (ii) approved and declared advisable the Merger Agreement and the Transactions, including the Merger, (iii) approved the execution, delivery and performance by the Company of the Merger Agreement and the consummation of the Transactions, including the Merger, upon the terms and subject to the conditions set forth in the Merger Agreement, (iv) recommended that the stockholders of the Company vote to approve the Transactions, including the Merger, and adopt the Merger Agreement, and (v) directed that the adoption of the Merger Agreement be submitted to a vote of the Company's stockholders.

The consummation of the Merger (the "Closing") is subject to certain conditions, including (i) the affirmative vote of the holders of a majority of the outstanding shares of Common Stock (the "Stockholder Approval"), (ii) the absence of any law or order restraining, enjoining or otherwise prohibiting the Merger and (iii) any waiting period (and any extension thereof) applicable to the consummation of the Merger under applicable foreign, federal or state antitrust, competition or fair-trade laws shall have expired or been terminated. Each of Yanmar's, Merger Sub's, and the Company's obligation to consummate the Merger is also subject to additional customary conditions, including (x) subject to specific standards, the accuracy of the representations and warranties of the other party, (y) performance in all material respects by the other party of its obligations under the Merger Agreement, and (z) with respect to

Yanmar's and Merger Sub's obligations to consummate the Merger, the absence of a Company Material Adverse Effect (as defined in the Merger Agreement).

The Company has made customary representations and warranties in the Merger Agreement and has agreed to customary covenants regarding the operation of the business of the Company and its subsidiaries prior to the earlier of the Closing or the date that the Merger Agreement is terminated in accordance with its terms. Each of Yanmar and Merger Sub has agreed to customary covenants related to treatment of employees and their compensation and benefits after Closing.

The Company is also subject to customary restrictions on its ability to solicit acquisition proposals from third parties, to provide information to, and enter into discussions or negotiations with, third parties regarding alternative acquisition proposals. However, prior to the Stockholder Approval, these restrictions are subject to customary "fiduciary out" provisions that allow, under certain circumstances, (i) the Company to provide information to, and enter into discussions or negotiations with, third parties with respect to an acquisition proposal if the Board determines in good faith, after consultation with and taking into account the advice of, the Company's financial advisor and outside legal counsel, that such alternative acquisition proposal could reasonably be expected to constitute or result in a Superior Proposal (as defined in the Merger Agreement) and that failure to take such actions would be inconsistent with its fiduciary duties and (ii) the Board to withdraw or change its recommendation in favor of the Merger if a Company Intervening Event (as defined in the Merger Agreement) occurs and as a result thereof it determines that its failure to take such action would be inconsistent with its fiduciary duties. If the Company receives an unsolicited, written acquisition proposal that the Board determines in good faith (after consultation with its outside advisors) is a Superior Proposal (as defined in the Merger Agreement) and determines in good faith (after consultation with its outside legal counsel) that its failure to withdraw or change its recommendation with respect to the Merger would be inconsistent with its fiduciary duties, the Company may terminate the Merger Agreement to enter into a definitive agreement with respect to such Superior Proposal.

The Merger Agreement also includes customary termination provisions for both the Company and Yanmar and provides that, in connection with the termination of the Merger Agreement, under specified circumstances, the Company will be required to pay Yanmar a termination fee of $2,650, including if (i) the Company enters into an acquisition agreement with respect to a Superior Proposal prior to obtaining the Stockholder Approval or (ii) the Board changes its recommendation or takes similar actions prior to the meeting of the stockholders. The Merger Agreement further provides that, upon termination of the Merger Agreement under specified circumstances, the Company will be required to pay to Yanmar up to $500 for expenses incurred by Yanmar. The Merger Agreement also provides that, upon termination of the Merger Agreement under specified circumstances, Yanmar will be required to pay to the Company up to $500 for expenses incurred by the Company.

Each party to the Merger Agreement is required to use its reasonable best efforts to take all actions to consummate the Merger.

The Merger Agreement includes customary representations, warranties, and covenants of the Company made solely for the benefit of Yanmar and Merger Sub. The assertions embodied in those representations and warranties were made solely for purposes of allocating risk among the Company, Yanmar and Merger Sub rather than establishing matters of fact and may be subject to important qualifications and limitations agreed to by the Company, Yanmar, and Merger Sub in connection with the negotiated terms. Moreover, some of those representations and warranties may not be accurate or complete as of any specified date, may be subject to a contractual standard of materiality different from those generally applicable to the Company's filings with the U.S. Securities and Exchange Commission (the "SEC"). Investors should not rely on the representations, warranties, and covenants or any description thereof as characterizations of the actual state of facts of the Company or any of its subsidiaries or affiliates.

If the Merger is consummated, the Common Stock will be delisted from the Nasdaq Capital Market and deregistered under the Securities Exchange Act of 1934.

Voting Agreement

Concurrently with the execution of the Merger Agreement, on June 26, 2019, A.S.V. Holding, LLC, which is a wholly owned subsidiary of Terex Corporation, Inc. (the "Key Stockholder") representing approximately 34% of the outstanding Common Stock of the Company entered into a Voting Agreement (the "Voting Agreement") with Yanmar, pursuant to which, among other things, and subject to the terms and conditions set forth therein, the Key Stockholder agreed to vote its shares of Common Stock in favor of the adoption of the Merger Agreement and against any alternative proposal. The Voting Agreement automatically terminates upon the earliest to occur of (i) the Effective Time, (ii) a change in the Board's recommendation to stockholders that results from a Company Intervening Event, (iii) the termination of the Merger Agreement, (iv) the election of the Key Stockholder upon any amendment or modification to the Merger Agreement with respect to any terms of the merger consideration, the conditions to the merger or any change to the Merger Agreement that would have a materially adverse impact on the Key Stockholder or (v) the written agreement of the parties to the Voting Agreement.

This summary of the principal terms of the Merger Agreement and the Voting Agreement is intended toprovide information regarding the terms of the Merger Agreement and the Voting Agreement and is not intended to modify or supplement any factual disclosures about the Company in its public reports filed with the SEC. In particular, the Merger Agreement and related summary is not intended to be, and should not be relied upon as, disclosure regarding any facts and circumstances relating to the Company. The foregoing description of the Merger Agreement and the Voting Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Merger Agreement and the Voting Agreement, copies of which were filed as Exhibit 2.1 and Exhibit 10.1, respectively, to the Company's Current Report on Form 8-K filed on June 27, 2019.

Compensatory Arrangement

On June 26, 2019, in connection with the Merger, the Board adopted retention bonus agreements (the "Retention Agreements") that apply to the following executive officers of the Company: Melissa How, Chief Financial Officer, Justin Rupar, Vice President of Sales and Marketing, and Thomas Foster, Vice President of Operations and Supply Chain (collectively, the "Participants"). The purpose of the Retention Agreements is to ensure that the expertise of such Participants is preserved for the benefit of the Company through at least the Effective Time.

Pursuant to the Retention Agreements, each Participant will receive a retention bonus in the event that such Participant (i) remains employed by the Company and performs his or her duties and responsibilities in a satisfactory manner through the earlier of (i) the closing date of the Merger or (ii) the Merger Agreement is terminated in accordance with its terms. If a Participant is terminated for Cause (as such term is defined in each Retention Agreement), such Participant shall not be entitled to receive the retention bonus. Pursuant to their respective Retention Agreements, Ms. How will receive $75 and Messrs. Rupar and Foster will each receive $50.

The foregoing description of the Retention Agreements does not purport to be complete and is qualified in its entirety by reference to the full text of the form of Retention Agreements, which is filed as Exhibit 10.2 to our Current Report on Form 8-K filed on June 27, 2019.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited financial statements, included herein, have been prepared by the Company pursuant to the rules and regulations of the SEC. Pursuant to these rules and regulations, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements and have been consistently applied. These unaudited financial statements should be read in conjunction with the Company's audited financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

The unaudited financial statements include all adjustments of a normal, recurring nature considered necessary for a fair presentation of our financial position as of June 30, 2019 and the results of operations for the three and six months ended June 30, 2019 and 2018. Results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ended December 31, 2019.

Critical Accounting Policies and Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require the Company to make estimates, judgments and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures and contingencies. The Company evaluates estimates used in preparation of the accompanying financial statements on a continual basis. We describe our significant accounting policies in Note 2, "Summary of Significant Accounting Policies," of the audited financial statements for the year ended December 31, 2018 included in the Annual Report on Form 10-K.

Recent Accounting Pronouncements

Recent accounting pronouncements are described in Note 11, "Recent Accounting Pronouncements."

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in its existing accounts receivable. The Company determines the

allowance based on individual customer review and current economic conditions. The Company reviews its allowance for doubtful accounts at least quarterly.Individual balances exceeding a threshold amount that are over 90 days past due are reviewed individually for collectability. All other balances are reviewed on a pooled basis by type of receivable. Account balances are charged off against the allowance when the Company determines it is probable the receivable will not be recovered.

The balance of the allowance for doubtful accounts was $104 and $109 at June 30, 2019 and December 31, 2018, respectively.

Revenue Recognition

The Company's revenues result from the sale of goods or services and reflect the consideration to which the Company expects to be entitled. The Company records revenue based on a five-step model in accordance with ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). For its customer contracts, the Company identifies the performance obligations (goods or services), determines the transaction price, allocates the contract transaction price to the performance obligations, and recognizes the revenue when (or as) the performance obligation is satisfied. A good or service is transferred when the customer obtains control of that good or service. The Company principally generates revenue from the sale of equipment and parts to dealers, distributors and Original Equipment Manufacturer ("OEM") customers and recognizes revenue at a point in time when control transfers. The Company recognizes revenue for each distinct good or service when control of the good or service has transferred to the customer. Transfer of control is generally determined based on the shipping terms of the contract, with most of our sales recognized F.O.B. shipping point, as that is the time we have a present right to payment, the customer takes possession of the goods, and the customer has the risks and reward of ownership. For most of our contracts, the customer takes legal title upon shipment; however, under the terms of our contract with certain international distributors, title does not transfer until we are paid for the goods. We retain title solely to maintain a security interest in the assets and have concluded that such right is protective in nature and that control transfers at the time of shipment based on the other control indicators. Generally, there is no-post shipment obligation on product sold other than standard assurance-type warranty obligations in the normal and ordinary course of business, typically a twelve to eighteen-month warranty period. Payment terms range from 0-60 days for domestic sales and 0-180 days for international sales.

Provisions for sales program incentives (such as wholesale subsidies, retail subsidies and customer cash), product returns, and discounts and allowances are variable consideration and are accounted for as a reduction of revenue and establishment of a liability (or contra asset receivable as appropriate) using the expected value method. The Company considers historical data in determining its best estimates of variable consideration. These estimates are reviewed regularly for appropriateness, considering also whether the estimates should be constrained in order to avoid a significant reversal of revenue recognition in a future period. Typically, all qualifying machine sales to distributors or dealers provide for program incentives that are accrued at the time of sales. If updated information or actual amounts are different from previous estimates of variable consideration, the revisions are included in the results for the period in which they become known through a cumulative effect adjustment to revenue. In addition, the Company's contracts with customers generally do not include significant financing components or noncash consideration. The Company expenses incremental costs of obtaining a contract (primarily sales commissions) as selling, general and administrative expense in the Condensed Statements of Operations, because the amortization period would be less than one year.

The Company disaggregates revenue from contracts with customers by geographic location and major customer (see Concentrations of Business and Credit Risk) as we believe this best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Accrued Warranties

The Company records accruals for potential warranty claims based on its claim experience. The Company's products are typically sold with a standard warranty covering defects that arise during a fixed period.

A liability for estimated warranty claims is accrued at the time of sale. The liability is established using historical warranty claim experience for each product sold. Historical claim experience may be adjusted for known design improvements or for the impact of unusual product quality issues. Warranty reserves are reviewed quarterly to ensure critical assumptions are updated for known events that may affect the potential warranty liability.

Litigation Claims

In determining whether liabilities should be recorded for pending litigation claims, the Company must assess the allegations and the likelihood that it will successfully defend itself. When the Company believes it is probable that it will not prevail in a particular matter, it will then record an estimate of the amount of liability based, in part, on advice of outside legal counsel.

Income Taxes

The Company's provision for income taxes consists of federal and state taxes, as applicable, in amounts necessary to align the Company's year-to-date tax provision with the effective rate that it expects to achieve for the full year. Each quarter the Company updates its estimate of the annual effective tax rate and records cumulative adjustments as necessary.

The Company is estimating an annual effective tax rate of 18.9% (excluding discrete items) for the year ending December 31, 2019. Our effective tax rate is affected by recurring items such as state and local taxes, a reduced federal tax rate for foreign derived intangible income and federal research and development credits.

For the three months ended June 30, 2019, the Company recorded no income tax expense on its pre-tax loss of $(223) pursuant to the authoritative accounting literature prescribed in ASC 740-27-30-30 through 33 as the Company has a year-to-date loss of $(960) through June 30, 2019.

For the three months ended June 30, 2018, the Company recorded an income tax expense of $89, which consists of a federal and state income tax benefit on its pre-tax income of $408.

At June 30, 2019, the Company did not have any uncertain tax positions. The Company records interest and penalties related to uncertain tax positions in the provision for income taxes in the accompanying Statement of Income.

Concentrations of Business and Credit Risk

Caterpillar Inc., an OEM customer, and CEG Distributions PTY Ltd., the Company's Australian master distributor, accounted for 15% and 26% of the Company's Net Sales for the three months ended June 30, 2019 and 2018 respectively, as well as 44% of the Company's Accounts Receivable at June 30, 2019. Caterpillar Inc. and CEG Distributions PTY Ltd accounted for 19% and 25% of the Company's Net Sales for the six months ended June 30, 2019 and 2018 respectively, as well as 71% of the Company's accounts receivable at December 31, 2018.

Sales by major customer consisted of the following for the three and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30, 2019		For the Three Months Ended June 30, 2018	
	Percent of Total	Amount	Percent of Total	Amount
Caterpillar	10%	$ 3,631	13%	$ 3,986
CEG Distributions PTY Ltd.	5%	1,778	13%	4,091
Other	85%	30,609	74%	23,783
Total	100%	$ 36,018	100%	$ 31,860

	For the Six Months Ended June 30, 2019		For the Six Months Ended June 30, 2018	
	Percent of Total	Amount	Percent of Total	Amount
Caterpillar	13%	$ 8,296	14%	$ 8,808
CEG Distributions PTY Ltd.	6%	3,614	11%	6,986
Other	81%	51,446	75%	45,935
Total	100%	$ 63,356	100%	$ 61,729

Any disruptions to these two customer relationships could have adverse effects on the Company's financial results. The Company manages dealer and OEM concentration risk by evaluating in advance the financial condition and creditworthiness of its dealers and OEM customers. The Company establishes an allowance for doubtful accounts receivable, if needed, based upon expected

collectability. Any reserves established for doubtful accounts is re-evaluated on a case-by-case basis when it is believed the payment of specific amounts owed to us is unlikely to occur. The Company has secured a credit insurance policy for certain accounts with a policy limit of liability of not more than $8,600.

Revenue by geographic area consisted of the following for the three and six months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2019		2018		2019		2018	
	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount
United States	80%	$ 28,764	68%	$ 21,764	82%	$ 51,714	74%	$ 45,390
Australia	8%	2,702	16%	5,063	8%	5,335	13%	8,423
Other	12%	4,552	16%	5,033	10%	6,307	13%	7,916
Total	100%	$ 36,018	100%	$ 31,860	100%	$ 63,356	100%	$ 61,729

Note 3. Inventory

Inventory consisted of the following as of June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
Raw materials and supplies	$ 21,229	$ 20,897
Work in process	36	36
Finished equipment and replacement parts	11,976	13,122
	$ 33,241	$ 34,055

Note 4. Intangible Assets

Intangible assets, net comprised the following as of June 30, 2019:

	Weighted Average Life (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and unpatented technology	10	$ 8,000	$ (3,627)	$ 4,373
Tradename and trademarks	25	7,000	(1,268)	5,732
Customer relationships	11	16,000	(6,648)	9,352
	12	$ 31,000	$ (11,543)	$ 19,457

Intangible assets, net comprised the following as of December 31, 2018:

.	Weighted Average Life (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and unpatented technology	10	$ 8,000	$ (3,227)	$ 4,773
Tradename and trademarks	25	7,000	(1,128)	5,872
Customer relationships	11	16,000	(5,915)	10,085
	12	$ 31,000	$ (10,270)	$ 20,730

Amortization of other intangible assets for the six months ended June 30, 2019 and 2018 was $1,273.

Note 5. Accrued Warranties

The following table provides the changes in the Company's product warranties:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Product warranty accrual balance, beginning of period	$ 1,489	$ 1,666	$ 1,584	$ 1,869
Liabilities accrued for warranties during the period	390	247	644	487
Warranty claims paid during the period	(474)	(311)	(854)	(640)
Changes in estimates	-	52	31	(62)
Product warranty accrual balance, end of period	$ 1,405	$ 1,654	$ 1,405	$ 1,654

Note 6. Debt

Loan Facilities

On March 28, 2019, the Company entered into a Second Amendment (the "Second Amendment") to the Amended and Restated Credit Agreement with PNC Bank, National Association, as administrative agent ("PNC"). The principal modification to the Amended and Restated Credit Agreement resulting from the Second Amendment replaces the maximum leverage ratio requirements for 2019 with a minimum EBITDA covenant and beginning in March of 2020, removes the minimum EBITDA covenant and reverts to a leverage ratio requirement of 2.75 to 1.00, which shall step down to 2.25 to 1.00 by September 30, 2020. In addition, the applicable margin for each advance under the credit agreement was increased by 50 basis points for the period from March 28, 2019 until the first business day following receipt by PNC of the Company's certificate of compliance with the applicable leverage ratio for the quarter ended March 31, 2020 and the inventory sub-limit was increased to $18 million.

Revolving Loan Facility with PNC

The Company's $35,000 revolving loan facility with PNC includes two sub-facilities: (i) a $2,000 letter of credit sub-facility, and (ii) a $3,500 swing loan sub-facility, each of which is fully reserved against availability under the revolving loan facility. The facility matures on December 27, 2022.

The $35,000 revolving loan facility is a secured financing facility under which borrowing availability is limited to existing collateral as defined in the agreement. The maximum amount available is limited to (i) the sum of (a) up to 85% of Eligible Receivables, plus (b) 90% of Eligible Insured Foreign Receivables, plus (c) the lesser of (I) 95% of Eligible CAT Receivables, or $8,600 plus (ii) the lesser of (A) the sum of (I) up to 65% of the value of the Eligible Inventory (other than Eligible Inventory consisting of finished goods machines and service parts that are current), plus (II) 80% of the value of Eligible inventory consisting of finished goods machines, plus (III) 75% of the value of Eligible Inventory consisting of service parts that are current) or, (B) up to 90% of the appraised net orderly liquidation value of Eligible Inventory. Inventory collateral is capped at $18,000 less outstanding letters of credit and any reasonable reserves as established by the bank. At June 30, 2019, the maximum the Company could borrow based on available collateral was capped at $21,789.

At June 30, 2019, the Company had drawn $18,315 under the $35,000 revolving loan facility. The Company can opt to pay interest on the revolving credit facility at either a domestic rate plus a spread, or a LIBOR rate plus a spread. The domestic rate spread is initially fixed at 1.00% for revolving loan advances until delivery of certain reporting documents with respect to fiscal quarter ending March 31, 2018, at which point it ranges from 1.00% to 1.5% depending on the Average Undrawn Availability (as defined in the Amended and Restated Credit Agreement). The LIBOR spread is initially fixed at 2.00% for revolving loan advances until delivery of the same reporting documents, at which point it ranges from 2.00% to 2.5% depending on the Average Undrawn Availability. Funds borrowed under the LIBOR options can set the borrowing rate for periods of one, two, or three months. The weighted average interest rate for the six-month period ended June 30, 2019 was 5.2%. Additionally, the bank assesses a 0.25% unused line fee that is payable quarterly.

Term Loan C with PNC

On December 27, 2017 the Company entered into a $15,000 term loan ("Term Loan C") facility, with PNC as the administrative agent.

At June 30, 2019, the Company had an outstanding balance of $11,021, less $283 debt issuance costs, for net term loan debt of $10,738. The Company can opt to pay interest on the Term Loan C facility at either a domestic rate plus a spread, or a LIBOR rate plus a spread. For term loan advances the domestic rate spread is fixed at 3.75%, and the LIBOR spread is fixed at 4.75%. Funds borrowed under the LIBOR options can set the borrowing rate for periods of one, two, or three months. The weighted average interest rate for the six-month period ending June 30, 2019 was 7.7%.

The Company is obligated to make quarterly principal payments of $500, which commenced on January 1, 2018. If the term loan is prepaid in full or in part prior to the maturity date, the Company will be required to pay a prepayment penalty. If paid prior to December 27, 2019 the prepayment penalty will be equal to 2.0% of the prepayment. The prepayment penalty percentage reduces to 1% on or after December 27, 2020, and no penalty if on or after the December 27, 2021. There will be no prepayment obligation in the event that the prepayment of the obligation in full is funded in connection with a refinancing for which PNC is the administrative agent. Any unpaid principal is due on maturity, which is December 27, 2022. Interest is payable monthly beginning on January 1, 2018.

Loan Agreements with State Agencies

In October 2017, the Company entered into two loan agreements with the State of Minnesota related to the establishment of a new parts distribution center in Grand Rapids, Minnesota. The first loan agreement is a $300 loan with a ten-year term at an interest rate of 3%, with loan forgiveness if certain criteria is met. The lender will forgive $150 of principal and all accrued interest should the Company attain and maintain agreed upon employment levels on the fifth anniversary date of the loan (and not otherwise be in default) and will forgive the remaining $150 of principal and all accrued interest should the Company attain and maintain employment levels at the tenth anniversary of the loan. Should the Company not attain or maintain the agreed upon levels of employment, $150 in principal plus accrued interest will be due on the fifth anniversary of the closing date with the remaining balance being due and payable on the due date of the loan. The second loan agreement is a $125 no interest loan with a seventy-five-month term that includes partial forgiveness if certain criteria are met. The lender will forgive up to $50 of the $125 loan should ASV attain and maintain job creation goals and wage level commitments. The zero-interest loan is to be paid back through monthly payments over the term of the loan. The establishment of the parts distribution center was completed, and loan proceeds disbursed during 2018.

Covenants

The Company's indebtedness is collateralized by substantially all of the Company's assets. The facilities contain customary limitations including, but not limited to, limitations on additional indebtedness, acquisitions, and payment of dividends. The Company is also required to comply with certain financial covenants as defined in the Amended and Restated Credit Agreement. The Company is limited to capital expenditures not to exceed $2,000 in any fiscal year. The revolving credit facility and the term loans require the Company to maintain a Minimum Fixed Charge Coverage ratio of not less than 1.20 to 1.0. Additionally, the term loans require, as per the Second Amendment, as described above, the Company attains a minimum EBITDA covenant. The Company was in compliance with all covenants when required to be measured during the quarter ended June 30, 2019.

Note 7. Equity

2017 Equity Incentive Plan

On May 11, 2017, the Company adopted the ASV Holdings, Inc. 2017 Equity Incentive Plan (the "2017 Plan"). The maximum number of shares of common stock reserved for issuance under the 2017 Plan is 1,250 shares. The total number of shares reserved for issuance however, can be adjusted to reflect certain corporate transactions or changes in the Company's capital structure. The Company's employees and members of the board of directors who are not the Company's employees or employees of the Company's affliliates are eligible to participate in the 2017 Plan. The 2017 Plan is administered by the compensation committee of the Company's board of directors. The 2017 Plan provides that the committee has the authority to, among other things, select plan participants, determine the type and amount of rewards, determine the award terms, fix all other conditions of any awards, interpret the plan and any plan awards. Under the 2017 Plan, the committee can grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units. The 2017 Plan requires that the exercise price for stock options and stock appreciation rights be not less then fair market value of the Company's common stock on date of grant.

The Company awarded a total of 100 restricted stock units to directors and employees under the 2017 Plan on March 11, 2019. The restricted stock units are subject to the same conditions as the restricted stock awards except the restricted stock units will not have voting rights and the common stock will not be issued until the vesting criteria are satisfied.

The following table contains information regarding restricted stock units:

	June 30, 2019
Outstanding on December 31, 2018	77
Units granted during the period	100
Vested and issued, net of repurchase for income tax withholding	(60)
Outstanding on June 30, 2019	117

On January 10, 2019, the Company granted an aggregate of 60 restricted stock units to employees pursuant to the 2017 Plan. Restricted stock units of 20, 20, and 20 vest in 2020, 2021 and 2022, respectively.

On March 11, 2019, the Company granted 39 restricted stock units to directors pursuant to the 2017 Plan. These stock units immediately vested.

On March 11, 2019, the Company granted an aggregate of 1 restricted stock unit to employees pursuant to the 2017 Plan. This stock unit immediately vested.

The value of the restricted stock is being charged to compensation expense over the vesting period and the Company has elected to account for foreitures as they occur. Compensation expense includes expense related to restricted stock units of $129 and $102 for the three months and $265 and $251 for the six months ended June 30, 2019 and 2018, respectively. Unrecognized compensation expense related to non-vested restricted stock units will be recognized as follows: $182, $238, and $62 for the remainder of 2019, 2020, and 2021, respectively.

Note 8. Commitments and Contingencies

The Company is involved in various legal proceedings, including product liability, general liability, workers' compensation liability, and employment litigation, which have arisen in the normal course of operations. The Company is insured for product liability, general liability, workers' compensation, employer's liability, property damage and other insurable risk required by law or contract, with retained liability or deductibles. The Company has recorded and maintains an estimated liability in the amount of management's estimate of the Company's aggregate exposure for such retained liabilities and deductibles. For such retained liabilities and deductibles, the Company determines its exposure based on probable loss estimations, which requires such losses to be both probable and the amount or range of probable loss to be estimable. The Company believes it has made appropriate and adequate reserves and accruals for its current contingencies.

Note 9. Leases

The Company has operating leases for its distribution center, research and development facilities, automobiles, and certain equipment. The leases have remaining lease terms of 1 year to 16 years, some of which include options to extend the leases for up to 6 years. The distribution center lease agreement includes both lease (e.g., fixed payments including rent, taxes, and insurance costs) and non-lease components (e.g., common-area or other maintenance costs) which can be accounted for as a single lease component. The Company has not elected the practical expedient to group lease and non-lease components for applicable leases.

Leases may include one or more options to renew. The exercise of lease renewal options is typically at our sole discretion. Renewals to extend the lease terms for the distribution center are included in our Right of Use ("ROU") operating lease assets and lease liabilities as they are reasonably certain of exercise. The renewal options are evaluated with each lease and when they are reasonably certain of exercise, the renewal period is included in our lease term.

As most of our leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments.

Certain operating leases for vehicles contain residual value guarantee provisions which would generally become due at the expiration of the operating lease agreement if the fair value of the leased vehicles is less than the guaranteed residual value. The aggregate residual value guarantee related to these leases was approximately $81. We believe the likelihood of funding the guarantee obligation under any provision of the operating lease agreements is remote. To the extent our fleet contains vehicles we estimate will settle at a gain, such gains on these vehicles will be recognized when we sell the vehicle.

The components of lease expense were as follows:

	Three months ended June 30, 2019		Six months ended June 30, 2019	
Operating lease cost	$	66.8	$	129.0

Maturities for all operating lease liabilities are as follows:

		Total
2019	$	148
2020		295
2021		281
2022		242
2023		164
2024 and thereafter		174
Total lease payments	$	1,304
Less: Interest		(190)
Present value of lease liabilities	$	1,114

The weighted average remaining lease terms and discount rates for all operating lease were as follows as of June 30, 2019:

Remaining lease term and discount rate:	
Weighted average remaining lease term (years)	
Leased facilities, equipment and vehicles	3.17
Weighted average discount rate	
Leased facilities, equipment and vehicles	5.11%

Supplemental cash flow information related to the Company's operating leases was as follows:

	Three months ended June 30, 2019		**Six months ended June 30, 2019**	
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash outflow from operating leases	$	63	$	122

The Company (Lessor) has entered into an agreement with a rental company for a rental share program of certain models of its Compact Track Loaders (CTLs). The term of the agreement is three years. The Lessor will continue to own the equipment in which Lessee will have no interest in the equipment other than the right to possess, insure and use the equipment described in the agreement. Monies received from Lessee are based on rental monies received by the Lessee from a customer for the rental of equipment before deductions. Since the lessee's payments are not probable, lease income shall be limited to the lesser of the income that would be recognized in accordance with ASC 842-30-25-11(a) through (b) or the lease payments, including variable lease payments, that have been collected from the lessee. The agreement also states that the Lessee has the option to purchase the equipment at the end of the term based on a calculated rate referenced in the agreements. Currently, it is not reasonably certain the Lessee plans to exercise. Based on these criteria, this is considered an operating lease.

Lease income was as follows:

	Three months ended June 30, 2019		Six months ended June 30, 2019	
Rental Income	$	0.01	$	0.01

Note 10. Related Party Transactions

Included in the Company’s Condensed Statements of Operations are sales to Terex of $21 and $28 for the three months ended and $48 and $59 for the six months ended June 30, 2019 and 2018, respectively. Also included are sales to Manitex of $9 and $0 for the three months ended and $10 and $0 for the six months ended June 30, 2019 and 2018, respectively. The Company recorded purchases from Terex of $222 and $1,802 for the three months and $1,764 and $3,984 for the six months ended June 30, 2019 and 2018, respectively, which are primarily for shared freight services. The Company also expensed $319 and $175 under a Terex Cross Marketing Agreement and Terex Services Agreement respectively, for the six-month period ended June 30, 2018.

Receivables from affiliates include $17 due from Terex and $8 due from Manitex at June 30, 2019, and $5 due from Terex and $2 due from Manitex at December 31, 2018.

At June 30, 2019, there were no payables to affiliates. At December 31, 2018, payables of $480 were due to Terex.

Note 11. Recent Accounting Pronouncements

Effective January 1, 2019, the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-02, *Leases,* which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The original guidance required application on a modified retrospective basis with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, *Targeted Improvements to ASC 842,* which included an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, *Leases,* as the date of initial application of transition, which we elected. As a result of the adoption of ASC 842 on January 1, 2019, the Company recorded both operating lease right-of-use (“ROU”) assets of $1.0 million and lease liabilities of $1.0 million. The adoption of ASC 842 had an immaterial impact on our Condensed Statements of Operations and Condensed Statements of Cash Flows for the six-month period ended June 30, 2019. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard which allowed us to carry forward the historical lease classification.

Additional information and disclosures required by the new standard are contained in Note 9, *Leases.*

January 1, 2019, the Company adopted the FASB ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments (Topic 230): Statement of Cash Flows” (“ASU 2016-15”), which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. ASU 2016-15 also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. ASU 2016-15 is effective for fiscal years and interim periods beginning after December 15, 2018, for emerging growth companies. This had no effect on the Company’s financial statements.

January 1, 2019, the Company adopted the FASB ASU No. 2017-09, “Compensation – Stock Compensation: Scope of Modification Accounting.” This ASU is intended to provide guidance about which changes to the terms or conditions on a share-based payment award require an entity to apply modification accounting. This new standard is effective for reporting periods beginning after December 15, 2018, and interim periods within that reporting period, for emerging growth companies, with early adoption permitted. This had no effect on the Company’s financial statements.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes to those statements included in this Quarterly Report on Form 10-Q. This discussion and analysis may contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth under the caption “Risk Factors,” in our 2018 Annual Report on Form 10-K for the fiscal year ended December 31, 2018, in the section entitled “Item 1A. Risk Factors”, as well as the following factors set forth below:

- *the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement with Yanmar; and*
- *other risks associated with the Merger, including anticipated tax treatment and unforeseen liabilities*

Given these risks, uncertainties and other important factors, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q and the documents that we incorporate by reference and have filed as exhibits to this Quarterly Report on Form 10-Q, completely and with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

Cautionary Statement Regarding Non-GAAP Measures

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" section contains references to "EBITDA". EBITDA is defined for the purposes of this Quarterly Report on Form 10-Q as net income or loss before interest, income taxes, depreciation and amortization. Management believes that EBITDA is a useful supplemental measure of our operating performance and provides meaningful measures of overall corporate performance exclusive of our capital structure and the method and timing of expenditures associated with building and placing our products. EBITDA is also presented because management believes that it is frequently used by investment analysts, investors and other interested parties as a measure of financial performance.

However, EBITDA is not a recognized earnings measure under generally accepted accounting principles of the United States ("U.S. GAAP") and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA should not be construed as an alternative to net income or loss or other income statement data (which are determined in accordance with U.S. GAAP) as an indicator of our performance or as a measure of liquidity and cash flows. Management's method of calculating EBITDA may differ materially from the method used by other companies and accordingly, may not be comparable to similarly titled measures used by other companies.

Overview

ASV Holdings, Inc. ("ASV" the "Company," "we," "our" and/or "us") designs and manufactures a broad range of high-quality compact track loader ("CTL") and skid steer loader ("SSL") equipment, marketed through a distribution network in North America, Australia and New Zealand under the ASV brand. We also serve as a private label original equipment manufacturer ("OEM") for several manufacturers. Our products are used principally in the construction, agricultural and forestry industries. As a full-service manufacturer, we provide pre- and post-sale dealer support, after-sale technical support and replacement parts supplied from our dedicated logistics center. We also supply a limited version of our assembled undercarriage sets that exclude the suspension to Caterpillar for three versions of Caterpillar's multi-terrain CTL machines marketed under the CAT brand under a supply contract with Caterpillar.

Recent Events

Agreement and Plan of Merger

On June 26, 2019, we entered into the Merger Agreement among Yanmar, Merger Sub and Guarantor. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company, with the Company continuing as the surviving corporation and as a wholly owned subsidiary of Yanmar. In connection with the Merger Agreement, we also entered into the Voting Agreement and the Retention Agreements. Please see Item 1, Financial Statements-Note 1. "Business Description" of the Quarterly Report on Form 10-Q for a further description of these recent events.

Business Outlook

Economic indicators that we believe are relevant to our industry and products continue to be positive compared to the last few years but the rate of improvement has slowed in North America, while in Australia there has been a more significant slowing in economic activity. A primary driver of demand for our CTL and SSL products is the United States housing market, where the level of new housing starts continues to be below pre-2007 levels. Since 2009, according to the U.S. Census Bureau, new housing starts have incrementally increased to a seasonally adjusted annual rate of 1.25 million units in June 2019 from approximately 0.5 million in October 2009. The preliminary June 2019 rate of 1.25 million was 6.2% above the June 2018 rate and 0.9% below May 2019.

Construction spending in the United States fell slightly in May, the first drop in six months. The U.S. Census Bureau reported on July 1, 2019 that total construction spending during May 2019 was estimated at a seasonally adjusted annual rate of $1.3 trillion, 2.3% below the May 2018 estimate. For the first five months of 2019, construction spending was 0.3% below the same period in 2018.

The rental sector is another important market for our products and is recording positive growth that is expected to continue. The five-year forecast from the ARA Rental Market Monitor, updated in February 2019, predicted total rental revenue in the United States is expected to grow by 5.0% in 2019 to reach $43.5 billion, 4.5% in 2020, 4.7% in 2021 and 4.4% in 2022. This is a sector of the economy that we are actively targeting with our products.

Outside North America, our largest market is Australia. The Australian Bureau of Statistics in June 2019 reported GDP growth of 0.4% in the first quarter of 2019, which however, reflected a growth of 0.2% from the December 2018 quarter. The lower rate of growth in the first quarter was influenced by uncertainty from the upcoming election, soft household spending and a decline in dwelling investment. Subsequent to the election, the interest rate in Australia has been reduced by 0.5% twice in succession, and is now at 1%, in an effort to stimulate growth.

The economies of the markets to which we sell our products have for the past few years operated with interest rates at historically low levels. Interest rate changes affect overall economic growth, which affects demand for residential and nonresidential structures which in turn affects sales of our products that serve these activities. Interest rate changes also affect the ability of dealers to finance machine purchases, can change the optimal time to keep machines in a fleet and can impact the ability of our suppliers to finance the production of parts and components necessary to manufacture and support our products. In the United States, during 2017 and 2018, the Federal Reserve continued increasing interest rates from their historically low levels. In 2018, the Federal Reserve increased its benchmark rate four times, in March, June, September and December. The rate is now at a range of 2.25% to 2.5%. The latest discussions from the Federal Reserve indicate that a rate cut is more likely than any further increases in the near future.

The prices we paid for raw materials used in manufacturing products have been impacted by tariffs. See "Commodities Risk" for the impact of tariffs on us.

Factors Affecting Revenues and Gross Profit

We derive most of our revenue from purchase orders from dealers and distributors. The demand for our products depends upon the general economic conditions of the markets in which we compete, residential housing starts, general construction activity and upon dealer and end-user replacement or repair cycles. Adverse economic conditions may cause dealers or end-users to forego or postpone new purchases in favor of repairing existing machinery. In addition to the United States, we sell to dealers in Canada, Australia and New Zealand. All of our sales are denominated in U.S. dollars. The strengthening of the U.S. dollar against these other currencies may have a negative impact on sales volume and sales prices to dealers outside of the United States.

Factors that affect gross profit includeproduct mix – variations between sales of larger and smaller machines and between machine sale and sales of parts and OEM undercarriages, production levels and cost of raw materials. Margins tend to increase when sales are skewed towards larger, tracked machines and replacement parts. As a consequence, gross profit margins can vary from period to period. Replacement parts generally command higher margins than product sales.

Results of Operations

Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

For the three months ended June 30, 2019, we had net loss of $(0.2) million compared to net income of $0.3 million for the three months ended June 30, 2018.

For the three months ended June 30, 2019, the net loss of $(0.2) million consisted of revenue of $36.0 million, cost of sales of $31.4 million, research and development costs of $0.5 million, selling, general and administrative ("SG&A") expenses of $3.7 million, interest expense of $0.6 million.

For the three months ended June 30, 2018, the net income of $0.3 million consisted of revenue of $31.9 million, cost of sales of $27.6 million, research and development costs of $0.5 million, SG&A expenses of $2.9 million, interest expense of $0.5 million and an income tax expense of $0.1 million.

Net Sales: For the three months ended June 30, 2019, net sales were $36.0 million, an increase ofapproximately $4.2 million or 13.1% of net sales of $31.9 million for the same period in 2018. The increase in net sales is attributable to an increase in sales of machines of $3.9 million, an increase in sales of undercarriages to Caterpillar of $0.1 million, and an increase in aftermarket parts and other sales of $0.2 million.

Total machine sales revenues increased 16.8% from the prior period, a combination of favorable pricing and product and channel mix. North America machine sales increased by 38% and included a significant penetration into the rental channel. Machine sales to Australia were down 66% for the period, a combination of a strong comparative period and lower orders from our network due to overall slower economic growth in the country. We anticipate a pick up in demand from Australia in the second half of the year, as interest rate cuts recently implemented stimulate increased activity.

We benefited from favorable pricing and product mix in the period. Price increases effective January 1, 2019, combined with the continued steel surcharge pricing implemented in May of 2018, provided a pricing benefit of approximately $1.7 million in the period. Favorable product and channel mix provided a benefit of approximately $2.1 million in the period.

We added a net fourteen North America dealer and thirty-nine rental locations during the period, bringing the overall number to 346, compared to 265 locations at the end of the same period in 2018. Same store sales growth was 28% from the same period in 2018.

Parts and other sales for the three months ended June 30, 2019 increased $0.2 million compared to the same period in 2018. Parts as a percentage of total sales was 21.1% and 23.3%, for the three months ended June 30, 2019 and 2018, respectively.

Gross Profit: For the three months ended June 30, 2019, our gross profit was $4.6 million or 12.7% of net sales compared to $4.3 million or 13.4% of net sales for the same period in 2018 . Under absorption of costs and plant inefficiencies, primarily as a result of lower build rates due to engine supply constraints persisting throughout the quarter impacted gross profit in the period. Favorable machine pricing of $2.1 million, combined with both the positive and negative volume impacts of parts, undercarriages and machine sales offset the estimated $1.1 million in year over year increased input costs during the period. Cost reduction projects implemented in quarter two of 2019 contributed approximately $0.6 million in margin benefit for the period.

Research and Development: Research and development expense was $0.5 million or 1.4% of net sales for the three months ended June 30, 2019, compared to $0.5 million or 1.6% of net sales for the same period in 2018.

Selling, general and administrative expense: SG&A expense for the three months ended June 30, 2019 was $3.7 million or 10.3% of net sales, compared to $2.9 million, or 9.2% of net sales, for the comparable period in 2018, an increase of approximately $0.8 million or 26.6%, respectively. The primary contributing factor to the increase were increases in marketing and advertising, including the introduction from the start of 2019 of a co-op advertising program for our dealer network to promote the brand and $0.5 million of transaction costs associated with the Merger Agreement.

Operating Income: For the three months ended June 30, 2019, our operating income was $0.3 million or 1.5% of net sales, compared to operating income of $0.9 million or 2.7% of net sales for the same period in 2018. Operating income decreased due to the explanations above.

Interest expense: Interest expense, including amortization of debt issuance costs, for the three months ended June 30, 2019, was $0.6 million compared to $0.5 million for the same period in 2018.

Tax: For the three months ended June 30, 2019, we recorded no tax. For the three months ended June 30, 2018, a tax expense of $0.1 million was recorded.

Net income: For the three months ended June 30, 2019, our net loss was $0.2 million compared to a net income of $0.3 million for the same period in 2018.

EBITDA: EBITDA totaled $1.6 million or 4.4% of net sales for the three months ended June 30, 2019 compared to $2.1 million or 6.6% of net sales for the same period in 2018.

The decrease in EBITDA for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 resulted from an increased net loss of $1.0 million, which included the effects of increased interest charges of $0.2 million.

The table below sets forth a reconciliation of net (loss) income to EBITDA (in thousands of dollars):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Net (loss) income	$ (223)	$ 319	$ (960)	$ 12
Interest expense	570	464	1,122	922
Depreciation & amortization	1,231	1,220	2,446	2,403
Other (income) expense	(1)	—	(8)	(7)
Income tax (benefit) expense	—	89	—	8
EBITDA (1)	$ 1,577	$ 2,092	$ 2,600	$ 3,338
% of Sales	4.4%	6.6%	4.1%	5.4%

(1) EBITDA is defined as income or loss before interest, income taxes, depreciation and amortization. EBITDA is not a recognized measure under U.S. GAAP and does not have a standardized meaning prescribed by U.S. GAAP. Therefore, EBITDA may not be comparable to similar measures presented by other companies. The table above reconciles net income to EBITDA. See "—Cautionary Statements Regarding Non-GAAP Measures" for further information regarding EBITDA.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

For the six months ended June 30, 2019, we had a net loss of $(1.0) million compared to a net income of $0.0 million for the same period ended June 30, 2018.

For the six months ended June 30, 2019, net loss of $(1.0) million consisted of revenue of $63.4 million, cost of sales of $55.3 million, research and development costs of $1.0 million, SG&A expenses of $6.8 million, and interest expense of $1.1 million.

For the six months ended June 30, 2018, the net income of $0.0 million consisted of revenue of $61.7 million, cost of sales of $53.5 million, research and development costs of $1.0 million, SG&A expenses of $6.3 million, and interest expense of $0.9 million.

Net Sales: For the six months ended June 30, 2019, net sales were $63.4 million, an increase of approximately $1.6 million or 2.6% from net sales of $61.7 million for the same period in 2018. The increase in net sales is a result of increased machine sales of $1.3 million, increased sales of aftermarket parts and other of $0.8 million and offset by decreased sales of undercarriages to Caterpillar of $0.5 million.

Favorable pricing and product and channel mix in the six months ended June 30, 2019, resulted in an increase in machine revenues of 3.0% or $1.3 million from the same period in 2018. Growth in revenues from sales of machines through the ASV North American distribution channels was 18.8% compared to the six months ended June 30, 2018. We benefited from favorable pricing and product mix in the period, which partially offset the volume decline in Australia, where economic growth has recently slowed. Price increases effective January 1, 2019, combined with the continued steel surcharge pricing implemented in May of 2018, provided a pricing benefit of approximately $3.1 million in the period. Favorable product mix provided a benefit of approximately $3.7 million in the period.

Parts and other sales for the six months ended June 30, 2019 increased $0.3 million compared to the same period in 2018. This comprised of an increase in Caterpillar undercarriage and parts shipments of $0.2 million for the period, primarily a result of timing differences in their fiscal year demand requirements and a increase in aftermarket parts and other sales of $0.1 million. Parts sales as a percentage of total sales was 22.6% and 21.8%, for the six months ended June 30, 2019 and 2018, respectively.

Gross Profit: For the six months ended June 30, 2019, our gross profit was $8.0 million or 12.6% of net sales compared to $8.2 million or 13.3% of net sales for the same period in 2018. Under absorption of costs and plant inefficiencies, primarily as a result oflower build rates due to engine supply constraints persisting throughout most of the period impacted gross profit. Favorable machine pricing of $3.1 million, combined with both the positive and negative volume impacts of parts, undercarriages and machine sales offset the estimated $2.1 million in year over year increased input costs during the period. Cost reduction projects implemented in the period contributed approximately $0.9 million in margin benefit for the period, as well as the 2018 period being adversely impacted by $0.6 million of costs associated with the relocation of our aftermarket parts distribution center.

Research and Development: Research and development expense was $1.0 million or 1.6% of net sales for the six months ended June 30, 2019, compared to $0.9 million or 1.5% of net sales for the same period in 2018. The increase of $0.1 million is attributable to expenditures related to the launch of new product designs for the ASV brand in connection with the implementation of Tier 4 emissions standards during the period.

Selling, general and administrative expense: SG&A expense for the six months ended June 30, 2019 was $6.8 million or 10.8% of net sales, compared to $6.3 million, or 10.3% of net sales, for the comparable period in 2018, an increase of approximately $0.5 million. The primary contributing factor to the increase were increases in marketing and advertising, including the introduction from the start of 2019 of a co-op advertising program for our dealer network to promote the brand and $0.5 million in transaction costs associated with the Merger Agreement. The increases were offset in part by the elimination of selling expenses for aftermarket parts paid to Terex during the same period in 2018 following the relocation of that activity to our own facility.

Operating Income: For the six months ended June 30, 2019, our operating income was $0.2 million or 0.2% of net sales, compared to $0.9 million or 1.5% of net sales for the same period in 2018. Operating income as a percent of net sales decreased due to the explanations above.

Interest expense: Interest expense, including amortization of debt issuance costs, for the six months ended June 30, 2019, was $1.1 million compared to $0.9 million for the same period in 2018, principally due to borrowings on our debt facilities.

Tax: For the six months ended June 30, 2019, we recorded no income tax expense, compared to an income tax expense of $0.01 million for the six months ended June 30, 2018.

Net income: For the six months ended June 30, 2019, our net loss was $(1.0) million compared to a net income of $0.01 million for the same period in 2018, a decrease of $(0.8) million and is attributable to the items discussed above.

Liquidity and Capital Resources

We fund our business activities by utilizing a revolving credit facility, a term loan for financing, and cash generated from operations. In connection with our revolving credit facility, in October 2018 we entered into an amendment which included revisions to the definition of EBITDA, an increase in the allowance of certain foreign receivables and a change to the required leverage ratio. On March 28, 2019, we entered into a Second Amendment (the "Second Amendment") to the Amended and Restated Credit Agreement with PNC Bank, National Association, as administrative agent ("PNC"), described in Item 1. Financial Statements-Note 6, "Debt" of this Quarterly Report on Form 10-Q. The principal modification to the Amended and Restated Credit Agreement resulting from the Second Amendment replaces the maximum leverage ratio requirements for 2019 with a minimum EBITDA covenant and beginning in March of 2020, removes the minimum EBITDA covenant and reverts to a leverage ratio requirement of 2.75 to 1.00, which shall step down to 2.25 to 1.00 by September 30, 2020. In addition, the applicable margin for each advance under the credit agreement was increased by 50 basis points for the period from March 28, 2019 until the first business day following receipt by PNC of our certificate of compliance with the applicable leverage ratio for the quarter ended March 31, 2020 and the inventory sub-limit was increased to $18 million.

We use our capital resources to:

- fund operating costs;
- fund capital requirements, including capital expenditures;
- make debt and interest payments; and
- invest in new ventures.

We need cash to meet our working capital needs as the business grows, to acquire capital equipment, and to fund acquisitions and debt repayment. We intend to use cash flows from operations and existing availability under the current revolving credit facility to fund anticipated levels of operations for the next twelve months. As our availability under our credit lines is limited, it is important that we manage our working capital. We may need to raise additional capital through debt or equity financings to support our growth strategy, which may include additional acquisitions. There is no assurance that such financing will be available or, if available, on acceptable terms.

Cash Flows

Six Months Ended June 30, 2019

Operating activities generated $0.2 million of cash for the six months ended June 30, 2019, comprised of net loss of $(1.0) million, non-cash items that totaled $2.8 million and changes in assets and liabilities, which consumed $1.6 million. The principal non-cash items are depreciation and amortization of $2.4 million and share-based compensation of $0.3 million.

The changes in assets and liabilities consumed $1.6 million. The changes in assets and liabilities had the following impact on cash flows: accounts receivable generated $2.9 million, trade receivables/payables from affiliates generated $0.5 million, income tax receivable generated $0.8 million, inventory generated $0.7 million, prepaid expenses consumed $0.2 million, trade accounts payable consumed $5.5 million, accrued expenses generated $0.1 million and other long-term liabilities consumed $0.1 million. The increase in accounts receivable is principally due to customer mix. Days sales outstanding at June 30, 2019 were 42 days, compared to 44 days at December 31, 2018. Inventory has decreased as our engine supply constraint has relieved and we have converted components to finished goods to satisfy demand. The fluctuation in the remaining assets and liabilities are within a range that would normally be expected to occur.

Investing activities for the six months ended June 30, 2019 consumed $0.3 million of cash. We consumed $0.3 million of cash to purchase machinery and equipment and tooling for Tier IV product launches.

Financing activities generated $0.1 million in cash for the six months ended June 30, 2019. Cash was generated by increased borrowing under the revolving credit facilities of $2.3 million, offset by the use of $1.0 million of cash for principal payments on debt and $1.0 million excess cash flow payment.

Six Months Ended June 30, 2018

Operating activities generated $0.4 million of cash for the six months ended June 30, 2018 comprised of a net income of $0.01 million, non-cash items that totaled $2.7 million and changes in assets and liabilities, which consumed $2.3 million. The principal non-cash items are depreciation and amortization of $2.4 million and share-based compensation of $0.3 million.

The changes in assets and liabilities consumed $2.3 million. The changes in assets and liabilities had the following impact on cash flows: accounts receivable generated $3.2 million, trade receivables/payables from affiliates consumed $0.2 million, inventory consumed $4.1 million, prepaid expenses consumed $0.1 million, trade accounts payable consumed $0.1 million, and accrued expenses consumed $1.0 million. The decrease in accounts receivable is principally due to decreased sales. Days sales outstanding at June 30, 2018 were 44 days, compared to 58 days at December 31, 2017. The increase in inventory relates primarily to increased stock of long lead items to support future production schedules as well as safety stock used to supplement aftermarket parts distribution during the transition period of moving of the parts to our new facility in Grand Rapids. The fluctuation in the remaining assets and liabilities are within a range that would normally be expected to occur.

Investing activities for the six months ended June 30, 2018 consumed $0.5 million of cash. We consumed $0.5 million of cash to purchase machinery and equipment, principally related to tooling for Tier IV, information technology system upgrades and building improvements.

Financing activities generated $0.1 million in cash for the six months ended June 30, 2018. Cash was generated by increased borrowing under the revolving credit facilities of $0.7 million, offset by the use of $1.0 increased borrowing on new long-term loans of $0.4 million associated with relocating our parts distribution facility to Minnesota, offset by the use of $1.0 million of cash for principal payments on debt.

Critical Accounting Policies and Estimates

Our financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require us to make estimates, judgments and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures and contingencies. We evaluate estimates used in preparation of our financial statements on a continual basis. We adopted ASC 2016-02 Leases (Topic 842) during the period. There have been no other significant changes to our critical accounting policies that are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Summary of Significant Accounting Policies” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Off-Balance Sheet Arrangements

At June 30, 2019 we had $0.1 million of standby letters of credit outstanding. PNC Bank has issued a $0.1 million standby letter of credit in favor of an insurance carrier to secure obligations which may arise in connection with future deductible payments that may be incurred under our workers’ compensation insurance policies.

Inflation

Inflation affects us in two principal ways. First, our revolving credit facility is generally tied to the price 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 price of our products. However, we generally do not have inflation-based price adjustment provisions in our contracts. The markets we serve are competitive in nature, and competition may limit our ability to pass through cost increases. Overall, we strive to manage the effect of inflation through sales price adjustments, cost reductions and improved productivity.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to certain market risks that exist as part of our ongoing business operations.

Interest Rate Risk

We are exposed to interest rate volatility with regard to future issuances of fixed rate debt and existing issuances of variable rate debt. Primary exposure includes movements in the PNC prime rate and LIBOR. At June 30, 2019, we had approximately $29.3 million of variable rate debt with a weighted average interest rate of approximately 6.2%. An increase of 1% in our average floating interest rates at June 30, 2019 would increase interest expense by approximately $0.3 million.

Commodities Risk

We purchase a majority of our components as partially and fully finished assemblies, rather than raw materials for conversion. However, steel is a major part of the chassis, cabs and wheel rims of our product and as such availability and pricing from our suppliers is subject to the global steel market. Extreme movements in the cost and availability of steel and other materials and components may affect our financial performance. The prices we pay for raw materials used in our products may be impacted by tariffs. On March 8, 2018, the Trump administration signed an order that imposed a tariff of 25% on steel that went into effect on March 23, 2018. As a result of this tariff, if we are unable to obtain raw materials, including steel, at historical prices or unable to pass any material prices on to dealers, our margins could be adversely affected, and it could have a material adverse effect on our business. Changes in input costs had a significant effect on our operating performance in 2018, as input prices, and steel components in particular, increased significantly, driven by the above-mentioned tariffs and higher levels of market demand driving increased prices. Although the spot price of US steel is showing a reduction through the first half of 2019, the steel consumed in production reflects the recent historical prices paid until the spot price is passed through the supply chain, potentially during the second half of the year. During 2018 and continuing into 2019, we have implemented re-engineering and re-sourcing actions to help avoid these increases and have also implemented surcharge price increases to recover steel increases. In the second quarter of 2019 these activities benefited gross margin by $0.6 million and $0.9 million year to date.

In the absence of labor strikes or other unusual circumstances, the materials and components used in our products are normally available from multiple suppliers. However, some of the components may not be easily interchanged with components from alternative suppliers and have been designed into our products. We evaluate current and potential suppliers on a regular basis on their ability to meet our requirements and standards. We actively manage our material supply sourcing and may employ various methods to limit risk associated with commodity cost fluctuations and availability. The inability of suppliers to deliver materials and components promptly could result in production delays and increased costs to manufacture our products. To mitigate the impact of these risks we continue to search for acceptable alternative supply sources and less expensive supply options on a regular basis.

Raw Materials and Component Products

Our operating philosophy is to design, source, integrate, quantitatively assess, assemble, ship and integrate product from parts and systems available from third parties and our key suppliers include Kubota, Perkins, Cummins and Deutz. Consequently, we purchase a majority of our components as partially and fully finished assemblies, rather than raw materials for conversion. However, steel is a major component of the chassis, cabs and wheel rims of our product and as such availability and pricing from our suppliers is subject to the global steel market. Extreme movements in the cost and availability of steel and other materials and components may affect our financial performance. The prices we pay for raw materials used in our products may be impacted by tariffs. On March 8, 2018, the Trump administration signed an order that imposed a tariff of 25% on steel (Section 232 Tariff) that went into effect on March 23, 2018, and in September 2018 a further 10% on many other products imported from China (Section 301 Tariff). An additional 15% increase to the Section 301 Tariff was implemented June 1, 2019. As a result of these tariffs, if we are unable to obtain raw materials, including steel, at historical prices or unable to pass any material prices on to dealers, our margins could be adversely affected, and it could have a material adverse effect on our business. Changes in input costs had a significant effect on our operating performance in 2018, as input prices, and steel components in particular, increased significantly, driven by the above-mentioned tariffs and higher levels of market demand driving increased prices. During the year we have implemented re-engineering and re-sourcing actions to help avoid these increases and have also implemented surcharge price increases to recover steel increases. Beginning in the first quarter of 2019, we implemented price increases on machines and aftermarket parts targeted to offset the significant cost increases incurred during 2018.

Item 4. Controls and Procedures.

Management's Evaluation of our Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

As of June 30, 2019, our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our principal executive officer and principal financial officer have concluded based upon the evaluation described above that, as of June 30, 2019, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

Beginning January 1, 2019, we implemented ASU 2016-02, *Leases*. Although the adoption of the new accounting standard did not have a material impact on our Condensed Statement of Operations or Condensed Statements of Cash Flows for the three-month period ended March 31, 2019, we did implement changes to our internal controls related to the implementation of the lease accounting standard. These changes included performing a comprehensive lease scoping analysis to identify, disaggregate and evaluate each of our lease categories and implementing a standard procedure to calculate operating lease assets and lease liabilities values for our leases. There were no other changes in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in various legal proceedings, including the proceeding before the National Labor Relations Board described in "Risk Factors–Risks Related to Our Business" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and as further described below.

The International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers brought a proceeding against us before the National Labor Relations Board (the "NLR Board") in May 2014 regarding alleged unfair labor practices at our Grand Rapids, Minnesota facility. The union alleged, among other things, that we unlawfully violated the prohibition against interference, restraint and coercion of employees under Section 8(a)(1) of the National Labor Relations Act ("NLRA") with respect to the employees' right to engage in concerted activities and collective bargaining under the NLRA and that we unlawfully violated the prohibition in Section 8(a)(3) of the NLRA against retaliatory termination related to union activities.

In June 2015, a federal administrative judge found that we violated Section 8(a)(1) in connection with speeches and statements made by management in connection with a union election and Section 8(a)(3) in connection with terminations that followed the same election. The administrative judge entered an order in favor of the union that required, among other things, that we offer reinstatement to 13 terminated employees and make such employees whole for loss of earnings and benefits (including a gross up for adverse tax consequences for lump-sum back pay). Under this order, we were also required to bargain with the union as a representative of the assembly employees at our Grand Rapids, Minnesota facility and post informational notices at our facility. We appealed the June 2015 decision.

On August 21, 2018, the NLR Board affirmed the administrative law judge's rulings, findings and conclusions, although it amended the judge's tax compensation and Social Security reporting remedy and adopted a modified order which, among other things, retains the requirements set forth above with regard to the reinstatement of employment and back pay, as well as the requirement to bargain with the union as a representative of the assembly employees. On September 13, 2018, we filed a request for reconsideration of the NLR Board's decision regarding the recognition of the assembly union, as the legal standard on which the NLR Board relied was overruled and was not considered in the decision.

Item 1A. Risk Factors.

In addition to the risk factors set forth below and other information contained elsewhere in this Quarterly Report on Form 10-Q, you should carefully consider how the risk factors discussed in Part I, Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2018, could materially and adversely affect our business, financial condition or operating results. These risk factors and the risk factors set forth below are not the only risks facing us. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results. The risk factors listed below should be read in conjunction with the Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K.

Risks Related to the Proposed Merger

On June 26, 2019, we entered into the Merger Agreement among Yanmar, Merger Sub and Guarantor. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Merger Sub will merge with and into the Company with the Company continuing as the surviving corporation and as a wholly owned subsidiary of Yanmar. The Merger Agreement was unanimously approved by our Board. The description of the Merger Agreement in these risk factors does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, which was filed as Exhibit 2.1 to our Current Report on Form 8-K filed on June 27, 2019.

We may fail to consummate the Merger, and uncertainties related to the consummation of the Merger may have a material adverse effect on our business, results of operations and financial condition and negatively impact the price of our common stock.

The Merger is subject to the satisfaction of a number of conditions beyond our control, including receiving the Stockholder Approval and other customary closing conditions. Failure to satisfy the conditions to the Merger could prevent or delay the completion of the Merger. Further, regulators may impose conditions, obligations or restrictions on the Merger that may have the effect of delaying or preventing its completion.

The efforts and costs to satisfy the closing conditions of the Merger, may place a significant burden on management and internal resources, and the Merger and related transactions, whether or not consummated, may result in a diversion of management’s attention from day-to-day operations. Any significant diversion of management’s attention away from ongoing business and difficulties encountered in the Merger process could have a material adverse effect on our business, results of operations and financial condition.

There also is no assurance that the Merger and the other transactions contemplated by the Merger Agreement will occur on the terms and timeline currently contemplated or at all.

If the proposed Merger is not completed or the Merger Agreement is terminated, the price of our common stock may decline, including to the extent that the current market price of our common stock reflects an assumption that the Merger and the other transactions contemplated by the Merger Agreement will be consummated without further delays, which could have a material adverse effect on our business, results of operations and financial condition.

If the Merger Agreement is terminated and we determine to seek another business combination, we may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the Merger.

If the Merger Agreement is terminated, we may, under certain circumstances, be obligated to pay a termination fee to Yanmar. These costs could require us to use available cash that would have otherwise been available for other uses.

If the Merger is not completed, in certain circumstances, we could be required to pay a termination fee of $2,650 to Yanmar. If the Merger Agreement is terminated, the termination fee we may be required to pay, if any, under the Merger Agreement may require us to use available cash that would have otherwise been available for general corporate purposes or other uses. For these and other reasons, termination of the Merger Agreement could materially and adversely affect our business, results of operations or financial condition, which in turn would materially and adversely affect the price of our common stock.

We are subject to various uncertainties and restrictions on the conduct of our business while the Merger is pending, which could have a material adverse effect on our business, results of operations and financial condition.

Uncertainty about the pendency of the Merger and the effect of the Merger on employees, customers, vendors, communities and other third parties who deal with us may have a material adverse effect on our business, results of operations and financial condition. These uncertainties may impair our ability to attract, retain and motivate key personnel pending the consummation of the Merger, as such personnel may experience uncertainty about their future roles following the consummation of the Merger. Additionally, these uncertainties could cause customers, distributors, vendors and other third parties who deal with us to seek to change existing business relationships with us or fail to extend an existing relationship with us, all of which could have a material adverse effect on our

business, results of operations, financial condition and market price of our common stock.In addition, the Merger Agreement restricts us from taking certain actions without Yanmar's consent while the Merger is pending. These restrictions may, among other matters, prevent us from pursuing otherwise attractive business opportunities, buying or selling certain assets, making certain capital expenditures, refinancing or incurring additional indebtedness, entering into certain transactions, or making other changes to our business prior to consummation of the Merger or termination of the Merger Agreement. These restrictions and uncertainties could have a material adverse effect on our business, results of operations and financial condition.

We and our directors and officers may be subject to lawsuits relating to the Merger.

Litigation is very common in connection with the sale of public companies, regardless of whether the claims have any merit. One of the conditions to consummating the Merger is that no order preventing or otherwise prohibiting the consummation of the Merger shall have been issued by any court. Consequently, if any lawsuit challenging the Merger is successful in obtaining an order preventing the consummation of the Merger, that order may delay or prevent the Merger from being completed. While we will evaluate and defend against any lawsuits, the time and costs of defending against litigation relating to the Merger may adversely affect our business.

We will continue to incur substantial transaction-related costs in connection with the Merger.

We have incurred significant legal, advisory and financial services fees in connection with Merger. We have incurred, and expect to continue to incur, additional costs in connection with the satisfaction of the various conditions to closing of the Merger, including seeking approval from our stockholders. If there is any delay in the consummation of the Merger, these costs could increase significantly.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

I tem 5. Other Information.

None.

Item 6. Exhibits.

See the Exhibit Index set forth below for a list of exhibits included with this Quarterly Report on Form 10-Q.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated June 26, 2019 among Yanmar America Corporation, a Georgia corporation , Osaka Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Yanmar (“Merger Sub”), Yanmar, Co. Ltd., a company organized under the laws of Japan and ASV Holding, Inc., a Delaware corporation (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on June 27, 2019).
2.2	Plan of Conversion of A.S.V. LLC, dated as of April 25, 2017 (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on May 18, 2017).
3.1	Certificate of Incorporation of ASV Holdings, Inc., dated as of May 11, 2017 (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on May 18, 2017).
3.2	Bylaws of ASV Holdings, Inc., dated as of May 11, 2017 (incorporated by reference to Exhibit 3.2 to the Company’s Current Report on Form 8-K filed on May 18, 2017).
4.1	Voting Agreement, dated June 26, 2019, between A.S.V Holding, LLC and Yanmar America Corporation (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on June 27, 2019).
10.1	Form of Retention Agreement (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed on June 27, 2019).
10.2	Second Amendment to Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of March 28, 2019 by and among ASV Holdings, Inc., the Loan Parties thereto, the Lenders and PNC Bank, National Association, as agent for the Lenders (incorporated by reference to Exhibit 10.2 to the Company’s Annual Report on Form 10-K filed on March 29, 2019).
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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.

	ASV Holdings, Inc.
Date: July 31, 2019	By: /s/ Andrew M. Rooke
	Andrew M. Rooke
	Chief Executive Officer
	(Principal Executive Officer)
Date: July 31, 2019	By: /s/ Melissa K. How
	Melissa K. How
	CFO and Secretary
	(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew M. Rooke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ASV Holdings, 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(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: July 31, 2019

By: /s/ Andrew M. Rooke
Andrew M. Rooke
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Melissa K. How, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ASV Holdings, 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(s) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: July 31, 2019

By: /s/ Melissa K. How
Melissa K. How
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of ASV Holdings, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 31, 2019

By: /s/ Andrew M. Rooke
Andrew M. Rooke
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of ASV Holdings, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 31, 2019

By: /s/ Melissa K. How
Melissa K. How
Chief Financial Officer