

Section 1: 10-Q (10-Q)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 29, 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 001-36267

BLUE BIRD CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

46-3891989

(I.R.S. Employer Identification No.)

3920 Arkwright Road, 2nd Floor, Macon, Georgia 31210

(Address of principal executive offices)

(Zip Code)

(478) 822-2801

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<u>Common stock, \$0.0001 par value</u>	<u>BLBD</u>	<u>NASDAQ Global Market</u>

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

Yes No

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

Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

At August 5, 2019, 26,475,918 shares of the registrant's common stock, \$0.0001 par value, were outstanding.

BLUE BIRD CORPORATION
FORM 10-Q

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (this "Report") of Blue Bird Corporation ("Blue Bird" or the "Company") contains forward-looking statements. Except as otherwise indicated by the context, references in this Report to "we," "us" and "our" are to the consolidated business of the Company. All statements in this Report, including those made by the management of the Company, other than statements of historical fact, are forward-looking statements. These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Forward-looking statements may contain words such as "may," "will," "should," "could," "would," "expect," "plan," "estimate," "project," "forecast," "seek," "target," "anticipate," "believe," "estimate," "predict," "potential" and "continue," the negative of these terms, or other comparable terminology. Examples of forward-looking statements include statements regarding the Company's future financial results, research and development results, regulatory approvals, operating results, business strategies, projected costs, products, competitive positions, management's plans and objectives for future operations, and industry trends. These forward-looking statements relate to expectations for future financial performance, business strategies or expectations for our business. Specifically, forward-looking statements may include statements relating to:

- the future financial performance of the Company;*
- changes in the market for Blue Bird products; and*
- expansion plans and opportunities.*

These forward-looking statements are based on information available as of the date of this Report (or, in the case of forward-looking statements incorporated herein by reference, as of the date of the applicable filed document), and current expectations, forecasts and assumptions, and involve a number of judgments, risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. As a result of a number of known and unknown risks and uncertainties, our actual results or performance may be materially different than those expressed or implied by these forward-looking statements.

Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the reports we file with the Securities and Exchange Commission (the "SEC"), specifically the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2018 Form 10-K, filed with the SEC on December 12, 2018. Other risks and uncertainties are and will be disclosed in the Company's prior and future SEC filings. The following information should be read in conjunction with the financial statements included in the Company's 2018 Form 10-K, filed with the SEC on December 12, 2018.

Available Information

We are subject to the reporting and information requirements of the Securities Exchange Act of 1934, as amended, and as a result are obligated to file annual, quarterly, and current reports, proxy statements, and other information with the SEC. We make these filings available free of charge on our website (<http://www.blue-bird.com>) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. Information on our website does not constitute part of this Quarterly Report on Form 10-Q. In addition, the SEC maintains a website (<http://www.sec.gov>) that contains our annual, quarterly, and current reports, proxy and information statements, and other information we electronically file with, or furnish to, the SEC. Any materials we file with, or furnish to, the SEC may also be read and/or copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

**BLUE BIRD CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)**

(in thousands of dollars, except for share data)

	<u>June 29, 2019</u>	<u>September 29, 2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 29,075	\$ 60,260
Accounts receivable, net	40,229	24,067
Inventories	140,688	57,333
Other current assets	12,036	8,183
Total current assets	\$ 222,028	\$ 149,843
Property, plant and equipment, net	94,727	66,054
Goodwill	18,825	18,825
Intangible assets, net	55,492	55,472
Equity investment in affiliate	12,281	11,123
Deferred tax assets	4,559	4,437
Other assets	466	1,676
Total assets	\$ 408,378	\$ 307,430
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	\$ 135,902	\$ 95,780
Warranty	9,008	9,142
Accrued expenses	28,163	21,935
Deferred warranty income	8,408	8,159
Other current liabilities	15,691	3,941
Current portion of long-term debt	9,900	9,900
Total current liabilities	\$ 207,072	\$ 148,857
Long-term liabilities		
Revolving credit facility	\$ 25,000	\$ —
Long-term debt	175,479	132,239
Warranty	13,512	13,504
Deferred warranty income	15,177	15,032
Deferred tax liabilities	1,088	197
Other liabilities	12,402	4,924
Pension	19,834	21,013
Total long-term liabilities	\$ 262,492	\$ 186,909
Guarantees, commitments and contingencies (Note 6)		
Stockholders' deficit		
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized, 0 and 93,000 issued with liquidation preference of \$0 and \$9,300 at June 29, 2019 and September 29, 2018, respectively	\$ —	\$ 9,300
Common stock, \$0.0001 par value, 100,000,000 shares authorized, 26,460,456 and 27,259,262 shares outstanding at June 29, 2019 and September 29, 2018, respectively	3	3
Additional paid-in capital	83,189	70,023
Accumulated deficit	(57,241)	(69,235)
Accumulated other comprehensive loss	(36,855)	(38,427)
Treasury stock, at cost, 1,782,568 and 0 shares at June 29, 2019 and September 29, 2018, respectively	(50,282)	—
Total stockholders' deficit	\$ (61,186)	\$ (28,336)
Total liabilities and stockholders' deficit	\$ 408,378	\$ 307,430

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

BLUE BIRD CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands of dollars except for share data)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net sales	\$ 308,774	\$ 314,186	\$ 675,342	\$ 693,363
Cost of goods sold	266,992	277,213	588,496	614,074
Gross profit	\$ 41,782	\$ 36,973	\$ 86,846	\$ 79,289
Operating expenses				
Selling, general and administrative expenses	20,996	20,489	61,197	64,226
Operating profit	\$ 20,786	\$ 16,484	\$ 25,649	\$ 15,063
Interest expense	(3,369)	(1,834)	(10,241)	(5,112)
Interest income	—	25	9	42
Other expense, net	(410)	(667)	(1,034)	(399)
Income before income taxes	\$ 17,007	\$ 14,008	\$ 14,383	\$ 9,594
Income tax (expense) benefit	(3,248)	7,485	(2,833)	5,662
Equity in net income of non-consolidated affiliate	842	398	1,158	632
Net income	\$ 14,601	\$ 21,891	\$ 12,708	\$ 15,888
Earnings per share:				
Net income (from above)	\$ 14,601	\$ 21,891	\$ 12,708	\$ 15,888
Less: preferred stock dividends	—	182	—	1,715
Net income available to common stockholders	\$ 14,601	\$ 21,709	\$ 12,708	\$ 14,173
Basic weighted average shares outstanding	26,451,107	26,209,697	26,449,751	24,677,838
Diluted weighted average shares outstanding	26,720,110	28,556,914	26,920,285	25,809,491
Basic earnings per share	\$ 0.55	\$ 0.83	\$ 0.48	\$ 0.57
Diluted earnings per share	\$ 0.55	\$ 0.77	\$ 0.47	\$ 0.55

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

BLUE BIRD CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net income	\$ 14,601	\$ 21,891	\$ 12,708	\$ 15,888
Other comprehensive income, net of tax				
Net change in defined benefit pension plan	524	669	1,572	1,901
Total other comprehensive income	\$ 524	\$ 669	\$ 1,572	\$ 1,901
Comprehensive income	\$ 15,125	\$ 22,560	\$ 14,280	\$ 17,789

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

BLUE BIRD CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	June 29, 2019	June 30, 2018
(in thousands of dollars)		
Cash flows from operating activities		
Net income	\$ 12,708	\$ 15,888
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,406	6,325
Non-cash interest expense	2,172	572
Share-based compensation	3,146	2,380
Equity in net income of affiliate	(1,158)	(632)
Loss on disposal of fixed assets	50	115
Deferred taxes	500	8,422
Amortization of deferred actuarial pension losses	2,068	2,640
Foreign currency hedges	109	(828)
Changes in assets and liabilities:		
Accounts receivable	(16,162)	(12,422)
Inventories	(83,355)	(36,872)
Other assets	(5,014)	(1,502)
Accounts payable	42,429	41,959
Accrued expenses, pension and other liabilities	15,988	(19,023)
Total adjustments	\$ (31,821)	\$ (8,866)
Total cash (used in) provided by operating activities	\$ (19,113)	\$ 7,022
Cash flows from investing activities		
Cash paid for fixed and acquired intangible assets	\$ (30,154)	\$ (15,572)
Proceeds from sale of fixed assets	—	12
Total cash used in investing activities	\$ (30,154)	\$ (15,560)
Cash flows from financing activities		
Borrowings under the revolving credit facility	\$ 25,000	\$ —
Borrowings under the senior term loan	50,000	—
Repayments under the senior term loan	(7,425)	(6,000)
Cash paid for capital leases	—	(118)
Payment of dividends on preferred stock	—	(1,715)
Cash paid for employee taxes on vested restricted shares and stock option exercises	(622)	(571)
Proceeds from exercises of warrants	1,499	15,114
Common stock repurchases under share repurchase programs	—	(18,864)
Tender offer repurchase of common stock and preferred stock	(50,370)	—
Total cash provided by (used in) financing activities	\$ 18,082	\$ (12,154)
Change in cash and cash equivalents	(31,185)	(20,692)
Cash and cash equivalents, beginning of period	60,260	62,616
Cash and cash equivalents, end of period	\$ 29,075	\$ 41,924
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest paid, net of interest received	\$ 7,916	\$ 4,549
Income tax paid, net of tax refunds	2,431	3,665
Non-cash investing and financing activities:		
Changes in accounts payable for capital additions to property, plant and equipment and other current assets for capitalized intangible assets	\$ (1,307)	\$ 3,574
Cashless exercise of stock options	295	897
Right-of-use assets obtained in exchange for operating lease obligations	8,040	—
Conversion of preferred stock into common stock	9,264	30,700

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

BLUE BIRD CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(Unaudited)

Three Months Ended

(in thousands of dollars,
except for share data)

	Common Stock			Convertible Preferred Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Total Stockholders' Deficit
	Shares	Par Value	Additional Paid-In-Capital	Shares	Amount			Shares	Amount	
Balance, March 30, 2019	26,440,663	\$ 3	\$ 81,889	—	\$ —	\$ (37,379)	\$ (71,842)	1,782,568	\$(50,261)	\$ (77,590)
Warrant exercises	17,750	—	204	—	—	—	—	—	—	204
Stock option activity	2,043	—	(20)	—	—	—	—	—	—	(20)
Share-based compensation expense	—	—	1,095	—	—	—	—	—	—	1,095
Tender offer share repurchases	—	—	21	—	—	—	—	—	(21)	—
Net income	—	—	—	—	—	—	14,601	—	—	14,601
Other comprehensive income, net of tax	—	—	—	—	—	524	—	—	—	524
Balance, June 29, 2019	<u>26,460,456</u>	<u>\$ 3</u>	<u>\$ 83,189</u>	<u>—</u>	<u>\$ —</u>	<u>\$ (36,855)</u>	<u>\$ (57,241)</u>	<u>1,782,568</u>	<u>\$(50,282)</u>	<u>\$ (61,186)</u>
Balance, March 31, 2018	23,912,188	\$ 2	\$ 38,748	400,000	\$40,000	\$ (42,643)	\$ (106,058)	—	\$ —	\$ (69,951)
Warrant exercises	487,810	—	5,610	—	—	—	—	—	—	5,610
Preferred stock dividends	—	—	(182)	—	—	—	—	—	—	(182)
Share-based compensation expense	—	—	839	—	—	—	—	—	—	839
Share repurchase program	(151,693)	—	(3,353)	—	—	—	—	—	—	(3,353)
Preferred stock conversion	2,649,962	—	30,700	(307,000)	(30,700)	—	—	—	—	—
Net income	—	—	—	—	—	—	21,891	—	—	21,891
Other comprehensive income, net of tax	—	—	—	—	—	669	—	—	—	669
Balance, June 30, 2018	<u>26,898,267</u>	<u>\$ 2</u>	<u>\$ 72,362</u>	<u>93,000</u>	<u>\$ 9,300</u>	<u>\$ (41,974)</u>	<u>\$ (84,167)</u>	<u>—</u>	<u>\$ —</u>	<u>\$ (44,477)</u>

Nine Months Ended

(in thousands of dollars,
except for share data)

	Common Stock			Convertible Preferred Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Total Stockholders' Deficit
	Shares	Par Value	Additional Paid-In-Capital	Shares	Amount			Shares	Amount	
Balance, September 29, 2018	27,259,262	\$ 3	\$ 70,023	93,000	\$ 9,300	\$ (38,427)	\$ (69,235)	—	\$ —	\$ (28,336)
Adoption of new revenue recognition standard (ASC 606) adjustment	—	—	—	—	—	—	(714)	—	—	(714)
Warrant exercises	130,385	—	1,499	—	—	—	—	—	—	1,499
Restricted stock activity	51,195	—	(596)	—	—	—	—	—	—	(596)
Stock option activity	2,567	—	(26)	—	—	—	—	—	—	(26)
Share-based compensation expense	—	—	3,077	—	—	—	—	—	—	3,077
Tender offer share repurchases	(1,782,568)	—	(52)	(364)	(36)	—	—	1,782,568	(50,282)	(50,370)
Preferred stock conversion	799,615	—	9,264	(92,636)	(9,264)	—	—	—	—	—
Net income	—	—	—	—	—	—	12,708	—	—	12,708
Other comprehensive income, net of tax	—	—	—	—	—	1,572	—	—	—	1,572
Balance, June 29, 2019	<u>26,460,456</u>	<u>\$ 3</u>	<u>\$ 83,189</u>	<u>—</u>	<u>\$ —</u>	<u>\$ (36,855)</u>	<u>\$ (57,241)</u>	<u>1,782,568</u>	<u>\$(50,282)</u>	<u>\$ (61,186)</u>
Balance, September 30, 2017	23,739,344	\$ 2	\$ 45,418	400,000	\$40,000	\$ (43,875)	\$ (100,055)	—	\$ —	\$ (58,510)
Warrant exercises	1,314,224	—	15,114	—	—	—	—	—	—	15,114
Restricted stock activity	33,963	—	(370)	—	—	—	—	—	—	(370)
Stock option activity	18,680	—	(201)	—	—	—	—	—	—	(201)
Preferred stock dividends	—	—	(1,715)	—	—	—	—	—	—	(1,715)
Share-based compensation expense	—	—	2,280	—	—	—	—	—	—	2,280
Share repurchase program	(857,906)	—	(18,864)	—	—	—	—	—	—	(18,864)
Preferred stock conversion	2,649,962	—	30,700	(307,000)	(30,700)	—	—	—	—	—
Net income	—	—	—	—	—	—	15,888	—	—	15,888
Other comprehensive income, net of tax	—	—	—	—	—	1,901	—	—	—	1,901
Balance, June 30, 2018	<u>26,898,267</u>	<u>\$ 2</u>	<u>\$ 72,362</u>	<u>93,000</u>	<u>\$ 9,300</u>	<u>\$ (41,974)</u>	<u>\$ (84,167)</u>	<u>—</u>	<u>\$ —</u>	<u>\$ (44,477)</u>

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

BLUE BIRD CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Business and Basis of Presentation

Nature of Business

Blue Bird Body Company, a wholly-owned subsidiary of Blue Bird Corporation, was incorporated in 1958 and has manufactured, assembled and sold school buses to a variety of municipal, federal and commercial customers since 1927. The majority of Blue Bird's sales are made to an independent distributor network, which in turn sells buses to ultimate end users. We are headquartered in Macon, Georgia. References in these notes to financial statements to "Blue Bird", the "Company," "we," "our," or "us" refer to Blue Bird Corporation and its wholly-owned subsidiaries, unless the context specifically indicates otherwise.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company transactions and accounts have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Article 8 of Regulation S-X. The Company's fiscal year ends on the Saturday closest to September 30 with its quarters consisting of thirteen weeks in most years. In fiscal year 2019, there is a total of 52 weeks. For fiscal years 2019 and 2018, the third quarters both included 13 weeks and the nine months ended both included 39 weeks.

In the opinion of management, all adjustments considered necessary for a fair presentation of financial results have been made. Such adjustments consist of only those of a normal recurring nature. Operating results for any interim period are not necessarily indicative of the results that may be expected for the entire year. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The Condensed Consolidated Balance Sheet data as of September 29, 2018 was derived from the Company's audited financial statements but does not include all disclosures required by generally accepted accounting principles. For additional information, including the Company's significant accounting policies, refer to the consolidated financial statements and related footnotes for the fiscal year ended September 29, 2018 as set forth in the Company's 2018 Form 10-K filed on December 12, 2018.

Preferred Stock Conversion

On November 13, 2018, the Company converted all remaining outstanding shares of Preferred Stock, and issued 799,615 shares of Common Stock. There were no dividends paid with the conversion.

Use of Estimates and Assumptions

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions. At the date of the financial statements, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities, and during the reporting period, these estimates and assumptions affect the reported amounts of revenues and expenses. For example, significant management judgments are required in determining excess, obsolete, or unsalable inventory, allowance for doubtful accounts, potential impairment of long-lived assets, goodwill and intangibles, the accounting for self-insurance reserves, warranty reserves, pension obligations, income taxes, environmental liabilities and contingencies. Future events and their effects cannot be predicted with certainty, and, accordingly, the Company's accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the Company's condensed consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. The Company evaluates and updates its assumptions and estimates on an ongoing basis and may employ outside experts to assist in the Company's evaluations. Actual results could differ from the estimates that the Company has used.

2. Summary of Significant Accounting Policies and Recently Issued Accounting Standards

The Company's significant accounting policies are described in the Company's 2018 Form 10-K, filed with the SEC on December 12, 2018. Our senior management has reviewed these significant accounting policies and related disclosures and determined that there were no significant changes in our critical accounting policies in the nine months ended June 29, 2019, except as follows (as also discussed in the Recently Adopted Accounting Standards section of this Note 2):

Revenue Recognition

The Company records revenue, net of tax, when the following five steps have been completed:

1. Identification of the contract(s) with a customer;
2. Identification of the performance obligation(s) in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when, or as, we satisfy performance obligations.

The Company records revenue when performance obligations are satisfied by transferring control of a promised good or service to the customer. The Company evaluates the transfer of control primarily from the customer's perspective where the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, that good or service.

Our product revenue includes sales of buses and bus parts, each of which are generally recognized as revenue at a point in time, once all conditions for revenue recognition have been met, as they represent our performance obligations in a sale. For buses, control is generally transferred and the customer has the ability to direct the use of and obtain substantially all of the remaining benefits of the product when the product is delivered or when the product has been completed, is ready for delivery, has been paid for, its title has transferred and it is awaiting pickup by the customer. For certain bus sale transactions, we may provide incentives including payment of a limited amount of future interest charges our customers may incur related to their purchase and financing of the bus with third party financing companies. We reduce revenue at the recording date by the full amount of potential future interest we may be obligated to pay, which is an application of the "most likely amount" method. For parts sales, control is generally transferred when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits of the products, which generally coincides with the point in time when the customer has assumed risk of loss and title has passed for the goods sold.

The Company sells extended warranties related to its products. Revenue related to these contracts is recognized based on the stand-alone selling price of the arrangement, on a straight-line basis over the contract period, and costs thereunder are expensed as incurred.

The Company includes shipping and handling revenues, which represents costs billed to customers, in net sales on the Condensed Consolidated Statements of Operations. The related costs incurred by the Company are included in cost of goods sold on the Condensed Consolidated Statements of Operations.

Leases

We determine if an arrangement is a lease at inception. Operating leases include lease right-of-use ("ROU") assets, which we include in property, plant and equipment on our Condensed Consolidated Balance Sheets. The lease liabilities associated with operating leases are included in other current liabilities and other liabilities on our Condensed Consolidated Balance Sheets. We do not have any finance leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the leases recorded do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any base rental or lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term as a component of selling, general and administrative expenses on the Condensed Consolidated Statements of Operations.

Derivative Instruments

In limited circumstances, we may utilize derivative instruments to manage certain exposures to changes in foreign currency exchange rates or as cash flow hedges for variable rate debt. The fair values of all derivative instruments are recognized as assets or liabilities at the balance sheet date. Changes in the fair value of these derivative instruments are recognized in our operating results or included in other comprehensive income (loss), depending on whether the derivative instrument is a fair value or cash flow hedge and whether it qualifies for hedge accounting treatment. If realized, gains and losses on derivative instruments are recognized in the operating results line item that reflects the underlying exposure that was hedged. The exchange of cash, if any, associated with derivative transactions is classified in the same category as the cash flows from the items subject to the economic hedging relationships.

Statement of Cash Flows

We classify distributions received from our equity method investment using the nature of distribution approach, such that distributions received are classified based on the nature of the activity of the investee that generated the distribution. Returns on investment are classified within operating activities, while returns of investment are classified within investing activities.

Recently Issued Accounting Standards

We believe that no new accounting guidance was issued during the three months ended June 29, 2019 that is relevant to our financial statements.

Recently Adopted Accounting Standards

ASU 2017-07 — In March 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-07, *Compensation—Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires that an employer report the service cost component (if any) of pension expense in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed.

We adopted this new standard in the first quarter of fiscal 2019 on a retrospective basis, as required. There is no service cost component to our periodic pension expense. Previously all components of our pension expense were recorded as a component of operating expenses, and the new standard requires these expenses to be outside a subtotal of operating profit. As a result, we have revised previously reported results of operations, as follows:

(in thousands of dollars)	June 30, 2018					
	Three Months Ended			Nine Months Ended		
	As Previously Reported	New Standard Adjustment	As Restated	As Previously Reported	New Standard Adjustment	As Restated
Selling, general and administrative expenses	\$ 20,950	\$ (461)	\$ 20,489	\$ 65,609	\$ (1,383)	\$ 64,226
Operating profit	16,023	461	16,484	13,680	1,383	15,063
Other expense, net	(206)	(461)	(667)	984	(1,383)	(399)
Net income	21,891	—	21,891	15,888	—	15,888

ASU 2018-15 — In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. We adopted this standard on a prospective (applies only to eligible costs incurred after adoption) basis in the first quarter of fiscal 2019, and there was not a significant impact on our consolidated financial statements.

ASU 2017-12 — In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which intends to simplify the application of hedge accounting guidance and better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both non-financial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. We adopted this amended guidance in the first quarter of fiscal 2019 using the required modified retrospective approach; however we had no hedging relationships in effect at the adoption date that were impacted by the guidance. We do not expect the impact on the Company’s consolidated financial statements to be material.

ASU 2016-12 and 2016-10 — In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, and in April 2016 issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, both of which provide further clarification to be considered when implementing ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. We adopted this standard in the first quarter of fiscal 2019 using the modified retrospective transition approach, which we applied to all contracts impacted by the new standard at the date of initial application. At adoption, we accounted for specific sales incentives offered to our customers by recording an increase of \$0.9 million in accrued liabilities, a \$0.7 million adjustment to retained earnings, and a \$0.2 million deferred tax asset. Amounts recorded in prior comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods. Please see Note 8, *Revenue*, for additional information regarding the adoption of this new accounting standard.

ASU 2018-05 — In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*, which updates income tax accounting to reflect the SEC’s interpretive guidance released on December 22, 2017, when the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law. For more information regarding the impact of the Tax Act, see Note 5, *Income Taxes*.

ASU 2016-02 — In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize assets on the balance sheet for the rights and obligations created by all leases with terms greater than 12 months. The standard will also require certain qualitative and quantitative disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. We adopted this standard in the first quarter of fiscal 2019 using the modified retrospective adoption approach with a cumulative-effect adjustment recognized on the balance sheet on the adoption date with prior periods not recast, and electing the practical expedients allowed under the standard. At adoption, we recognized right-of-use assets totaling \$7.3 million and operating lease liabilities totaling \$9.2 million. The impact on our results of operations and cash flows was not material.

ASU 2016-15 — In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which made targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. We adopted this standard in the first quarter of fiscal 2019 and contemporaneous with adoption made a policy election to classify distributions received from our equity method investment using the nature of distribution approach. Adoption of the standard had no current impact on the Company’s consolidated financial statements, as this is the manner in which we have recorded previous distributions from our equity method investee. There were no distributions in the nine months ended June 29, 2019.

3. Supplemental Financial Information

Inventories

The following table presents the components of inventories at the dates indicated:

(in thousands of dollars)	June 29, 2019	September 29, 2018
Raw materials	\$ 94,452	\$ 42,439
Work in process	34,730	13,141
Finished goods	11,506	1,753
Total inventories	<u>\$ 140,688</u>	<u>\$ 57,333</u>

Product Warranties

The following table reflects activity in accrued warranty cost (current and long-term portions combined) for the periods presented:

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Balance at beginning of period	\$ 21,520	\$ 19,283	\$ 22,646	\$ 20,910
Add current period accruals	3,358	3,421	7,196	7,786
Current period reductions of accrual	(2,358)	(2,853)	(7,322)	(8,845)
Balance at end of period	\$ 22,520	\$ 19,851	\$ 22,520	\$ 19,851

Extended Warranties

The following table reflects activity in deferred warranty income (current and long-term portions combined), for the sale of extended warranties of two to five years, for the periods presented:

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Balance at beginning of period	\$ 22,901	\$ 20,461	\$ 23,191	\$ 19,295
Add current period deferred income	2,880	2,974	6,686	7,800
Current period recognition of income	(2,196)	(1,434)	(6,292)	(5,094)
Balance at end of period	\$ 23,585	\$ 22,001	\$ 23,585	\$ 22,001

With the adoption of ASU No. 2016-12 (as described in Note 2, *Summary of Significant Accounting Policies and Recently Issued Accounting Standards*), the outstanding balance of deferred warranty income in the table above is considered a "contract liability", and represents a performance obligation of the Company that we satisfy over the term of the arrangement but for which we have been paid in full at the time the warranty was sold. We expect to recognize \$3.0 million of the outstanding contract liability during the remainder of fiscal 2019, \$7.5 million in fiscal 2020, and the remaining balance thereafter.

Self-Insurance

The following table reflects our total accrued self-insurance liability, comprised of workers compensation and health insurance related claims, at the dates indicated:

(in thousands of dollars)	June 29, 2019	September 29, 2018
Current portion	\$ 2,882	\$ 3,332
Long-term portion	1,757	1,901
Total accrued self-insurance	\$ 4,639	\$ 5,233

The current and long-term portions of the accrued self-insurance liability are reflected in accrued expenses and other liabilities, respectively, on the Condensed Consolidated Balance Sheets.

Shipping and Handling Revenues

Shipping and handling revenues were \$6.0 million and \$6.5 million for the three months ended June 29, 2019 and June 30, 2018, respectively, and \$12.5 million and \$13.5 million for the nine months ended June 29, 2019 and June 30, 2018, respectively. The related cost of goods sold was \$5.3 million and \$5.8 million for the three months ended June 29, 2019 and June 30, 2018, respectively, and \$11.0 million and \$11.7 million for the nine months ended June 29, 2019 and June 30, 2018, respectively.

Pension Expense

Components of net periodic pension benefit cost were as follows for the periods presented:

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Interest cost	\$ 1,512	\$ 1,357	\$ 4,535	\$ 4,071
Expected return on plan assets	(1,905)	(1,776)	(5,714)	(5,328)
Amortization of prior loss	689	880	2,068	2,640
Net periodic benefit cost	\$ 296	\$ 461	\$ 889	\$ 1,383
Amortization of prior loss, recognized in other comprehensive income	689	880	2,068	2,640
Total recognized in net periodic pension benefit cost and other comprehensive income	\$ (393)	\$ (419)	\$ (1,179)	\$ (1,257)

Pension expense is recognized as a component of other expense, net on our Condensed Consolidated Statement of Operations. As disclosed in Note 2, we reclassified previously reported pension expense amounts of \$0.5 million and \$1.4 million from selling, general and administrative expenses to other expense, net for the three and nine months ended June 30, 2018, respectively.

Warrants

At June 29, 2019, there were a total of 820,614 warrants outstanding to purchase 410,307 shares of our Common Stock.

Derivative Instruments

We are charged variable rates of interest on our indebtedness outstanding under the Amended Credit Agreement (defined below) which exposes us to fluctuations in interest rates. On October 24, 2018, the Company entered into a four-year interest rate collar with a \$150.0 million notional value with an effective date of November 30, 2018. The collar was entered into in order to partially mitigate our exposure to interest rate fluctuations on our variable rate debt. The collar establishes a range where we will pay the counterparty if the three-month LIBOR rate falls below the established floor rate of 1.5%, and the counterparty will pay us if the three-month LIBOR rate exceeds the ceiling rate of 3.3%. The collar settles quarterly through the termination date of September 30, 2022. No payments or receipts are exchanged on the interest rate collar contracts unless interest rates rise above or fall below the contracted ceiling or floor rates.

Changes in the interest rate collar fair value are recorded in interest expense as the collar does not qualify for hedge accounting. At June 29, 2019, the fair value of the interest rate collar contract was \$(1.1) million and is included in "other current liabilities" on the Condensed Consolidated Balance Sheets. The fair value of the interest rate collar is a Level 2 fair value measurement, based on quoted prices of similar items in active markets.

4. Debt

Amended Credit Agreement

On September 13, 2018, the Company entered into a first amendment of our December 12, 2016 credit agreement ("Amended Credit Agreement"). The Amended Credit Agreement provided for additional funding of \$50.0 million and was funded in the first quarter of fiscal 2019. Substantially all the proceeds were used to complete a tender offer to purchase shares of our common and preferred stock.

The Amended Credit Agreement also increased the revolving credit facility to \$100.0 million from \$75.0 million. The amendment extended the maturity date to September 13, 2023, five years from the effective date of the first amendment. In connection with the Amended Credit Agreement, we incurred \$2.0 million of debt discount and issuance costs, which were recorded as contra-debt and will be amortized over the life of the Amended Credit Agreement using the effective interest method.

Additional Disclosures

Term debt consisted of the following at the dates indicated:

(in thousands of dollars)	June 29, 2019	September 29, 2018
2023 and 2021 term loans, net of deferred financing costs of \$3,346 and \$4,011, respectively	\$ 185,379	\$ 142,139
Less: current portion of long-term debt	9,900	9,900
Long-term debt, net of current portion	\$ 175,479	\$ 132,239

Term loans are recognized on the Condensed Consolidated Balance Sheets at the unpaid principal balance, and are not subject to fair value measurement; however, given the variable rates on the loans, the Company estimates that the unpaid principal balance approximates fair value. If measured at fair value in the financial statements, the term loans would be classified as Level 2 in the fair value hierarchy. At June 29, 2019 and September 29, 2018, \$188.7 million and \$146.2 million, respectively, were outstanding on the term loans.

At June 29, 2019 and September 29, 2018, the stated interest rates on the term loans were 4.4% and 4.5%, respectively. At June 29, 2019 and September 29, 2018, the weighted-average annual effective interest rates for the term loans were 5.0% and 4.1%, respectively, which includes amortization of the deferred financing costs.

At June 29, 2019, \$25.0 million in borrowings were outstanding on the Revolving Credit Facility and \$6.9 million of Letters of Credit were outstanding; therefore, the Company would have been able to borrow \$68.1 million on the revolving line of credit.

Interest expense on all indebtedness was \$3.4 million and \$1.8 million for the three months ended June 29, 2019 and June 30, 2018, respectively, and \$10.3 million and \$5.1 million for the nine months ended June 29, 2019 and June 30, 2018, respectively.

The schedules of remaining principal maturities for total debt for the next five fiscal years are as follows:

(in thousands of dollars)	Principal Payments
Year	
2019	\$ 2,475
2020	9,900
2021	9,900
2022	14,850
2023	176,600
Total remaining principal payments	\$ 213,725

5. Income Taxes

Income tax provisions for interim periods are based on estimated annual income tax rates, adjusted to reflect the effects of any significant infrequent or unusual items which are required to be discretely recognized within the current interim period. The effective tax rates in the periods presented are largely based upon the forecast pre-tax earnings mix and allocation of certain expenses in various taxing jurisdictions where the Company conducts its business, primarily the United States.

Three Months

The effective tax rate for the three month period ended June 29, 2019 was 19.1%, which differed from the 2019 statutory federal income tax rate of 21%. The difference is mainly due to normal tax rate benefit items, such as federal and state tax credits (net of valuation allowance), which were partially offset by non-deductible share-based compensation expenses and other tax adjustments.

For the three month period ended June 30, 2018, we recorded a tax benefit of \$8.1 million due to the lapse of statute of limitations on the underlying item that created our uncertain tax position. We also recorded a \$1.7 million benefit related to the filing of our prior year tax returns. The benefit resulted from various deductions that were accelerated and reported in a higher tax rate year. The return filing also allowed us to reassess and reverse a \$0.5 million valuation allowance for our foreign tax credit carryforward that had been recorded earlier in 2018.

The effective tax rate for the three month period ended June 30, 2018 was (53.4)%, which significantly differed from the transitional 2018 statutory federal tax rate of 24.5%. The difference is mainly due to the above noted release of uncertain tax positions and provision to return adjustments, but the rate was also favorably impacted by normal tax rate benefit items, such as the domestic production activities deduction, state tax credits, and share based award related deductions in excess of recorded book expense.

Nine Months

The effective tax rate for the nine month period ended June 29, 2019 was 19.7%, which differed from the 2019 statutory federal income tax rate of 21%. The difference is mainly due to normal tax rate benefit items, primarily federal and state tax credits (net of valuation allowance), which were partially offset by non-deductible share-based compensation expenses and other tax adjustments.

For the nine month period ended June 30, 2018, we recorded a tax benefit of \$8.1 million due to the lapse of statute of limitations on the underlying item that created our uncertain tax position. We also recorded a \$1.7 million benefit related to the filing of our prior year tax returns. The benefit resulted from various deductions that were accelerated and reported in a higher tax rate year. The return filing also allowed us to reassess and reverse a \$0.5 million valuation allowance for our foreign tax credit carryforward that had been recorded earlier in 2018.

The effective tax rate for the nine month period ended June 30, 2018 was (59.0)% and significantly differed from the transitional 2018 statutory federal income tax rate of 24.5%. The difference is mainly due to the above noted release of uncertain tax positions and provision to return adjustments, but was partially offset by a \$2.4 million expense recorded in the prior fiscal quarter to reflect the newly enacted Tax Act. The Tax Act adjustments include resetting our deferred tax accounts to the new rates as well as \$1.1 million of expense from increasing the carrying value of our uncertain tax positions, and \$0.5 million of additional valuation allowance for our foreign tax credit carryforward. Of this adjustment amount, the portion relating to uncertain tax positions and valuation allowance were reversed in the current quarter. The rate was also favorably impacted by normal tax rate benefit items, such as the domestic production activities deduction, state tax credits, and share based award related deductions in excess of recorded book expense.

6. Guarantees, Commitments and Contingencies

Litigation

At June 29, 2019, the Company had a number of product liability and other cases pending. Management believes that, considering the Company's insurance coverage and its intention to vigorously defend its positions, the ultimate resolution of these matters will not have a material adverse effect on the Company's financial statements.

Environmental

The Company is subject to a variety of environmental regulations relating to the use, storage, discharge and disposal of hazardous materials used in its manufacturing processes. Failure by the Company to comply with present and future regulations could subject it to future liabilities. In addition, such regulations could require the Company to acquire costly equipment or to incur other significant expenses to comply with environmental regulations. The Company is currently not involved in any material environmental proceedings and therefore management believes that the resolution of environmental matters will not have a material adverse effect on the Company's financial statements.

Guarantees

In the ordinary course of business, we may provide guarantees for certain transactions entered into by our dealers. At June 29, 2019, we had \$3.0 million in aggregate guarantees outstanding which relate to guarantees of indebtedness for term loans with remaining maturities of up to 3.6 years. The \$3.0 million represents the estimated maximum amount we would be required to pay upon default of all guaranteed indebtedness, and we believe the likelihood of required performance to be remote. At June 29, 2019, \$0.4 million was included in other current liabilities on our Condensed Consolidated Balance Sheets for the estimated fair value of the guarantees.

Lease Commitments

We lease office and warehouse space for use in our operations, which are accounted for as operating leases. The operating leases have remaining terms ranging from seven months to 8.4 years. One of our leases includes a renewal option to extend the lease for five years.

Total operating lease expense was \$0.5 million and \$1.4 million for the three and nine months ended June 29, 2019, respectively, and is recorded in selling, general and administrative expenses on the Condensed Consolidated Statements of Operations. Total rent expense was \$0.2 million and \$0.5 million for the three and nine months ended June 30, 2018, respectively, and is recorded in selling, general

and administrative expenses on the Condensed Consolidated Statements of Operations. Cash paid for amounts included in the measurement of lease liabilities included in operating cash flows was \$1.2 million for the nine months ended June 29, 2019.

At June 29, 2019, right-of-use assets totaling \$7.3 million were included in property, plant and equipment, net, and lease liabilities totaling \$1.4 million and \$8.0 million were included in other current liabilities and other liabilities (non-current), respectively.

At June 29, 2019, the weighted average remaining lease term was 7.2 years and the weighted average discount rate used to calculate the present value of future lease payments was 4.5%.

Maturities of operating lease liabilities at June 29, 2019 are as follows:

(in thousands of dollars)

Fiscal Years Ended	Amount
2019	\$ 589
2020	1,577
2021	1,399
2022	1,421
2023	1,441
Thereafter	4,624
Total future minimum lease payments	11,051
Less: imputed interest	1,659
Total operating lease liabilities	\$ 9,392

7. Segment Information

We manage our business in two operating segments: (i) the Bus segment, which includes the manufacturing and assembly of buses to be sold to a variety of customers across the United States, Canada and in international markets; and (ii) the Parts segment, which consists primarily of the purchase of parts from third parties to be sold to dealers within the Company's network. The tables below present segment net sales and gross profit for the periods presented:

Net sales

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Bus (1)	\$ 292,166	\$ 297,653	\$ 626,441	\$ 647,525
Parts (1)	16,608	16,533	48,901	45,838
Segment net sales	\$ 308,774	\$ 314,186	\$ 675,342	\$ 693,363

(1) Parts segment revenue includes \$1.0 million and \$2.5 million for the three months ended June 29, 2019 and June 30, 2018, respectively, and \$0.6 million and \$1.9 million for the nine months ended June 29, 2019 and June 30, 2018, respectively, related to inter-segment sales of parts that was eliminated by the Bus segment upon consolidation.

Gross profit

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Bus	\$ 35,996	\$ 31,342	\$ 69,653	\$ 63,062
Parts	5,786	5,631	17,193	16,227
Segment gross profit	\$ 41,782	\$ 36,973	\$ 86,846	\$ 79,289

The following table is a reconciliation of segment gross profit to consolidated income before income taxes for the periods presented:

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Segment gross profit	\$ 41,782	\$ 36,973	\$ 86,846	\$ 79,289
Adjustments:				
Selling, general and administrative expenses	(20,996)	(20,489)	(61,197)	(64,226)
Interest expense	(3,369)	(1,834)	(10,241)	(5,112)
Interest income	—	25	9	42
Other expense, net	(410)	(667)	(1,034)	(399)
Income before income taxes	\$ 17,007	\$ 14,008	\$ 14,383	\$ 9,594

Sales are attributable to geographic areas based on customer location and were as follows for the periods presented:

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
United States	\$ 286,499	\$ 274,984	\$ 629,668	\$ 628,046
Canada	21,639	37,490	43,499	59,949
Rest of world	636	1,712	2,175	5,368
Total net sales	\$ 308,774	\$ 314,186	\$ 675,342	\$ 693,363

8. Revenue

As noted in Note 2, *Summary of Significant Accounting Policies and Recently Issued Accounting Standards*, the Company adopted the new revenue recognition guidance (ASC 606) effective September 30, 2018 using the modified retrospective approach. As a result, we recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings at September 30, 2018. Adopting the new standard primarily impacted the timing of recognition of specific sales incentives offered to our customers. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The difference in revenue recognized under the new guidance versus the previous guidance was an increase of \$0.8 million for the nine months ended June 29, 2019. Under the new guidance, at adoption, we recorded \$0.9 million in accrued liabilities, a deferred tax asset of \$0.2 million, and a \$0.7 million retained earnings adjustment. Under previous guidance, we would not have recorded any accrued liabilities or deferred tax assets resulting in no retained earnings impact to our Condensed Consolidated Balance Sheets.

The following table disaggregates revenue by product category for the periods presented:

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Diesel buses	\$ 135,246	\$ 191,355	\$ 335,553	\$ 427,353
Alternative fuel buses (1)	141,939	96,189	260,340	201,067
Other (2)	15,486	10,593	32,061	20,577
Parts	16,103	16,049	47,388	44,366
Net sales	\$ 308,774	\$ 314,186	\$ 675,342	\$ 693,363

(1) Includes buses sold with any fuel source other than diesel (e.g. gasoline, propane, CNG, electric).

(2) Includes shipping and handling revenue, extended warranty income, chassis and bus shell sales.

9. Earnings Per Share

The following table presents the earnings per share computation for the periods presented:

(in thousands except for share data)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Numerator:				
Net income	\$ 14,601	\$ 21,891	\$ 12,708	\$ 15,888
Less: convertible preferred stock dividends	—	182	—	1,715
Net income available to common stockholders	\$ 14,601	\$ 21,709	\$ 12,708	\$ 14,173
Basic earnings per share (1):				
Weighted average common shares outstanding	26,451,107	26,209,697	26,449,751	24,677,838
Basic earnings per share	\$ 0.55	\$ 0.83	\$ 0.48	\$ 0.57
Diluted earnings per share (2):				
Weighted average common shares outstanding	26,451,107	26,209,697	26,449,751	24,677,838
Weighted average dilutive securities, convertible preferred stock	—	1,471,902	131,979	—
Weighted average dilutive securities, restricted stock	94	687	29,149	24,403
Weighted average dilutive securities, warrants	150,292	607,532	178,290	836,932
Weighted average dilutive securities, stock options	118,617	267,096	131,116	270,318
Weighted average shares and dilutive potential common shares	26,720,110	28,556,914	26,920,285	25,809,491
Diluted earnings per share	\$ 0.55	\$ 0.77	\$ 0.47	\$ 0.55

(1) Basic earnings per share is calculated by dividing income available to common stockholders by the weighted average common shares outstanding during the period.

(2) For the nine months ended June 30, 2018, 2,791,468 shares of convertible preferred stock were excluded from the dilutive calculation as the if-converted impact would be anti-dilutive.

10. Accumulated Other Comprehensive Loss

The following table provides information on changes in accumulated other comprehensive loss for the periods presented:

	Three Months Ended		Nine Months Ended	
	Defined Benefit Pension Plan	Total	Defined Benefit Pension Plan	Total
(in thousands of dollars)				
June 29, 2019				
Beginning Balance	\$ (37,379)	\$ (37,379)	\$ (38,427)	\$ (38,427)
Amounts reclassified from other comprehensive loss and included in earnings	689	689	2,068	2,068
Total other comprehensive income, before taxes	689	689	2,068	2,068
Income tax expense	(165)	(165)	(496)	(496)
Ending Balance June 29, 2019	\$ (36,855)	\$ (36,855)	\$ (36,855)	\$ (36,855)
June 30, 2018				
Beginning Balance	\$ (42,643)	\$ (42,643)	\$ (43,875)	\$ (43,875)
Amounts reclassified from other comprehensive loss and included in earnings	880	880	2,640	2,640
Total other comprehensive income, before taxes	880	880	2,640	2,640
Income tax expense	(211)	(211)	(739)	(739)
Ending Balance June 30, 2018	\$ (41,974)	\$ (41,974)	\$ (41,974)	\$ (41,974)

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

The following discussion and analysis of financial condition and results of operations of the Company should be read in conjunction with the Company’s unaudited financial statements for the three and nine months ended June 29, 2019 and June 30, 2018 and related notes appearing in Part I, Item 1 of this Report. Our actual results may not be indicative of future performance. This discussion and analysis contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those discussed or incorporated by reference in the sections of this Report titled “Special Note Regarding Forward-Looking Statements” and “Risk Factors”. Actual results may differ materially from those contained in any forward-looking statements. Certain monetary amounts, percentages and other figures included in this Report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be the arithmetic aggregation of the figures that precede them, and figures expressed as percentages in the text may not total 100% or, as applicable, when aggregated, may not be the arithmetic aggregation of the percentages that precede them.

We refer to the fiscal year ended September 29, 2018 as “fiscal 2018”. We refer to the quarter ended June 29, 2019 as the “third quarter of fiscal 2019” and we refer to the quarter ended June 30, 2018 as the “third quarter of fiscal 2018”. There were 13 weeks in the third quarters of both fiscal 2019 and fiscal 2018.

Executive Overview

Blue Bird is the leading independent designer and manufacturer of school buses. Our longevity and reputation in the school bus industry have made Blue Bird an iconic American brand. We distinguish ourselves from our principal competitors by dedicating our focus to the design, engineering, manufacture and sale of school buses and related parts. As the only principal manufacturer of chassis and body production specifically designed for school bus applications, Blue Bird is recognized as an industry leader for school bus innovation, safety, product quality/reliability/durability, efficiency, and lower operating costs. In addition, Blue Bird is the market leader in alternative to diesel fuel applications with its propane-powered, gasoline-powered, compressed natural gas (“CNG”)-powered school buses and all-electric school buses.

Blue Bird sells its buses and parts through an extensive network of United States and Canadian dealers that, in their territories, are exclusive to Blue Bird on Type C and Type D school buses. Blue Bird also sells directly to major fleet operators, the United States Government, state governments and authorized dealers in a number of foreign countries.

Critical Accounting Policies and Estimates, Recent Accounting Pronouncements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Blue Bird evaluates its estimates on an ongoing basis, based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

The Company’s accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results are described in the Company’s 2018 Form 10-K, filed with the SEC on December 12, 2018 under the caption “ Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates,” which description is incorporated herein by reference. Our senior management has reviewed these critical accounting policies and related disclosures and determined that there were no significant changes in our critical accounting policies during the nine months ended June 29, 2019, except as follows:

Revenue Recognition

The Company records revenue, net of tax, when the following five steps have been completed:

1. Identification of the contract(s) with a customer;
2. Identification of the performance obligation(s) in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when, or as, we satisfy performance obligations.

The Company records revenue when performance obligations are satisfied by transferring control of a promised good or service to the customer. The Company evaluates the transfer of control primarily from the customer’s perspective where the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from that good or service.

Our product revenue includes sales of buses and bus parts, each of which are generally recognized as revenue at a point in time, once all conditions for revenue recognition have been met, as they represent our performance obligations in a sale. For buses, control is generally transferred and the customer has the ability to direct the use of and obtain substantially all of the remaining benefits of the product when the product is delivered or when the product has been completed, is ready for delivery, has been paid for, its title has transferred and it is awaiting pickup by the customer. For certain bus sale transactions, we may provide incentives including payment of a limited amount of future interest charges our customers may incur related to their purchase and financing of the bus with third party financing companies. We reduce revenue at the recording date by the full amount of potential future interest we may be obligated to pay, which is an application of the "most likely amount" method. For parts sales, control is generally transferred when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits of the products, which generally coincides with the point in time when the customer has assumed risk of loss and title has passed for the goods sold.

The Company sells extended warranties related to its products. Revenue related to these contracts is recognized based on the stand-alone selling price of the arrangement, on a straight-line basis over the contract period and costs thereunder are expensed as incurred.

The Company includes shipping and handling revenues, which represents costs billed to customers, in net sales on the Condensed Consolidated Statements of Operations. The related costs incurred by the Company are included in cost of goods sold on the Condensed Consolidated Statements of Operations.

Leases

We determine if an arrangement is a lease at inception. Operating leases include lease right-of-use ("ROU") assets, which we include in property, plant and equipment on our Condensed Consolidated Balance Sheets. The lease liabilities associated with operating leases are included in other current liabilities and other liabilities on our Condensed Consolidated Balance Sheets. We do not have any finance leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the leases recorded do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any base rental or lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term as a component of selling, general and administrative expenses on Condensed Consolidated Statements of Operations.

Derivative Instruments

In limited circumstances, we may utilize derivative instruments to manage certain exposures to changes in foreign currency exchange rates or as cash flow hedges for variable rate debt. The fair values of all derivative instruments are recognized as assets or liabilities at the balance sheet date. Changes in the fair value of these derivative instruments are recognized in our operating results or included in other comprehensive income (loss), depending on whether the derivative instrument is a fair value or cash flow hedge and whether it qualifies for hedge accounting treatment. If realized, gains and losses on derivative instruments are recognized in the operating results line item that reflects the underlying exposure that was hedged. The exchange of cash, if any, associated with derivative transactions is classified in the same category as the cash flows from the items subject to the economic hedging relationships.

Statement of Cash Flows

We classify distributions received from our equity method investment using the nature of distribution approach, such that distributions received are classified based on the nature of the activity of the investee that generated the distribution. Returns on investment are classified within operating activities, while returns of investment are classified within investing activities.

Recent Accounting Pronouncements

See discussion in Note 2 of Notes to Condensed Consolidated Financial Statements (Unaudited) included in Part I, Item 1 of this Report for a discussion of new and recently adopted accounting pronouncements.

Factors Affecting Our Revenues

Our revenues are driven primarily by the following factors:

- *Property tax revenues.* Property tax revenues are one of the major sources of funding for new school districts, and therefore new school buses. Property tax revenues are a function of land and building prices, relying on assessments of property value by state or county assessors and millage rates voted by the local electorate.
- *Student enrollment.* Increases or decreases in the number of school bus riders has a direct impact on school district demand.
- *Revenue mix.* We are able to charge more for certain of our products (e.g., Type C propane-powered school buses, Type D buses, and buses with higher option content) than other products. The mix of products sold in any fiscal period can directly impact our revenues for the period.
- *Strength of the dealer network.* We rely on our dealers, as well as a small number of major fleet operators, to be the direct point of contact with school districts and their purchasing agents. An effective dealer is capable of expanding revenues within a given school district by matching that district's needs to our capabilities, offering options that would not otherwise be provided to the district.
- *Pricing.* Our products are sold to school districts throughout the United States and Canada. Each state and each Canadian province has its own set of regulations that governs the purchase of products, including school buses, by their school districts. We and our dealers must navigate these regulations, purchasing procedures and the districts' specifications in order to reach mutually acceptable price terms. Pricing may or may not be favorable to us, depending upon a number of factors impacting purchasing decisions.
- *Buying patterns of major fleets.* Major fleets regularly compete against one another for existing accounts. Fleets are also continuously trying to win the business of school districts that operate their own transportation services. These activities can have either a positive or negative impact on our sales, depending on the brand preference of the fleet that wins the business. Major fleets also periodically review their fleet sizes and replacement patterns due to funding availability as well as the profitability of existing routes. These actions can impact total purchases by fleets in a given year.
- *Seasonality.* Our sales are subject to seasonal variation based on the school calendar. The peak season has historically been during our third and fourth fiscal quarters. Sales during the third and fourth fiscal quarters are typically greater than the first and second fiscal quarters due to the desire of municipalities to have any new buses that they order available to them at the beginning of the new school year. There are, however, variations in the seasonal demands from year to year depending in large part upon municipal budgets, distinct replacement cycles and student enrollment. This seasonality and annual variations of this seasonality could impact the ability to compare results between fiscal periods.

Factors Affecting Our Expenses and Other Items

Our expenses and other line items on our unaudited Condensed Consolidated Statements of Operations are principally driven by the following factors:

- *Cost of goods sold.* The components of our cost of goods sold consist of material costs (principally powertrain components, steel and rubber, as well as aluminum and copper), labor expense and overhead. Our cost of goods sold may vary from period to period in part due to changes in sales volume, efforts by certain suppliers to pass through the economics associated with key commodities, design changes with respect to specific components, design changes with respect to specific bus models, wage increases for plant labor, productivity of plant labor, delays in receiving materials and other logistical problems, and the impact of overhead items such as utilities.
- *Selling, general and administrative expenses.* Our selling, general and administrative expenses include costs associated with our selling and marketing efforts, engineering, centralized finance, human resources, purchasing and information technology services, as well as other administrative matters and functions. In most instances, other than direct costs associated with sales and marketing programs, the principal component of these costs is salary expense. Changes from period to period are typically driven by the number of our employees, as well as by merit increases provided to experienced personnel.

- *Interest expense.* Our interest expense relates to costs associated with our debt instruments and reflects both the amount of indebtedness and the interest rate that we are required to pay on our debt.
- *Income taxes.* We make estimates of the amounts to recognize for income taxes in each tax jurisdiction in which we operate. In addition, provisions are established for withholding taxes related to the transfer of cash between jurisdictions and for uncertain tax positions taken.
- *Equity in net income of non-consolidated affiliate.* We include in this line item our share of income or loss from our investment in Micro Bird, our unconsolidated 50/50 Canadian joint venture.

Key Non-GAAP Financial Measures We Use to Evaluate Our Performance

This filing includes the following non-GAAP financial measures “Adjusted EBITDA”, “Adjusted EBITDA Margin”, and “Free Cash Flow” because management views these metrics as a useful way to look at the performance of our operations between periods and to exclude decisions on capital investment and financing that might otherwise impact the review of profitability of the business based on present market conditions.

Adjusted EBITDA is defined as net income prior to interest income, interest expense including the component of lease expense (which is presented as a single operating expense in selling, general and administrative expenses in our GAAP financial statements) that represents interest expense on lease liabilities, income taxes, depreciation and amortization including the component of lease expense (which is presented as a single operating expense in selling, general and administrative expenses in our GAAP financial statements) that represents amortization charges on right-of-use lease assets, and disposals, as adjusted to add back certain charges that we may record each year, such as stock-compensation expense, as well as non-recurring charges such as (i) significant product design changes; (ii) transaction related costs; or (iii) discrete expenses related to major cost cutting initiatives. We believe these expenses and non-recurring charges are not considered an indicator of ongoing company performance. We define Adjusted EBITDA margin as Adjusted EBITDA as a percentage of net sales. Adjusted EBITDA and Adjusted EBITDA margin are not measures of performance defined in accordance with GAAP. The measures are used as a supplement to GAAP results in evaluating certain aspects of our business, as described below.

We believe that Adjusted EBITDA and Adjusted EBITDA margin are useful to investors in evaluating our performance because the measures consider the performance of our operations, excluding decisions made with respect to capital investment, financing, and other non-recurring charges as outlined in the preceding paragraph. We believe the non-GAAP metrics offer additional financial metrics that, when coupled with the GAAP results and the reconciliation to GAAP results, provide a more complete understanding of our results of operations and the factors and trends affecting our business.

Adjusted EBITDA and Adjusted EBITDA margin should not be considered as alternatives to net income as an indicator of our performance or as alternatives to any other measure prescribed by GAAP as there are limitations to using such non-GAAP measures. Although we believe that Adjusted EBITDA and Adjusted EBITDA margin may enhance an evaluation of our operating performance based on recent revenue generation and product/overhead cost control because they exclude the impact of prior decisions made about capital investment, financing, and other expenses, (i) other companies in Blue Bird’s industry may define Adjusted EBITDA and Adjusted EBITDA margin differently than we do and, as a result, they may not be comparable to similarly titled measures used by other companies in Blue Bird’s industry, and (ii) Adjusted EBITDA and Adjusted EBITDA margin exclude certain financial information that some may consider important in evaluating our performance.

We compensate for these limitations by providing disclosure of the differences between Adjusted EBITDA and GAAP results, including providing a reconciliation to GAAP results, to enable investors to perform their own analysis of our operating results.

Our measure of “Free Cash Flow” is used in addition to and in conjunction with results presented in accordance with GAAP and free cash flow should not be relied upon to the exclusion of GAAP financial measures. Free cash flow reflects an additional way of viewing our liquidity that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our cash flows. We strongly encourage investors to review our financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

We define free cash flow as net cash provided by/used in continuing operations minus cash paid for fixed assets. We use free cash flow, and ratios based on free cash flow, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe it is a more conservative measure of cash flow since purchases of fixed assets and intangible assets are a necessary component of ongoing operations. In limited circumstances in which proceeds from sales of fixed or intangible assets exceed purchases, free cash flow would exceed cash flow from operations. However, since we do not anticipate being a net seller of fixed or intangible assets, we expect free cash flow to be less than operating cash flows.

Our Segments

We manage our business in two operating segments, which are also our reportable segments: (i) the Bus segment, which involves the design, engineering, manufacture and sales of school buses and extended warranties; and (ii) the Parts segment, which includes the sales of replacement bus parts. Financial information is reported on the basis that it is used internally by the chief operating decision maker (“CODM”) in evaluating segment performance and deciding how to allocate resources to segments. The President and Chief Executive Officer of the Company has been identified as the CODM. Management evaluates the segments based primarily upon revenues and gross profit.

Consolidated Results of Operations for the Three Months Ended June 29, 2019 and June 30, 2018:

(in thousands of dollars)	Three Months Ended	
	June 29, 2019	June 30, 2018
Net sales	\$ 308,774	\$ 314,186
Cost of goods sold	266,992	277,213
Gross profit	\$ 41,782	\$ 36,973
Operating expenses		
Selling, general and administrative expenses	20,996	20,489
Operating profit	\$ 20,786	\$ 16,484
Interest expense	(3,369)	(1,834)
Interest income	—	25
Other expense, net	(410)	(667)
Income before income taxes	\$ 17,007	\$ 14,008
Income tax (expense) benefit	(3,248)	7,485
Equity in net income of non-consolidated affiliate	842	398
Net income	\$ 14,601	\$ 21,891
Other financial data:		
Adjusted EBITDA	\$ 29,041	\$ 24,152
Adjusted EBITDA margin	9.4%	7.7%

The following provides the results of operations of Blue Bird's two reportable segments:

(in thousands of dollars)	Three Months Ended	
	June 29, 2019	June 30, 2018
Net Sales by Segment		
Bus	\$ 292,166	\$ 297,653
Parts	16,608	16,533
Total	\$ 308,774	\$ 314,186
Gross Profit by Segment		
Bus	\$ 35,996	\$ 31,342
Parts	5,786	5,631
Total	\$ 41,782	\$ 36,973

Net sales. Net sales were \$308.8 million for the third quarter of fiscal 2019, a decrease of \$5.4 million, or 1.7%, compared to \$314.2 million for the third quarter of fiscal 2018.

Bus sales decreased \$5.5 million, or 1.8%, reflecting a decrease in units booked, which was partially offset by higher sales prices per unit. In the third quarter of fiscal 2019, 3,420 units were booked compared to 3,746 units booked for the same period in fiscal 2018. Bus volumes were impacted by the timing of orders and customer delivery requirements. The average net sales price per unit for the third quarter of fiscal 2019 was 7.5% higher than the price per unit for the third quarter of fiscal 2018. The increase in unit price mainly reflects pricing actions.

Parts sales increased \$0.1 million, or 0.5%, for the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018, as we had higher sales volumes.

Cost of goods sold. Total cost of goods sold was \$267.0 million for the third quarter of fiscal 2019, a decrease of \$10.2 million, or 3.7%, compared to \$277.2 million for the third quarter of fiscal 2018. As a percentage of net sales, total cost of goods sold improved from 88.2% to 86.5%.

Bus segment cost of goods sold decreased \$10.1 million, or 3.8%, for the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018. The average cost of goods sold per unit for the third quarter of fiscal 2019 was 5.4% higher compared to the third quarter of fiscal 2018 due to changes in product and customer mix as well as increased commodity costs related to tariffs.

The \$0.1 million, or 0.7%, decrease in parts segment cost of goods sold for the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018 was primarily attributed to product mix which was partially offset by product costs.

Operating profit. Operating profit was \$20.8 million for the third quarter of fiscal 2019, an increase of \$4.3 million, compared to operating profit of \$16.5 million for the third quarter of fiscal 2018. Profitability was positively impacted by an increase of \$4.8 million in gross profit, which was partially offset by an increase of \$0.5 million in selling, general and administrative expenses.

Interest expense. Interest expense was \$3.4 million for the third quarter of fiscal 2019, an increase of \$1.5 million, or 83.7%, compared to \$1.8 million for the third quarter of fiscal 2018. The increase was primarily attributed to a point increase in the weighted-average annual effective interest rate on the term loan, higher average borrowing levels, and changes in the interest rate collar fair value recorded in interest expense.

Income taxes. We recorded an income tax expense of \$3.2 million for the third quarter of fiscal 2019, compared to income tax benefit of \$7.5 million for the same period in fiscal 2018.

The effective tax rate for the three month period ended June 29, 2019 was 19.1%, which differed from the 2019 statutory federal income tax rate of 21%. The difference is mainly due to normal tax rate benefit items, such as federal and state tax credits (net of valuation allowance), which were partially offset by non-deductible share-based compensation expenses and other tax adjustments.

For the three month period ended June 30, 2018, we recorded a tax benefit of \$8.1 million due to the lapse of statute of limitations on the underlying item that created our uncertain tax position. We also recorded a \$1.7 million benefit related to the filing of our prior year tax returns. The benefit resulted from various deductions that were accelerated and reported in a higher tax rate year. The return filing also allowed us to reassess and reverse a \$0.5 million valuation allowance for our foreign tax credit carryforward that had been recorded earlier in 2018.

The effective tax rate for the three month period ended June 30, 2018 was (53.4)%, which significantly differed from the transitional 2018 statutory federal tax rate of 24.5%. The difference is mainly due to the above noted release of uncertain tax positions and provision to return adjustments, but the rate was also favorably impacted by normal tax rate benefit items, such as the domestic production activities deduction, state tax credits, and share based award related deductions in excess of recorded book expense.

Adjusted EBITDA. Adjusted EBITDA was \$29.0 million, or 9.4% of net sales, for the third quarter of fiscal 2019, an increase of \$4.9 million, or 20.2%, compared to \$24.2 million, or 7.7% of net sales, for the third quarter of fiscal 2018. The increase in Adjusted EBITDA is primarily the result of an increase of \$4.8 million in gross profit.

The following table sets forth a reconciliation of net income to adjusted EBITDA for the periods presented:

(in thousands of dollars)	Three Months Ended	
	June 29, 2019	June 30, 2018
Net income	\$ 14,601	\$ 21,891
Adjustments:		
Interest expense, net (1)	3,472	1,809
Income tax expense (benefit)	3,248	(7,485)
Depreciation, amortization, and disposals (2)	2,750	2,203
Operational transformation initiatives	679	3,169
Foreign currency hedges	—	208
Share-based compensation	1,101	870
Product redesign initiatives	3,075	1,497
Other	115	(10)
Adjusted EBITDA	<u>\$ 29,041</u>	<u>\$ 24,152</u>
Adjusted EBITDA margin (percentage of net sales)	9.4%	7.7%

(1) Includes \$0.1 million, representing interest expense on lease liabilities, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Condensed Consolidated Statements of Operations.

(2) Includes \$0.2 million, representing amortization charges on right-of-use lease assets, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Condensed Consolidated Statements of Operations.

Consolidated Results of Operations for the Nine Months Ended June 29, 2019 and June 30, 2018:

(in thousands of dollars)	Nine Months Ended	
	June 29, 2019	June 30, 2018
Net sales	\$ 675,342	\$ 693,363
Cost of goods sold	588,496	614,074
Gross profit	\$ 86,846	\$ 79,289
Operating expenses		
Selling, general and administrative expenses	61,197	64,226
Operating profit	\$ 25,649	\$ 15,063
Interest expense	(10,241)	(5,112)
Interest income	9	42
Other expense, net	(1,034)	(399)
Income before income taxes	\$ 14,383	\$ 9,594
Income tax (expense) benefit	(2,833)	5,662
Equity in net income of non-consolidated affiliate	1,158	632
Net income	\$ 12,708	\$ 15,888
Other financial data:		
Adjusted EBITDA	\$ 48,460	\$ 41,269
Adjusted EBITDA margin	7.2%	6.0%

The following provides the results of operations of Blue Bird's two reportable segments:

(in thousands of dollars)	Nine Months Ended	
	June 29, 2019	June 30, 2018
Net Sales by Segment		
Bus	\$ 626,441	\$ 647,525
Parts	48,901	45,838
Total	\$ 675,342	\$ 693,363
Gross Profit by Segment		
Bus	\$ 69,653	\$ 63,062
Parts	17,193	16,227
Total	\$ 86,846	\$ 79,289

Net sales. Net sales were \$675.3 million for the nine months ended June 29, 2019, a decrease of \$18.0 million, or 2.6%, compared to \$693.4 million for the nine months ended June 30, 2018.

Bus sales decreased \$21.1 million, or 3.3%, reflecting a decrease in units booked, which was partially offset by higher sales prices per unit. In the nine months ended June 29, 2019, 7,291 units were booked compared to 7,892 units booked for the same period in fiscal 2018. Bus volumes were negatively impacted by supplier delays. The average net sales price per unit for the nine months ended June 29, 2019 was 4.7% higher than the price per unit for the nine months ended June 30, 2018. The increase in unit price mainly reflects pricing actions.

Parts sales increased \$3.1 million, or 6.7%, for the nine months ended June 29, 2019 compared to the nine months ended June 30, 2018, primarily due to higher sales volumes.

Cost of goods sold. Total cost of goods sold was \$588.5 million for the nine months ended June 29, 2019, a decrease of \$25.6 million, or 4.2%, compared to \$614.1 million for the nine months ended June 30, 2018. As a percentage of net sales, total cost of goods sold improved from 88.6% to 87.1%.

Bus segment cost of goods sold decreased \$27.7 million, or 4.7%, for the nine months ended June 29, 2019 compared to the nine months ended June 30, 2018. The average cost of goods sold per unit for the nine months ended June 29, 2019 was 3.1% higher compared to the nine months ended June 30, 2018 mainly due to changes in product and customer mix.

The \$2.1 million, or 7.1%, increase in parts segment cost of goods sold for the nine months ended June 29, 2019 compared to the nine months ended June 30, 2018 was primarily attributed to increased parts sales volume.

Operating profit. Operating profit was \$25.6 million for the nine months ended June 29, 2019, an increase of \$10.6 million compared to an operating profit of \$15.1 million for the nine months ended June 30, 2018. Profitability was positively impacted by an increase of \$7.6 million in gross profit and a decrease of \$3.0 million in selling, general and administrative expenses.

Interest expense. Interest expense was \$10.2 million for the nine months ended June 29, 2019, an increase of \$5.1 million, or 100.3%, compared to \$5.1 million for the nine months ended June 30, 2018. The increase was primarily attributed to a point increase in the weighted-average annual effective interest rate on the term loan, higher average borrowing levels, and changes in the interest rate collar fair value recorded in interest expense.

Income taxes. Income tax expense was \$2.8 million for the nine months ended June 29, 2019, compared to income tax benefit of \$5.7 million for the same period in fiscal 2018.

The effective tax rate for the nine month period ended June 29, 2019 was 19.7%, which differed from the 2019 statutory federal income tax rate of 21%. The difference is mainly due to normal tax rate benefit items, primarily federal and state tax credits (net of valuation allowance), which were partially offset by non-deductible share-based compensation expenses and other tax adjustments.

For the nine month period ended June 30, 2018, we recorded a tax benefit of \$8.1 million due to the lapse of statute of limitations on the underlying item that created our uncertain tax position. We also recorded a \$1.7 million benefit related to the filing of our prior year tax returns. The benefit resulted from various deductions that were accelerated and reported in a higher tax rate year. The return filing also allowed us to reassess and reverse a \$0.5 million valuation allowance for our foreign tax credit carryforward that had been recorded earlier in 2018.

The effective tax rate for the nine month period ended June 30, 2018 was (59.0)% and significantly differed from the transitional 2018 statutory federal income tax rate of 24.5%. The difference is mainly due to the above noted release of uncertain tax positions and provision to return adjustments, but was partially offset by a \$2.4 million expense recorded in the prior fiscal quarter to reflect the newly enacted Tax Act. The Tax Act adjustments include resetting our deferred tax accounts to the new rates as well as \$1.1 million of expense from increasing the carrying value of our uncertain tax positions, and \$0.5 million of additional valuation allowance for our foreign tax credit carryforward. Of this adjustment amount, the portion relating to uncertain tax positions and valuation allowance were reversed in the current quarter. The rate was also favorably impacted by normal tax rate benefit items, such as the domestic production activities deduction, state tax credits, and share based award related deductions in excess of recorded book expense.

Adjusted EBITDA. Adjusted EBITDA was \$48.5 million or 7.2% of net sales for the nine months ended June 29, 2019, an increase of \$7.2 million, or 17.4%, compared to \$41.3 million or 6.0% of net sales for the nine months ended June 30, 2018. The increase in Adjusted EBITDA is primarily the result of a \$7.6 million improvement in gross profit.

The following table sets forth a reconciliation of net income to adjusted EBITDA for the periods presented:

(in thousands of dollars)	Nine Months Ended	
	June 29, 2019	June 30, 2018
Net income	\$ 12,708	\$ 15,888
Adjustments:		
Discontinued operations income	—	(81)
Interest expense, net (1)	10,544	5,070
Income tax expense (benefit)	2,833	(5,662)
Depreciation, amortization, and disposals (2)	7,989	6,483
Operational transformation initiatives	4,193	13,547
Foreign currency hedges	109	(828)
Share-based compensation	3,146	2,380
Product redesign initiatives	6,876	4,526
Other	62	(54)
Adjusted EBITDA	\$ 48,460	\$ 41,269
Adjusted EBITDA margin (percentage of net sales)	7.2%	6.0%

(1) Includes \$0.3 million, representing interest expense on lease liabilities, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Condensed Consolidated Statements of Operations.

(2) Includes \$0.6 million, representing amortization charges on right-of-use lease assets, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Condensed Consolidated Statements of Operations.

Liquidity and Capital Resources

The Company's primary sources of liquidity are cash generated from its operations, available cash and cash equivalents and borrowings under its credit facility. At June 29, 2019, the Company had \$29.1 million of available cash (net of outstanding checks) and \$68.1 million of additional borrowings available under the revolving line of credit portion of its secured credit facility. The Company's revolving line of credit is available for working capital requirements, capital expenditures and other general corporate purposes.

Credit Agreement dated December 12, 2016

On December 12, 2016 (the "Closing Date"), Blue Bird Body Company as the borrower (the "Borrower"), a wholly-owned subsidiary of the Company, executed a \$235.0 million five-year credit agreement with Bank of Montreal, which acts as the administrative agent and an issuing bank, Fifth Third Bank, as co-syndication agent and an issuing bank, and Regions Bank, as Co-Syndication Agent, together with other lenders (the "Credit Agreement").

The credit facility provided for under the Credit Agreement consists of a term loan facility in an aggregate initial principal amount of \$160.0 million (the "Term Loan Facility") and a revolving credit facility with aggregate commitments of \$75.0 million. The revolving credit facility includes a \$15.0 million letter of credit sub-facility and \$5.0 million swingline sub-facility (the "Revolving Credit Facility," and together with the Term Loan Facility, each a "Credit Facility" and collectively, the "Credit Facilities"). The borrowings under the Term Loan Facility, which were made at the Closing Date, may not be re-borrowed once they are repaid. The borrowings under the Revolving Credit Facility may be repaid and reborrowed from time to time at our election. The proceeds of the loans under the Credit Facilities that were borrowed on the Closing Date were used to finance in part, together with available cash on hand, (i) the repayment of certain existing indebtedness of the Company and its subsidiaries, and (ii) transaction costs associated with the consummation of the Credit Facilities.

The obligations under the Credit Agreement and the related loan documents (including without limitation, the borrowings under the Facilities (including the Incremental Term Loan) and obligations in respect of certain cash management and hedging obligations owing to the agents, the lenders or their affiliates), are, in each case, secured by a lien on and security interest in substantially all of the assets of the Company and its subsidiaries (including the Borrower), with certain exclusions as set forth in a collateral agreement entered into on December 12, 2016.

Up to \$75.0 million of additional term loans and/or revolving credit commitments may be incurred under the Credit Agreement, subject to certain limitations as set forth in the Credit Agreement, and which additional loans and/or commitments would require further commitments from the existing lenders or from new lenders.

The Credit Agreement contains negative and affirmative covenants affecting the Company and its subsidiaries including the Borrower, with certain exceptions set forth in the Credit Agreement. The negative covenants and restrictions include, among others: limitations on liens, dispositions of assets, consolidations and mergers, loans and investments, indebtedness, transactions with affiliates (including management fees and compensation), dividends, distributions and other restricted payments, change in fiscal year, fundamental changes, amendments to and subordinated indebtedness, restrictive agreements, sale and leaseback transactions and certain permitted acquisitions. Dividends, distributions, and other restricted payments are permitted in certain circumstances under the Credit Agreement, including, among other exceptions, (i) in an

amount up to the cumulative available amount of excess free cash flow that is not required to be used to prepay the outstanding loans under the Credit Agreement, subject to certain adjustments, provided that there is not a continuing default, the Company maintains a Total Net Leverage Ratio on such date that is 0.25x less than the ratio required by the Credit Agreement at such date and the Company and its subsidiaries have not less than \$5.0 million in the aggregate of Unrestricted Cash (as defined in the Credit Agreement) plus remaining availability under the revolving commitments, (ii) in an amount that would not cause the Total Net Leverage Ratio to exceed 2.75 to 1.00, provided that there is not a continuing default and the Company and its subsidiaries have at least \$5.0 million in the aggregate of Unrestricted Cash plus remaining availability under the revolving commitments, (iii) to make payments under the Certificate of Designations of the Company's outstanding preferred stock in an amount up to the cumulative available amount of excess free cash flow that is not required to be used to prepay the outstanding loans under the Credit Agreement, subject to certain adjustments, provided that there is not a continuing default, the Company maintains a Total Net Leverage Ratio that does not exceed 3.25 to 1.00 and the Company and its subsidiaries have at least \$5.0 million in the aggregate of Unrestricted Cash plus remaining availability under the revolving commitments, and (iv) in an amount not to exceed \$15.0 million provided that there is not a continuing default.

Amended Credit Agreement

On September 13, 2018, the Company executed an amendment to the Credit Agreement (the "Amended Credit Agreement"), by and among the Company, the Borrower, and Bank of Montreal, acting as administrative agent together with other lenders. The Amended Credit Agreement, provides for an aggregate lender commitment of \$50.0 million in additional term loan borrowings (the "Incremental Term Loan"). The Incremental Term Loan was intended to finance a portion of a tender offer to repurchase up to \$50.0 million of our outstanding stock. Funding of the Incremental Term Loan was subject to the satisfaction of customary closing conditions, including the

accuracy in all material respects of the representations and warranties under the Amended Credit Agreement and the absence of a default or event of default under the Amended Credit Agreement. In October 2018, the Incremental Term Loan funded for \$50.0 million and the tender offer referenced above was finalized.

After giving effect to the Amended Credit Agreement, the initial \$160.0 million Term Loan Facility, with a balance of \$146.2 million at September 29, 2018, increased \$50.0 million, and the initial \$75.0 million Revolving Credit Facility increased \$25.0 million. The amended Credit Facilities each mature on September 13, 2023, the fifth anniversary of the effective date of the Amended Credit Agreement.

After giving effect to the Amended Credit Agreement, the interest payable with respect to the Term Loan Facility is (i) from the first amendment effective date until the first quarter ended on or about September 30, 2018, LIBOR plus 2.25% and (ii) commencing with the fiscal quarter ended on or about September 30, 2018 and thereafter, dependent on the Total Net Leverage Ratio of the Company, an election of either base rate or LIBOR pursuant to the table below. The Company's Total Net Leverage Ratio is defined as the ratio of (a) consolidated net debt to (b) consolidated EBITDA, which includes certain add-backs that are not reflected in the definition of Adjusted EBITDA appearing in "Key Measures and Segments", at the end of each fiscal quarter for the consecutive four fiscal quarter period most recently then ending.

Level	Total Net Leverage Ratio	ABR Loans	Eurodollar Loans
I	Less than 2.00x	0.75%	1.75%
II	Greater than or equal to 2.00x and less than 2.50x	1.00%	2.00%
III	Greater than or equal to 2.50x and less than 3.00x	1.25%	2.25%
IV	Greater than or equal to 3.00x and less than 3.25x	1.50%	2.50%
V	Greater than or equal to 3.25x and less than 3.50x	1.75%	2.75%
VI	Greater than 3.50x	2.00%	3.00%

Under the Amended Credit Agreement, the principal of the Term Facility must be paid in quarterly installments on the last day of each fiscal quarter, in an amount equal to:

- \$2,475,000 per quarter beginning on the last day of the Company's first fiscal quarter of 2019 through the last day of the Company's third fiscal quarter in 2021;
- \$3,712,500 per quarter beginning on the last day of the Company's fourth fiscal quarter in 2021 through the last day of the Company's third fiscal quarter in 2022;
- \$4,950,000 per quarter beginning on the last day of the Company's fourth fiscal quarter in 2022 through the last day of the Company's second fiscal quarter in 2023, with the remaining principal amount due at maturity.

There are customary events of default under the Amended Credit Agreement, including, among other things, events of default resulting from (i) failure to pay obligations when due under the Amended Credit Agreement, (ii) insolvency of the Company or its material subsidiaries, (iii) defaults under other material debt, (iv) judgments against the Company or its subsidiaries, (v) failure to comply with certain financial maintenance covenants (as set forth in the Amended Credit Agreement), or (vi) a change of control of the Company, in each case subject to limitations and exceptions as set forth in the Amended Credit Agreement.

The Amended Credit Agreement contains customary covenants and warranties including, among other things, an amended Total Net Leverage Ratio financial maintenance covenant which requires compliance as follows:

Period	Maximum Total Net Leverage Ratio
September 13, 2018 through the second quarter of the 2019 fiscal year	4.00:1.00
Second quarter of the 2019 fiscal year through the fourth quarter of the 2021 fiscal year	3.75:1.00
Fourth quarter of the 2021 fiscal year and thereafter	3.50:1.00

At June 29, 2019, the Borrower and the guarantors were in compliance with all covenants in the Amended Credit Agreement.

Short-Term and Long-Term Liquidity Requirements

Our ability to make principal and interest payments on borrowings under the Credit Facilities and our ability to fund planned capital expenditures will depend on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, regulatory and other conditions. Based on the current level of operations, we believe that our existing cash balances and expected cash flows from operations will be sufficient to meet our operating requirements for at least the next 12 months.

Seasonality

Our business is highly seasonal. Most school districts seek to buy their new school buses so that they will be available for use on the first day of the school year, typically in mid-August to early September. As a result, our two busiest quarters are our third and fourth fiscal quarters, the latter ending on the Saturday closest to September 30. Our quarterly results of operations, cash flows, and liquidity are likely to be impacted by these seasonal patterns. For example, our revenues are typically highest in our third and fourth fiscal quarters. There are, however, variations in the seasonal demands from year to year depending, in part, on large direct sales to major fleet customers for which short-term trade credit is generally offered. Working capital, on the other hand, is typically a significant use of cash during the first fiscal quarter and a significant source of cash generation in the fourth fiscal quarter. We typically conduct planned shutdowns during our first fiscal quarter.

Cash Flows

The following table sets forth general information derived from our Condensed Consolidated Statements of Cash Flows:

(in thousands of dollars)	Nine Months Ended	
	June 29, 2019	June 30, 2018
Cash and cash equivalents at beginning of period	\$ 60,260	\$ 62,616
Total cash (used in) provided by operating activities	(19,113)	7,022
Total cash used in investing activities	(30,154)	(15,560)
Total cash provided by (used in) financing activities	18,082	(12,154)
Change in cash and cash equivalents	\$ (31,185)	\$ (20,692)
Cash and cash equivalents at end of period	\$ 29,075	\$ 41,924

Total cash (used in) provided by operating activities

Cash flows used in operating activities totaled \$19.1 million for the nine months ended June 29, 2019, as compared with \$7.0 million of cash flows provided by operating activities for the nine months ended June 30, 2018. The \$26.1 million increase in cash used was primarily attributed to an inventory increase compared to prior year's inventory change totaling \$46.5 million, a decrease in the non-cash components of net income totaling \$4.7 million, and lower net income of \$3.2 million. The increase in cash used was partially offset by a decrease in accrued expenses and other liabilities compared to prior year's change totaling \$35.0 million.

Total cash used in investing activities

Cash flows used in investing activities totaled \$30.2 million for the nine months ended June 29, 2019, as compared with \$15.6 million of cash flows used in investing activities for the nine months ended June 30, 2018. The \$14.6 million increase was due to increased spending on manufacturing assets, primarily for our new paint facility.

Total cash provided by (used in) financing activities

Cash flows provided by financing activities totaled \$18.1 million for the nine months ended June 29, 2019, as compared with \$12.2 million of cash flows used in financing activities for the nine months ended June 30, 2018. The \$30.2 million increase was primarily attributed to \$25.0 million in borrowings under the revolving credit facility and a decrease of \$18.9 million in common stock repurchases under share repurchase programs, which were partially offset by a decrease of \$13.6 million in proceeds from warrant exercises.

In the nine months ended June 29, 2019, the Company received \$50.0 million in borrowings under the senior term loan; however, the net impact on cash was not significant as the proceeds from the borrowings were used to fund a tender offer to purchase 1,782,568 shares of our common stock and 364 shares of our preferred stock at a purchase price totaling \$50.4 million (which includes fees and expenses related to the tender offer).

Free cash flow

Management believes the non-GAAP measurement of free cash flow, defined as net cash (used in) provided by operating activities less cash paid for fixed assets, fairly represents the Company's ability to generate surplus cash that could fund activities not in the ordinary course of business. See "Key Non-GAAP Measures We Use to Evaluate Our Performance". The following table sets forth the calculation of free cash flow for the periods presented:

(in thousands of dollars)	Nine Months Ended	
	June 29, 2019	June 30, 2018
Net cash (used in) provided by operating activities	\$ (19,113)	\$ 7,022
Cash paid for fixed and acquired intangible assets	(30,154)	(15,572)
Free cash flow	\$ (49,267)	\$ (8,550)

Free cash flow for the nine months ended June 29, 2019 was \$40.7 million lower than the nine months ended June 30, 2018, due to, as discussed above, an increase of \$14.6 million in cash paid for fixed and acquired intangible assets and a \$26.1 million decrease in cash (used in) provided by operating activities.

Off-Balance Sheet Arrangements

We had outstanding letters of credit totaling \$6.9 million at June 29, 2019, the majority of which secure our self-insured workers compensation program, the collateral for which is regulated by the State of Georgia.

At June 29, 2019, there were 0.4 million shares of common stock issuable upon exercise of outstanding warrants.

We had \$3.0 million in aggregate guarantees outstanding at June 29, 2019 which relate to guarantees dealer of indebtedness for term loans with remaining maturities of up to 3.6 years. The \$3.0 million represents the estimated maximum amount we would be required to pay if a debtor defaulted, and we believe the likelihood of required performance to be remote.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have not been any material changes to our interest rate risks, commodity risks or currency risks previously disclosed in Part II, Item 7A of the Company's 2018 Form 10-K, other than as discussed below.

Interest Rate Risk

In the first quarter of fiscal 2019, we entered into a four-year interest rate collar contract with a notional value of \$150.0 million to partially mitigate our exposure to interest rate fluctuations on our variable rate term loan debt. The collar establishes a range where we will pay the counterparty if the three-month LIBOR rate falls below the established floor rate of 1.5%, and the counterparty will pay us if the three-month LIBOR rate exceeds the ceiling rate of 3.3%.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains a system of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including, as appropriate, the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Based on their evaluations, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 29, 2019.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 29, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Items required under Part II not specifically shown below are not applicable.

Item 1. Legal Proceedings.

Blue Bird is engaged in legal proceedings in the ordinary course of its business. Although no assurances can be given about the final outcome of pending legal proceedings, at the present time management does not believe that the resolution or outcome of any of Blue Bird's pending legal proceedings will have a material adverse effect on its financial condition, liquidity or results of operations.

Item 1A. Risk Factors.

In addition to the other information set forth in this Report, you should carefully consider the risk factors discussed in Part I, Item 1A of the Company's 2018 Form 10-K. Such risk factors are expressly incorporated herein by reference, and could materially affect our business, financial condition, cash flows or future results. The risks described in the 2018 Form 10-K are not the only risks facing the Company. Additional 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, cash flows and/or operating results.

Item 6. Exhibits.

The following Exhibits are filed with this Report:

<u>Exhibit No.</u>	<u>Description</u>
3.1	The registrant's Second Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the registrant's Current Report on Form 8-K, filed by the registrant with the SEC on February 26, 2015).
3.2	The registrant's Certificate of Designations establishing its Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.2 to the registrant's Current Report on Form 8-K, filed by the registrant with the SEC on February 26, 2015).
3.3	Bylaws of Blue Bird Corporation (incorporated by reference to the Company's Form S-1, filed with the SEC on December 20, 2013).
31.1*	Chief Executive Officer's Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2*	Chief Financial Officer's Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1*	Chief Executive Officer and Chief Financial Officer joint Certification 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.

^ In accordance with Regulation S-T, XBRL (Extensible Business Reporting Language) related information in Exhibit No. 101 to this Quarterly Report on Form 10-Q shall be deemed "furnished" and not "filed" for purposes of Section 18 of the Securities

Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, and shall not be incorporated by reference into any registration statement pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

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.

Blue Bird Corporation

Dated: August 8, 2019 /s/ Philip Horlock
Philip Horlock
Chief Executive Officer

Dated: August 8, 2019 /s/ Phillip Tighe
Phillip Tighe
Chief Financial Officer

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Philip Horlock, the Chief Executive Officer of Blue Bird Corporation (the “registrant”), certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Blue Bird Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

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

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

Dated: August 8, 2019 /s/ Philip Horlock
Philip Horlock
Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Phillip Tighe, the Chief Financial Officer of Blue Bird Corporation (the “registrant”), certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Blue Bird Corporation;

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

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

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

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

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

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

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

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial

reporting, to the registrant's auditors and the audit committee of 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.

Dated: August 8, 2019 /s/ Phillip Tighe
Phillip Tighe
Chief Financial Officer

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Section 4: EX-32.1 (EXHIBIT 32.1)

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 Blue Bird Corporation (the "*Company*") on Form 10-Q for the quarterly period ended June 29, 2019, as filed with the United States Securities and Exchange Commission on the date hereof (the "*Report*"), the undersigned, Philip Horlock, Chief Executive Officer of the Company, and Phillip Tighe, Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 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, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2019 /s/ Philip Horlock
Philip Horlock
Chief Executive Officer

Dated: August 8, 2019 /s/ Phillip Tighe
Phillip Tighe
Chief Financial Officer

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