Blue Bird Corp
Form 10-Q
August 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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	46-3891989
(State or other jurisdiction of incorporation or organization)	(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)

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 X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).
Yes X No

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

Large accelerated filer	o	Accelerated filer	x

Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	x

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. o

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

As of August 6, 2018, there were issued and outstanding 27,111,107 shares of the registrant's common stock, $0.0001 par value.

BLUE BIRD CORPORATION
FORM 10-Q

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Cautionary 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,” “ “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 2017 Form 10-K, filed with the SEC on December 8, 2017. 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 2017 Form 10-K, filed with the SEC on December 8, 2017.

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 except for share data)	June 30, 2018	September 30, 2017
Assets		
Current assets		
Cash and cash equivalents	$41,924	$62,616
Accounts receivable, net	22,569	10,148
Inventories	113,027	76,155
Other current assets	14,311	11,528
Total current assets	$191,831	$160,447
Property, plant and equipment, net	48,910	34,708
Goodwill	18,825	18,825
Intangible assets, net	55,974	57,481
Equity investment in affiliate	12,256	11,625
Deferred tax assets	3,220	11,755
Other assets	522	975
Total assets	$331,538	$295,816
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	$132,864	$87,331
Warranty	8,139	8,573
Accrued expenses	17,214	18,229
Deferred warranty income	7,742	6,776
Other current liabilities	7,084	9,847
Current portion of long-term debt	8,000	8,000
Total current liabilities	$181,043	$138,756
Long-term liabilities		
Long-term debt	$137,797	$143,224
Warranty	11,712	12,337
Deferred warranty income	14,259	12,519
Deferred tax liabilities	626	—
Other liabilities	5,359	15,064
Pension	25,219	32,426
Total long-term liabilities	$194,972	$215,570
Guarantees, commitments and contingencies (Note 6)		
Stockholders' deficit		
Preferred stock, $0.0001 par value, 10,000,000 shares authorized, 93,000 and 400,000 issued with liquidation preference of $9,300 and $40,000 at June 30, 2018 and September 30, 2017, respectively	$9,300	$40,000
Common stock, $0.0001 par value, 100,000,000 shares authorized, 26,898,267 and 23,739,344 issued and outstanding at June 30, 2018 and September 30, 2017, respectively	2	2
Additional paid-in capital	72,362	45,418
Accumulated deficit	(84,167)	(100,055)
Accumulated other comprehensive loss	(41,974)	(43,875)
Total stockholders' deficit	$(44,477)	$(58,510)

Total liabilities and stockholders' deficit	$331,538	$295,816

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 except for share data)	Three Months Ended June 30, 2018	Three Months Ended July 1, 2017	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017
Net sales	$314,186	$332,604	$693,363	$677,915
Cost of goods sold	277,213	287,594	614,074	590,058
Gross profit	$36,973	$45,010	$79,289	$87,857
Operating expenses				
Selling, general and administrative expenses	20,950	16,331	65,609	53,782
Operating profit	$16,023	$28,679	$13,680	$34,075
Interest expense	(1,834)	(1,398)	(5,112)	(5,801)
Interest income	25	50	42	63
Other (expense) income, net	(206)	(45)	984	(209)
Loss on debt extinguishment	—	—	—	(10,142)
Income before income taxes	$14,008	$27,286	$9,594	$17,986
Income tax benefit (expense)	7,485	(8,290)	5,662	(5,726)
Equity in net income of non-consolidated affiliate	398	1,036	632	1,997
Net income	$21,891	$20,032	$15,888	$14,257
Earnings per share:				
Net income (from above)	$21,891	$20,032	$15,888	$14,257
Less: preferred stock dividends	182	974	1,715	2,944
Net income available to common stockholders	$21,709	$19,058	$14,173	$11,313
Basic weighted average shares outstanding	26,209,697	23,659,057	24,677,838	23,101,685
Diluted weighted average shares outstanding	28,556,914	29,527,612	25,809,491	24,654,158
Basic earnings per share	$0.83	$0.81	$0.57	$0.49
Diluted earnings per share	$0.77	$0.68	$0.55	$0.46

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)	Three Months Ended June 30, 2018	Three Months Ended July 1, 2017	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017
Net income	$21,891	$20,032	$15,888	$14,257
Other comprehensive income, net of tax				
Net change in defined benefit pension plan	669	1,007	1,901	3,020
Net unrealized (loss) gain on cash flow hedges	—	(26)	—	76
Total other comprehensive income	$669	$981	$1,901	$3,096
Comprehensive income	$22,560	$21,013	$17,789	$17,353

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)

(in thousands of dollars)	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017
Cash flows from operating activities		
Net income	$15,888	$14,257
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,325	6,106
Amortization of debt costs	572	912
Share-based compensation	2,380	904
Equity in net income of affiliate	(632)	(1,997)
Loss (gain) on disposal of fixed assets	115	(43)
Deferred taxes	8,422	(874)
Amortization of deferred actuarial pension losses	2,640	4,718
Loss on debt extinguishment	—	10,142
Unrealized gains on foreign currency hedges	(828)	—
Changes in assets and liabilities:		
Accounts receivable	(12,422)	(13,701)
Inventories	(36,872)	(72,796)
Other assets	(1,502)	(5,941)
Accounts payable	41,959	56,671
Accrued expenses, pension and other liabilities	(19,023)	5,981
Dividend from equity investment in affiliate	—	1,412
Total adjustments	$(8,866)	$(8,506)
Total cash provided by operating activities	$7,022	$5,751
Cash flows from investing activities		
Cash paid for fixed assets	$(15,572)	$(7,193)
Proceeds from sale of fixed assets	12	47
Total cash used in investing activities	$(15,560)	$(7,146)
Cash flows from financing activities		
Repayments under the former senior term loan	$—	$(161,500)
Borrowings under the new term loan	—	156,887
Repayments under the new term loan	(6,000)	(4,000)
Cash paid for capital leases	(118)	(117)
Cash paid for debt issuance costs	—	(299)
Cash paid to extinguish debt	—	(507)
Payment of dividends on preferred stock	(1,715)	(2,944)
Cash paid for employee taxes on vested restricted shares and stock option exercises	(571)	(981)
Proceeds from exercises of warrants	15,114	12,858
Common stock repurchases under share repurchase programs	(18,864)	—
Total cash used in financing activities	$(12,154)	$(603)
Change in cash and cash equivalents	(20,692)	(1,998)
Cash and cash equivalents, beginning of period	62,616	52,309
Cash and cash equivalents, end of period	$41,924	$50,311
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest paid, net of interest received	$4,549	$4,775

Income tax paid, net of tax refunds	3,665	1,318
Non-cash investing and financing activities:		
Change in accounts payable for capital additions to property, plant and equipment	$3,574	$(1,900)
Cashless exercise of stock options	897	4,124
Cash receivable for warrant exercises	—	164

The accompanying notes are an integral part of these condensed 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 2018, there is a total of 52 weeks. For fiscal years 2018 and 2017, the third quarters both included 13 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 30, 2017 was derived from the Company's audited financial statements but do 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 30, 2017 as set forth in the Company's 2017 Form 10-K filed on December 8, 2017.

Preferred Stock Conversion

On April 24, 2018, the Company exercised its right to convert the maximum allowable number of outstanding shares of the 7.625% Convertible Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock") into shares of common stock, $0.0001 per share, of the Company ("Common Stock"). The conversion was subject to a beneficial ownership limitation, which prohibits the Company from effecting a conversion of Series A Preferred Stock to the extent that, after giving effect to such conversion, the holder of the Series A Preferred Stock would beneficially own in excess of 9.99% of the outstanding Common Stock. As a result of this conversion, a total of 307,000 shares of Series A Preferred Stock were converted into 2,649,962 shares of common stock based on the conversion rate of 8.6318 shares of Common Stock for each share of Series A Preferred Stock being converted. After the conversion and as of June 30, 2018, 93,000 shares of Series A Preferred Stock were outstanding.

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 Recent Accounting Standards

The Company's significant accounting policies are described in the Company's 2017 Form 10-K, filed with the SEC on December 8, 2017. 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 30, 2018.

Recently Issued Accounting Standards

In March 2018, the Financial Accounting Standards Board ("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.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting", which provides guidance on accounting for nonemployee share-based awards for goods or services received by a company. We have not granted any share-based awards to nonemployees. The impact of this guidance will be dependent on future grants, if any, of these forms of share-based awards.

Recently Adopted Accounting Standards

In the first quarter of fiscal 2018, the Company adopted ASU No. 2015-11, Simplifying the Measurement of Inventory, which requires inventory to be measured at the lower of cost or net realizable value. The adoption of this pronouncement did not have any impact on any component of our financial statements.

3. Supplemental Financial Information

Inventory

The Company values inventories at the lower of cost or net realizable value. The Company uses a standard costing methodology, which approximates cost on a first-in, first-out basis. The Company reviews the standard costs of raw materials, work-in-process and finished goods inventory on a periodic basis to ensure that its inventories approximate current actual costs. Manufacturing cost includes raw materials, direct labor and manufacturing overhead. The following table presents the components of inventory at the dates indicated:

(in thousands of dollars)	June 30, 2018	September 30, 2017
Raw materials	$67,677	$ 54,379
Work in process	34,741	14,660
Finished goods	10,609	7,116
Total inventory	$113,027	$ 76,155

Product Warranties

The Company's products are generally warranted against defects in material and workmanship for a period of one to five years. A provision for estimated warranty costs is recorded at the time the unit is sold. The methodology to determine the warranty reserve calculates average expected warranty claims using warranty claims by body type, by month, over the life of the bus, which is then multiplied by remaining months under warranty, by warranty type.

Management believes the methodology provides an accurate reserve estimate. Actual claims incurred could differ from the original estimates, requiring future adjustments.

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

(in thousands of dollars)	Three Months Ended June 30, 2018	Three Months Ended July 1, 2017	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017
Balance at beginning of period	$19,283	$18,612	$20,910	$19,444
Add current period accruals	3,421	3,775	7,786	7,555
Current period reductions of accrual	(2,853)	(2,105)	(8,845)	(6,717)
Balance at end of period	$19,851	$20,282	$19,851	$20,282

The Company also sells extended warranties related to its products. Revenue related to these contracts is recognized on a straight-line basis over the contract period and costs thereunder are expensed as incurred. All warranty expenses are recorded in the cost of goods sold line on the Condensed Consolidated Statements of Operations. The methodology used to determine the short-term extended warranty income reserve is based on twelve months of the remaining warranty value for each effective extended warranty at the balance sheet date.

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 June 30, 2018	Three Months Ended July 1, 2017	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017
Balance at beginning of period	$20,461	$16,654	$19,295	$16,187
Add current period deferred income	2,974	3,396	7,800	6,769
Current period recognition of income	(1,434)	(1,520)	(5,094)	(4,426)
Balance at end of period	$22,001	$18,530	$22,001	$18,530

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 30, 2018	September 30, 2017
Current portion	$3,595	$ 3,194
Long-term portion	2,294	2,251
Total accrued self-insurance	$5,889	$ 5,445

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 represent costs billed to customers and are included in net sales. Shipping and handling costs incurred are included in cost of goods sold. Shipping and handling revenues were $5.0 million and $6.6 million for the three months ended June 30, 2018 and July 1, 2017, respectively, and $12.0 million and $12.8 million for the nine months ended June 30, 2018 and July 1, 2017, respectively. The related cost of goods sold was $5.8 million and $6.0 million for the three months ended June 30, 2018 and July 1, 2017, respectively, and $11.7 million and $11.3 million for the nine months ended June 30, 2018 and July 1, 2017, respectively.

Pension Expense

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

(in thousands of dollars)	Three Months Ended June 30, 2018	Three Months Ended July 1, 2017	Nine Months Ended June 30, 2018	Nine Months Ended July 1, 2017
Interest cost	$1,357	$1,266	$4,071	$3,797
Expected return on plan assets	(1,776)	(1,590)	(5,328)	(4,769)
Amortization of prior loss	880	1,573	2,640	4,718
Net periodic benefit cost	$461	$1,249	$1,383	$3,746
Amortization of prior loss, recognized in other comprehensive income	880	1,573	2,640	4,718
Total recognized in net periodic pension benefit cost and other comprehensive income	$(419)	$(324)	$(1,257)	$(972)

Warrants

At June 30, 2018, there were a total of 2,296,738 warrants outstanding to purchase 1,148,369 shares of our Common Stock.

4. Debt

Debt consisted of the following at the dates indicated:

(in thousands of dollars)	June 30, 2018	September 30, 2017
2021 term loan, net of deferred financing costs of $2,203 and $2,776, respectively	$145,797	$151,224
Less: current portion of long-term debt	8,000	8,000
Long-term debt, net of current portion	$137,797	$143,224

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 30, 2018 and September 30, 2017, $148.0 million and $154.0 million, respectively, were outstanding on the term loans.

At June 30, 2018 and September 30, 2017, the stated interest rates on the term loans were 3.8% and 2.8%, respectively. At June 30, 2018 and September 30, 2017, the weighted-average annual effective interest rates for the term loans were 3.9% and 4.5%, respectively, which included amortization of the deferred financing costs.

No borrowings were outstanding on the Revolving Credit Facility at June 30, 2018; however, since $6.9 million of Letters of Credit were outstanding on June 30, 2018, the Company would have been able to borrow $68.1 million on the revolving line of credit.

Interest expense on all indebtedness was $1.8 million and $1.4 million for the three months ended June 30, 2018 and July 1, 2017, respectively, and $5.1 million and $5.8 million for the nine months ended June 30, 2018 and July 1, 2017, respectively.

The schedules of remaining principal maturities for the term loan for the next five fiscal years are as follows:
(in thousands of dollars)

Year	Principal Payments
2018	$ 2,000
2019	8,000
2020	11,000
2021	15,000
2022	112,000
Total remaining principal payments	$ 148,000

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.

For the three and nine month period ended June 30, 2018, we concluded on the relevant statute of limitations to apply to the underlying item that created our uncertain tax position which lapsed in the period resulting in a recorded tax benefit of $8.0 million. 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 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 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.

The effective tax rate for the three month period ended July 1, 2017 was 30.4%, which differed from the statutory federal income tax rate of 35%, mainly due to tax rate benefit items such as the domestic production activities deduction, foreign tax credits, and stock option deductions in excess of recorded expense. These benefits were partially offset by discrete expense items, the largest being interest and penalties on uncertain tax positions.

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.

The effective tax rate for the nine month period ended July 1, 2017 was 31.8% and differed from the statutory federal income tax rate of 35%, primarily from tax rate benefit items such as the domestic production activities deduction, foreign tax credits, and stock option deductions in excess of recorded expense. These benefits were partially offset by discrete expense items, the largest being interest and penalties on uncertain tax positions.

6. Guarantees, Commitments and Contingencies

Litigation

At June 30, 2018, 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.

7. Segment Information

We manage our business in two operating segments, which are also our reportable segments. The Bus segment includes the manufacturing and assembly of buses to be sold to a variety of customers across the United States, Canada and in international markets. The Parts segment consists primarily of the purchase of parts from third parties to be sold to dealers within the Company's network. Financial information is reported on the basis that it is used internally by the chief operating decision maker (the "CODM") in evaluating segment performance and deciding how to allocate resources. 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. A measure of assets is not applicable, as segment assets are not regularly reviewed by the CODM for evaluating performance or allocating resources. 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 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Bus	$297,653	$317,333	$647,525	$633,499
Parts	16,533	15,271	45,838	44,416
Segment net sales	$314,186	$332,604	$693,363	$677,915

Gross profit

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Bus	$31,342	$39,843	$63,062	$72,234
Parts	5,631	5,167	16,227	15,623
Segment gross profit	$36,973	$45,010	$79,289	$87,857

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 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Segment gross profit	$36,973	$45,010	$79,289	$87,857
Adjustments:				
Selling, general and administrative expenses	(20,950)	(16,331)	(65,609)	(53,782)
Interest expense	(1,834)	(1,398)	(5,112)	(5,801)
Interest income	25	50	42	63

Other (expense) income, net	(206)	(45)	984	(209)
Loss on debt extinguishment	—	—	—	(10,142)
Income before income taxes	$14,008	$27,286	$9,594	$17,986

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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 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
United States	$274,984	$291,672	$628,046	$608,350
Canada	37,490	40,550	59,949	66,535
Rest of world	1,712	382	5,368	3,030
Total net sales	$314,186	$332,604	$693,363	$677,915

8. 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 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Numerator:				
Net income	$21,891	$ 20,032	$15,888	$ 14,257
Less: convertible preferred stock dividends	182	974	1,715	2,944
Net income available to common stockholders	$21,709	$ 19,058	$14,173	$ 11,313
Basic earnings per share (1):				
Weighted average common shares outstanding	26,209,692	23,659,057	24,677,838	23,101,685
Basic earnings per share	$0.83	$ 0.81	$0.57	$ 0.49
Diluted earnings per share (2):				
Weighted average common shares outstanding	26,209,692	23,659,057	24,677,838	23,101,685
Weighted average dilutive securities, convertible preferred stock	1,471,902	4,314,064	—	—
Weighted average dilutive securities, restricted stock	687	2,383	24,403	484
Weighted average dilutive securities, warrants	607,532	1,326,916	836,932	1,314,161
Weighted average dilutive securities, stock options	267,096	225,192	270,318	237,828
Weighted average shares and dilutive potential common shares	28,556,912	29,527,612	25,809,491	24,654,158
Diluted earnings per share	$0.77	$ 0.68	$0.55	$ 0.46

(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) Diluted earnings per share is calculated by adjusting the weighted average shares outstanding for the dilutive effect of common stock equivalents outstanding during the period, determined by using the treasury-stock method, and adjusting for the dilutive effect of our convertible preferred stock, determined by using the if-converted method. For the nine months ended June 30, 2018 and July 1, 2017, 2,791,468 and 4,314,064 shares, respectively, of convertible preferred stock were excluded from the dilutive calculation as the if-converted impact would be anti-dilutive.

9. Share-Based Compensation

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Restricted Stock Awards

The following table summarizes the Company's restricted stock awards ("RSAs") and restricted stock units ("RSUs") award activity for the period presented:

Restricted Stock Activity	Nine Months Ended June 30, 2018 Number of Shares	Weighted-Average Grant Date Fair Value
Balance, beginning of period	75,590	$ 15.83
Granted	118,450	18.59
Vested	(67,890)	15.86
Forfeited/canceled	(8,076)	15.62
Balance, end of period	118,074	18.59

Compensation expense for restricted stock awards, recognized in selling, general and administrative expenses on the Condensed Consolidated Statements of Operations, was $0.5 million and $1.4 million with associated tax benefits of $0.2 million and $0.4 million for the three and nine months ended June 30, 2018, respectively. At June 30, 2018, unrecognized compensation cost related to restricted stock awards totaled $1.1 million and is expected to be recognized over a weighted-average period of six months.

Stock Option Awards

The following table summarizes the Company's stock option activity for the period presented:

Stock Option Award Activity	Nine Months Ended June 30, 2018 Number of Options	Weighted Average Exercise Price per Share ($)
Outstanding options, beginning of period	623,962	$ 11.15
Granted	215,530	16.61
Exercised (1)	(73,102)	12.27
Forfeited	(19,030)	15.50
Outstanding options, end of period (2)	747,360	12.50
Fully vested and exercisable options, end of period (3)	535,302	10.87

(1) Stock options exercised in the period had an aggregate intrinsic value totaling $0.6 million.
(2) Stock options outstanding at the end of the period had an aggregate intrinsic value totaling $7.4 million.
(3) Fully vested and exercisable options at the end of the period had an aggregate intrinsic value totaling $6.1 million with a weighted average contractual remaining term of 7.1 years.

Compensation expense for stock option awards, recognized in selling, general and administrative expenses on the Consolidated Statements of Operations, was $0.3 million and $0.8 million with associated tax benefits of $0.1 million and $0.2 million for the three and nine months ended June 30, 2018, respectively. At June 30, 2018, unrecognized compensation cost related to stock option awards totaled $0.6 million and is expected to be recognized over a weighted-average period of six months.

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The fair value of each option award at grant date was estimated using the Black-Scholes option-pricing model with the following assumptions and resulting grant-date fair value during the period presented:

	Nine Months Ended June 30, 2018
Expected volatility	29.2 %
Expected dividend yield	0 %
Risk-free interest rate	2.16 %
Expected term (in years)	5.0 - 5.5
Weighted-average grant-date fair value	$6.15

10. Accumulated Other Comprehensive Income

The following table provides information on changes in accumulated other comprehensive income ("AOCI") for the periods presented:

	Three Months Ended			Nine Months Ended		
(in thousands)	Defined Benefit Pension Plan	Cash Flow Hedges (Effective Portion)	Total AOCI	Defined Benefit Pension Plan	Cash Flow Hedges (Effective Portion)	Total AOCI
June 30, 2018						
Beginning Balance	$(42,643)	$ —	$(42,643)	$(43,875)	$ —	$(43,875)
Other comprehensive income, gross	—	—	—	—	—	—
Amounts reclassified from other comprehensive income 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)
July 1, 2017						
Beginning Balance	$(56,865)	$ 89	$(56,776)	$(58,878)	$ (13)	$(58,891)
Other comprehensive (loss) income, gross	—	(39)	(39)	—	344	344
Amounts reclassified from other comprehensive income and included in earnings	1,573	—	1,573	4,718	(227)	4,491
Total other comprehensive income (loss), before taxes	1,573	(39)	1,534	4,718	117	4,835
Income tax (expense) benefit	(566)	13	(553)	(1,698)	(41)	(1,739)
Ending Balance July 1, 2017	$(55,858)	$ 63	$(55,795)	$(55,858)	$ 63	$(55,795)

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 30, 2018 and July 1, 2017 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 “Cautionary 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 30, 2017 as “fiscal 2017”. We refer to the quarter ended June 30, 2018 as the “third quarter of fiscal 2018” and we refer to the quarter ended July 1, 2017 as the “third quarter of fiscal 2017”. There were 13 weeks in the third quarters of both fiscal 2018 and fiscal 2017.

Introductory Note

On February 24, 2015, the Company consummated a business combination (the “Business Combination”), pursuant to which the Company acquired all of the outstanding capital stock of School Bus Holdings Inc. (“School Bus Holdings” or “SBH”) from The Traxis Group, B.V. (the “Seller”), in accordance with the purchase agreement, dated as of September 21, 2014, by and among the Company, the Seller and, solely for purposes of Section 10.01(a) thereof, Hennessy Capital Partners I LLC (the “HCAC Sponsor”), as amended on February 10, 2015 and February 18, 2015 (as so amended, the “Purchase Agreement”). Pursuant to the Purchase Agreement, the total purchase price was paid in a combination of cash in the amount of $100.0 million and 12,000,000 shares of the Company's Common Stock valued at $120.0 million.

In connection with the closing of the Business Combination, the Company changed its name from Hennessy Capital Acquisition Corp. to Blue Bird Corporation. Unless expressly stated otherwise in this Report, Blue Bird Corporation shall be referred to as “Blue Bird” or the “Company,” and includes its consolidated subsidiaries.

Pursuant to, and subject to the terms of, a Purchase and Sale Agreement, dated as of May 26, 2016 (the “Purchase and Sale Agreement”), by and among Seller, ASP BB Holdings LLC, a Delaware limited liability company (“ASP”), and the Company, Seller agreed to sell and ASP agreed to purchase all of the 12,000,000 shares of Common Stock of the Company owned by Seller (the “Transaction Shares”). Subject to the terms and conditions set forth in the Purchase and Sale Agreement, ASP acquired 7,000,000 Transaction Shares at an initial closing on June 3, 2016 for an amount in cash equal to $10.10 per share and 5,000,000 Transaction Shares at a second closing on June 8, 2016 for an amount in cash equal to $11.00 per share, for an aggregate purchase price of $125.7 million. There were no proceeds to the Company from this transaction.

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 and compressed natural gas (“CNG”)-powered school buses. In our second fiscal quarter of 2018, we also took our first orders for all-electric school buses.

Blue Bird sells its buses and aftermarket parts through an extensive network of United States and Canadian dealers that, in their territories, are exclusive to Blue Bird on Type C and 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 2017 Form 10-K, filed with the SEC on December 8, 2017 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 30, 2018.

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 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 have 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 govern 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 and in part due to 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, the 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 discontinued operations income or loss, interest income, interest expense, income taxes, and depreciation, amortization, and disposals, as adjusted to add back certain charges that we may record each year, such as stock-compensation expense and transaction costs, as these expenses 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 expenses. We believe that 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 the non-GAAP measures may enhance the 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 Adjusted EBITDA margin 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 the 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 30, 2018 and July 1, 2017:

(in thousands of dollars)	Three Months Ended June 30, 2018	Three Months Ended July 1, 2017
Net sales	$314,186	$332,604
Cost of goods sold	277,213	287,594
Gross profit	$36,973	$45,010
Operating expenses		
Selling, general and administrative expenses	20,950	16,331
Operating profit	$16,023	$28,679
Interest expense	(1,834)	(1,398)
Interest income	25	50
Other expense, net	(206)	(45)
Income before income taxes	$14,008	$27,286
Income tax benefit (expense)	7,485	(8,290)
Equity in net income of non-consolidated affiliate	398	1,036
Net income	$21,891	$20,032
Other financial data:		
Adjusted EBITDA	$23,692	$32,868
Adjusted EBITDA margin	7.5 %	9.9 %

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

(in thousands of dollars)	Three Months Ended	
Net Sales by Segment	June 30, 2018	July 1, 2017
Bus	$297,653	$317,333
Parts	16,533	15,271
Total	$314,186	$332,604
Gross Profit by Segment		
Bus	$31,342	$39,843
Parts	5,631	5,167
Total	$36,973	$45,010

Net sales. Net sales were $314.2 million for the third quarter of fiscal 2018, a decrease of $18.4 million, or 5.5%, compared to $332.6 million for the third quarter of fiscal 2017.

Bus sales decreased $19.7 million, or 6.2%, reflecting a decrease in units booked and lower sales prices. In the third quarter of fiscal 2018, 3,746 units were booked compared to 3,849 units booked for the same period in fiscal 2017. The average net sales price per unit for the third quarter of fiscal 2018 was 3.6% lower than the price per unit for the third quarter of fiscal 2017. The decrease in unit price mainly reflects changes in product and customer mix.

Parts sales increased $1.3 million, or 8.3%, for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017, as we had higher volumes primarily due to incentive and shipping programs launched in the previous fiscal year.

Cost of goods sold. Total cost of goods sold was $277.2 million for the third quarter of fiscal 2018, a decrease of $10.4 million, or 3.6%, compared to $287.6 million for the third quarter of fiscal 2017. As a percentage of net sales, total cost of goods sold increased from 86.5% to 88.2%.

Bus segment cost of goods sold decreased $11.2 million, or 4.0%, for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017. The average cost of goods sold per unit for the third quarter of fiscal 2018 was 1.4% lower compared to the third quarter of fiscal 2017 as favorable cost drivers due to product and customer mix were partially offset by raw material price increases related to rising commodity costs.

The $0.8 million, or 7.9%, increase in parts segment cost of goods sold for the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 was primarily attributed to increased parts sales volume.

Operating profit. Operating profit was $16.0 million for the third quarter of fiscal 2018, a decrease of $12.7 million, compared to an operating profit of $28.7 million for the third quarter of fiscal 2017. Profitability was negatively impacted by a decrease of $8.0 million in gross profit and an increase of $4.6 million in selling, general and administrative expenses due in large part to several non-recurring operational initiatives.

Interest expense. Interest expense was $1.8 million for the third quarter of fiscal 2018, an increase of $0.4 million, or 31.2%, compared to $1.4 million for the third quarter of fiscal 2017. The increase was primarily attributed to a one point increase in the stated interest rate on the term loan, which was partially offset by lower average borrowing levels.

Other expense, net. Other expense, net was $(0.2) million for the for the third quarter of fiscal 2018, a decrease of $(0.2) million, compared to other expense, net of $0.0 million for the third quarter of fiscal 2017. The decrease was primarily attributed to unrealized losses on foreign exchange derivative contracts not designated as hedging instruments for accounting purposes totaling $0.2 million.

Income taxes. We recorded an income tax benefit of $7.5 million for the third quarter of fiscal 2018, compared to income tax expense of $8.3 million for the same period in fiscal 2017.

We recorded several discrete tax benefits in the third quarter of fiscal 2018. We released an $8.0 million reserve for uncertain tax positions, recorded a total of $1.7 million of tax benefits from accelerated deductions reported on our prior year return, and recorded a $0.5 million benefit from a valuation allowance release.

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 income tax rate of 24.5%. The difference is mainly due to the above noted discrete tax benefits, but we also recorded 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.

The effective tax rate for the three month period ended July 1, 2017 was 30.4%, which differed from the statutory federal income tax rate of 35% due mainly to tax rate benefit items such as the domestic production activities deduction, foreign tax credits, and share-based award deductions in excess of recorded expense. These benefits were partially offset by discrete expense items, the largest being interest and penalties on uncertain tax positions.

Adjusted EBITDA. Adjusted EBITDA was $23.7 million, or 7.5% of net sales, for the third quarter of fiscal 2018, a decrease of $9.2 million, or 27.9%, compared to $32.9 million, or 9.9% of net sales, for the third quarter of fiscal 2017. The decrease in adjusted EBITDA was primarily the result of a decrease 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 30, 2018	Three Months Ended July 1, 2017
Net income	$21,891	$20,032
Adjustments:		
Discontinued operations loss	—	34
Interest expense, net	1,809	1,348
Income tax (benefit) expense	(7,485)	8,290
Depreciation, amortization, and disposals	2,203	2,022
Operational transformation initiatives	3,169	—
Unrealized losses on foreign currency hedges	208	—
Share-based compensation	870	494
Product initiatives	1,037	648
Other	(10)	—
Adjusted EBITDA	$23,692	$32,868
Adjusted EBITDA margin (percentage of net sales)	7.5%	9.9%

Consolidated Results of Operations for the Nine Months Ended June 30, 2018 and July 1, 2017:

(in thousands of dollars)	Nine Months Ended June 30, 2018	July 1, 2017
Net sales	$693,363	$677,915
Cost of goods sold	614,074	590,058
Gross profit	$79,289	$87,857
Operating expenses		
Selling, general and administrative expenses	65,609	53,782
Operating profit	$13,680	$34,075
Interest expense	(5,112)	(5,801)
Interest income	42	63
Other income (expense), net	984	(209)
Loss on debt extinguishment	—	(10,142)
Income before income taxes	$9,594	$17,986
Income tax benefit (expense)	5,662	(5,726)
Equity in net income of non-consolidated affiliate	632	1,997
Net income	$15,888	$14,257
Other financial data:		
Adjusted EBITDA	$39,440	$43,851
Adjusted EBITDA margin	5.7 %	6.5 %

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

(in thousands of dollars)	Nine Months Ended	
Net Sales by Segment	June 30, 2018	July 1, 2017
Bus	$647,525	$633,499
Parts	45,838	44,416
Total	$693,363	$677,915
Gross Profit by Segment		
Bus	$63,062	$72,234
Parts	16,227	15,623
Total	$79,289	$87,857

Net sales. Net sales were $693.4 million for the nine months ended June 30, 2018, an increase of $15.4 million, or 2.3%, compared to $677.9 million for the nine months ended July 1, 2017.

Bus sales increased $14.0 million, or 2.2%, reflecting an increase in units booked and partially offset by lower sales prices. In the nine months ended June 30, 2018, 7,892 units were booked compared to 7,709 units booked for the same period in fiscal 2017. The average net sales price per unit for the nine months ended June 30, 2018 was 0.2% lower than the price per unit for the nine months ended July 1, 2017. The decrease in unit price mainly reflects changes in product and customer mix.

Parts sales increased $1.4 million, or 3.2%, for the nine months ended June 30, 2018 compared to the nine months ended July 1, 2017, primarily due to incentive and shipping programs launched in the previous fiscal year.

Cost of goods sold. Total cost of goods sold was $614.1 million for the nine months ended June 30, 2018, an increase of $24.0 million, or 4.1%, compared to $590.1 million for the nine months ended July 1, 2017. As a percentage of net sales, total cost of goods sold increased from 87.0% to 88.6%.

Bus segment cost of goods sold increased $23.2 million, or 4.1%, for the nine months ended June 30, 2018 compared to the nine months ended July 1, 2017. The average cost of goods sold per unit for the nine months ended June 30, 2018 was 1.7% higher compared to the nine months ended July 1, 2017 mainly due to changes in product and customer mix, as well as raw material price increases related to rising commodity costs.

The $0.8 million, or 2.8%, increase in parts segment cost of goods sold for the nine months ended June 30, 2018 compared to the nine months ended July 1, 2017 was primarily attributed to increased parts sales volume.

Operating profit. Operating profit was $13.7 million for the nine months ended June 30, 2018, a decrease of $20.4 million compared to an operating profit of $34.1 million for the nine months ended July 1, 2017. Profitability was negatively impacted by an increase of $11.8 million in selling, general and administrative expenses driven by several non-recurring operational initiatives as well as product redesign costs. Profitability was also negatively impacted by a decrease of $8.6 million in gross profit.

Interest expense. Interest expense was $5.1 million for the nine months ended June 30, 2018, a decrease of $0.7 million, or 11.9%, compared to $5.8 million for the nine months ended July 1, 2017. The decrease was primarily attributed to lower average borrowing levels as well as a decrease in the interest rate resulting from the new credit facility we entered into in December 2016.

Other income (expense), net. Other income, net was $1.0 million for the third quarter of fiscal 2018, an increase of $1.2 million, compared to other expense, net of $0.2 million for the third quarter of fiscal 2017. The increase was primarily attributed to unrealized gains on foreign exchange derivative contracts not designated as hedging instruments for accounting purposes totaling $0.8 million.

Loss on debt extinguishment. The $10.1 million loss on debt extinguishment was the difference between the reacquisition price of our debt that was extinguished on December 12, 2016 (as reported in our December 15, 2016 Current Report on Form 8-K) and the net carrying value of the extinguished debt on our Consolidated Balance Sheets at the time of extinguishment. The loss was mainly attributed to unamortized deferred financing and issuance costs from the previous facility that were expensed in conjunction with the extinguishment.

Income taxes. Income tax benefit was $5.7 million for the nine months ended June 30, 2018, compared to income tax expense of $5.7 million for the same period in fiscal 2017.

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, driven primarily by a negative effective tax rate in the current period, is explained below.

We have recorded several discrete tax items during the nine month period ended June 30, 2018, including:

- Release of an $8.0 million reserve for uncertain tax positions;
- A total of $1.7 million of tax benefits from accelerated deductions reported on our prior year return;
- Tax expense adjustments of $2.4 million related to the Tax Cuts and Jobs Act, which was enacted on December 22, 2017.

Along with remeasuring our deferred tax balances to the new tax rate, the $2.4 million net tax reform adjustment amount cited above includes $1.1 million in expense related to our tax liability for uncertain tax positions including the associated accrued interest. We also had recorded a valuation allowance against $0.5 million of our foreign tax credit carryforward in the first quarter of 2018. Both the uncertain tax positions and valuation allowance first quarter adjustments were reversed in the third quarter of 2018.

The Tax Cuts and Jobs Act reduced the U.S. federal corporate tax rate from 35% to 21%. Since we are a fiscal year taxpayer, our tax rate reduction is pro-rated and our statutory federal tax rate for fiscal 2018 is approximately 24.5%. We will fully apply the new 21% statutory rate in fiscal 2019. The new legislation will also require companies to pay a one-time transition tax on earnings of certain foreign subsidiaries, such as our joint venture investment in Micro Bird.

We will continue to monitor the guidance issued by the IRS for the new law, and these estimates may be revised during the year.

The effective tax rate for the nine month period ended July 1, 2017 was 31.8% and differed from the statutory federal income tax rate of 35% primarily from tax rate benefit items such as the domestic production activities deduction, foreign tax credits, and share-based award deductions in excess of recorded expense. These benefits were partially offset by discrete expense items, the largest being interest and penalties on uncertain tax positions.

Adjusted EBITDA. Adjusted EBITDA was $39.4 million or 5.7% of net sales for the nine months ended June 30, 2018, a decrease of $4.4 million, or 10.1%, compared to $43.9 million or 6.5% of net sales for the nine months ended July 1, 2017. The decrease in adjusted EBITDA is primarily the result of decreased gross profit, which was partially offset by a decrease in adjusted selling, general and administrative expenses.

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 30, 2018	July 1, 2017
Net income	$15,888	$14,257
Adjustments:		
Discontinued operations (income) loss	(81)	222
Interest expense, net	5,070	5,738
Income tax (benefit) expense	(5,662)	5,726
Depreciation, amortization, and disposals	6,483	6,106
Loss on debt extinguishment	—	10,142
Operational transformation initiatives	13,547	—
Unrealized gains on foreign currency hedges	(828)	—
Share-based compensation	2,380	904
Product initiatives	2,697	930
Other	(54)	(174)
Adjusted EBITDA	$39,440	$43,851
Adjusted EBITDA margin (percentage of net sales)	5.7%	6.5%

Liquidity and Capital Resources

Background. The Company’s primary sources of liquidity are cash generated from its operations, available cash and borrowings under its credit facility. At June 30, 2018, the Company had $41.9 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.

Indebtedness. 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 provided by 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 Term Loan Facility and the Revolving Credit Facility each mature on December 12, 2021, which is the fifth anniversary of the effective date of the Credit Agreement. The interest rate on the Term Loan Facility is (i) from the Closing Date until April 1, 2017, an election of either base rate plus 1 point or LIBOR plus 2 points and (ii) commencing with the fiscal quarter ending on April 1, 2017 and thereafter, dependent on the Total Net Leverage

Ratio (as defined below) of the Company, an election of either base rate or LIBOR pursuant to the table below:

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	1.50%	2.50%

Under the Credit Agreement, the principal of the initial Term Loan Facility must be paid in quarterly installments on the last day of each fiscal quarter, in an amount equal to (i) $2.0 million per quarter beginning on the last day of the Company's second fiscal quarter in 2017 through the last day of the Company's first fiscal quarter in 2020, (ii) $3.0 million beginning on the last day of the second fiscal quarter of the Company in 2020 through the last day of the first fiscal quarter of the Company in 2021, and (iii) $4.0 million beginning on the last day of the second fiscal quarter of the Company in 2021 through the last day of the fourth fiscal quarter of the Company in 2021, with the remaining principal amount due at maturity. The loans under the Credit Facility may be prepaid without penalty or premium. Certain mandatory prepayments in respect of the outstanding loans or the term loans, as applicable, are required, including prepayments from the proceeds of certain dispositions and the incurrence of certain debt obligations, as well as prepayments based on the annual excess cash flow of the Company and its subsidiaries.

The obligations under the Credit Agreement and the related loan documents (including without limitation, the borrowings under the Credit Facilities 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 the Closing Date.

Up to $75.0 million of additional term loans and/or revolving credit commitments may be incurred under the Credit Agreement (the “Incremental Facility”), subject to certain limitations as set forth in the Credit Agreement. The Incremental Facility is not a committed facility, and would require further commitments from the existing lenders or from new lenders.

There are customary events of default under the Credit Agreement and 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 as provided 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 (ii) in an amount that would not cause the Total Net Leverage Ratio to exceed 2.75 to 1.00, (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, and (iv) in an amount not to exceed $15.0 million provided that there is not a continuing default.

The Company must also maintain a Total Net Leverage Ratio, 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 elsewhere in this Report consisting of losses or gains on asset dispositions, and non-cash losses or gains on swap agreements) at the end of each fiscal quarter for the consecutive four fiscal quarter period most recently then ending. The Total Net Leverage Ratio requirements are as follows:

Period	Maximum Total Net Leverage Ratio

Closing Date through the third fiscal quarter of the 2017 fiscal year	4.00:1.00
Fourth fiscal quarter of the 2017 fiscal year through the first fiscal quarter of the 2019 fiscal year	3.75:1.00
Second fiscal quarter of the 2019 fiscal year and thereafter	3.50:1.00

At June 30, 2018, the Borrower and the guarantors were in compliance with all covenants in the 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 30, 2018	July 1, 2017
Cash and cash equivalents at beginning of period	$62,616	$52,309
Total cash provided by operating activities	7,022	5,751
Total cash used in investing activities	(15,560)	(7,146)
Total cash used in financing activities	(12,154)	(603)
Change in cash and cash equivalents	$(20,692)	$(1,998)
Cash and cash equivalents at end of period	$41,924	$50,311
Depreciation and amortization	$6,325	$6,106
Capital expenditures	15,572	7,193

Total cash provided by operating activities

Cash flows provided by operating activities totaled $7.0 million for the nine months ended June 30, 2018, as compared with $5.8 million of cash flows provided by operating activities for the nine months ended July 1, 2017. The $1.2 million increase in cash provided by operating activities was attributed to net changes in accounts receivable, inventory, and accounts payable which increased cash provided by $22.5 million. The increase was partially offset by lower EBITDA as well as the release of our uncertain tax position which is included in the reduction of accrued expenses, pension and other liabilities as a use of cash from operating activities.

Total cash used in investing activities

Cash flows used in investing activities totaled $15.6 million for the nine months ended June 30, 2018, as compared with $7.1 million of cash flows used in investing activities for the nine months ended July 1, 2017. The $8.4 million increase was primarily due to increased spending on manufacturing assets.

Total cash used in financing activities

Cash flows used in financing activities totaled $12.2 million for the nine months ended June 30, 2018, as compared with $0.6 million of cash flows used in financing activities for the nine months ended July 1, 2017. The $11.6 million increase in use was primarily attributed to $18.9 million in cash used to purchase common stock under the share repurchase program, offset in part by an increase of $2.3 million in cash received from warrant exercises, and a decrease of $3.4 million in cash paid for principal payments and debt extinguishment costs from the prior year. We also paid $1.2 million less in cash dividends on our preferred stock in the 2018 period compared to the 2017 period.

Free cash flow

Management believes the non-GAAP measurement of free cash flow, defined as net cash provided by continuing operations 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 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 30, 2018	July 1, 2017
Net cash provided by continuing operations	$7,022	$5,751
Cash paid for fixed assets	(15,572)	(7,193)
Free cash flow	$(8,550)	$(1,442)

Free cash flow for the nine months ended June 30, 2018 was $7.1 million lower than the nine months ended July 1, 2017, primarily due to an increase of $8.4 million in cash paid for manufacturing assets.

Off-Balance Sheet Arrangements

We lease office buildings and fork lifts for use in our operations on an operating lease basis.

We had outstanding letters of credit totaling $6.9 million at June 30, 2018, the majority of which secure our self-insured workers compensation program, the collateral for which is regulated by the State of Georgia.

At June 30, 2018, there were 1.1 million shares of common stock issuable upon exercise of outstanding warrants.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have not been any material changes to the disclosures about our interest rate risk or commodity risk market risk factors previously disclosed in Part II, Item 7A of the Company’s 2017 Form 10-K.

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 30, 2018.

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 30, 2018 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 2017 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 2017 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 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Company Common Stock

During the three fiscal months ended June 30, 2018, the Company executed purchases for 151,693 shares of its common stock at an average purchase price per share of $21.41, under a new share repurchase program which was authorized in June 2018 by the Board of Directors. The repurchase program allows the Company to spend up to $25.0 million to repurchase, in open market or private transactions, outstanding common stock and/or series A convertible preferred stock over a 12 month period ending June 2019. The previous $50.0 million share repurchase program authorized by the Board of Directors in August 2017 was substantially completed.

The following table provides information regarding the Company's purchase of common stock during the three fiscal months ended June 30, 2018:

Period by fiscal month	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in thousands)
Repurchases from April 1, 2018 - April 28, 2018	—	$ —	—	$ —
Repurchases from April 29, 2018 - May 26, 2018	—	—	—	—
Repurchases from May 27, 2018 - June 30, 2018	151,693	21.41	151,693	21,742
Total	151,693		151,693	

Item 6. Exhibits.

The following Exhibits are filed with this Report:

Exhibit No.	Description
2.1†	Purchase Agreement, dated as of September 21, 2014, by and among the registrant, Hennessy Capital Partners I LLC (solely for purposes of Section 10.01(a) thereof) and The Traxis Group B.V. (incorporated by reference to Exhibit 2.1 to the registrant’s Current Report on Form 8-K, filed by the registrant with the SEC on September 24, 2014).
2.2	Amendment No. 1 to Purchase Agreement, dated as of February 10, 2015, by and among the registrant, Hennessy Capital Partners I LLC (solely for purposes of Section 10.01(a) thereof) and The Traxis Group B.V. (incorporated by

reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K, filed by the registrant with the SEC on February 11, 2015).

2.3	Amendment No. 2 to Purchase Agreement, dated as of February 18, 2015, by and among the registrant, Hennessy Capital Partners I LLC (solely for purposes of Section 10.01(a) thereof) and The Traxis Group B.V. (incorporated by reference to Exhibit 10.3 to the registrant's Current Report on Form 8-K, filed by the registrant with the SEC on February 19, 2015).
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.

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* Filed herewith.

† The exhibits and schedules to this Exhibit have been omitted in accordance with Regulation S-K Item 601(b)(2). The Registrant agrees to furnish supplementally a copy of all omitted exhibits and schedules to the Securities and Exchange Commission upon its request.

^ 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.

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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, 2018 /s/ Philip Horlock
Philip Horlock
Chief Executive Officer

Dated: August 8, 2018 /s/ Phillip Tighe
Phillip Tighe
Chief Financial Officer