BLUE BIRD

2020 ANNUAL REPORT

THE MOST TRUSTED SCHOOL BUS

POWERED BY ELECTRICITY

POWERED BY PROPANE

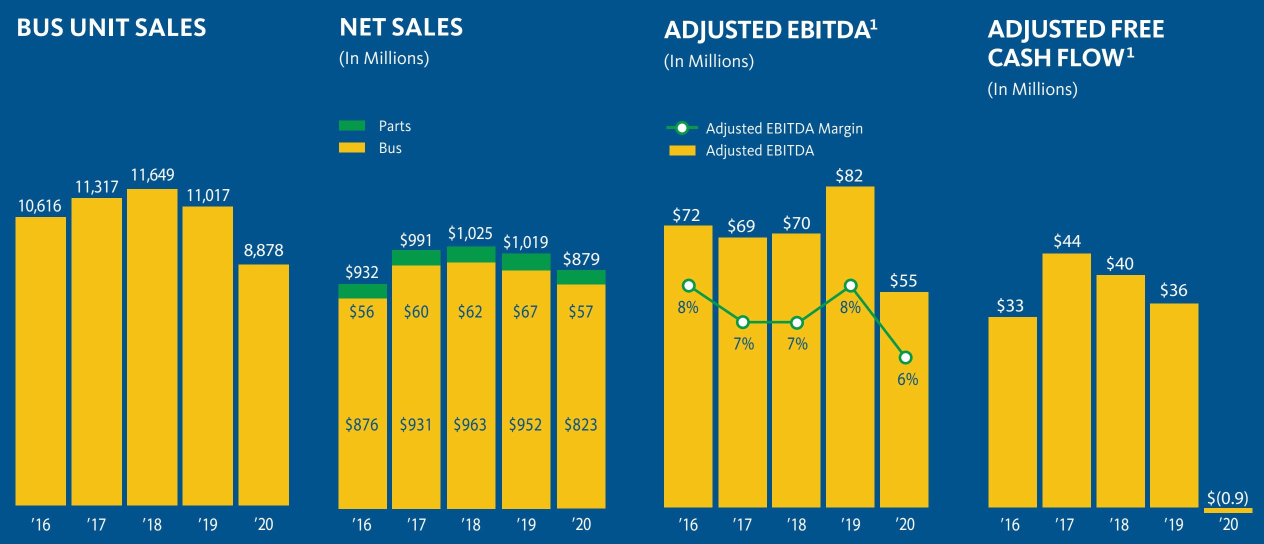
POWERED BY CNG

POWERED BY GASOLINE

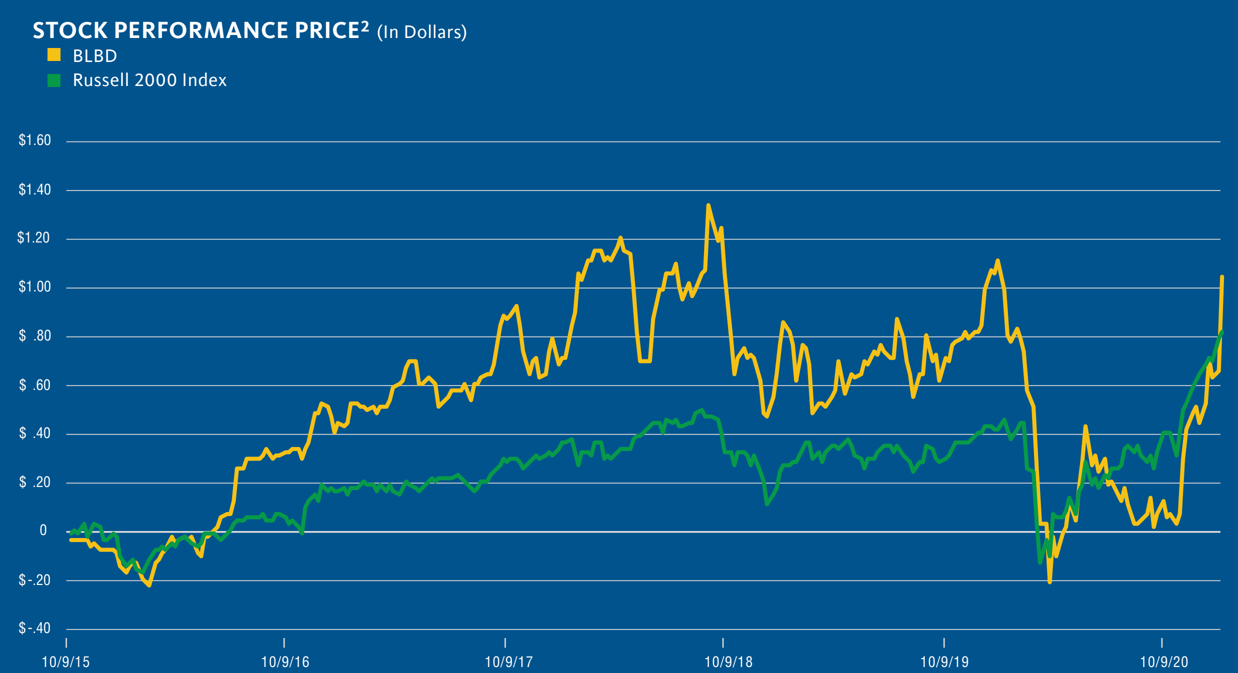
POWERED BY DIESEL

2020 BLUE BIRD

FINANCIAL HIGHLIGHTS



1 Reconciliation of non-GAAP measures is contained in the appendix following the 10-K.



2 Stock performance based on weekly weighted average stock price from Bloomberg with 0% representing BLBD adjusted close price the week ending 10/09/15, the first week of FY2016.

WHAT WE STAND FOR

We Come to Work Every Day With One Common Goal — to design, build, sell and service the world's finest school bus. That's what we do — no distractions, no competing priorities. We are heirs to a rich legacy, one of listening to our customers, embracing their needs, and delivering innovations that lead the market.

We Commit Ourselves to Four Driving Priorities — safety, quality, durability and serviceability. We embody the interests of every child that rides us, every driver that drives us, every service technician that services us and every district that buys us. More than a business, this work is our heritage, and we have been at it since 1927 — that's purpose driven.

Dear Fellow Shareholders,

As I reflect on our fiscal 2020 business performance, it was a tale of two halves for Blue Bird, as it was for many companies. Our first half results were strong, with annual growth in volume, sales and profits, and we were on track to deliver our margin growth commitment. The second half brought significant challenges, however, as the COVID-19 pandemic caused the majority of schools to close, a shift to online teaching and significant disruption to the student transportation business. Virtually every industry and business were impacted by closures and working-from-home became the norm. For Blue Bird, this led to new operational challenges, significant supplier disruptions, downtime at our manufacturing facilities and substantially lower orders.

That said, I'm proud of the outstanding job our team did in responding to these extreme challenges. Our first priority was, and always will be, the safety and well-being of our employees. We initiated work-from-home where possible and deployed stringent and mandatory safety protocols in all of our production and office facilities. Our goal was business continuity so that we could satisfy our customers' needs for safe and efficient student transportation. We achieved our goal under extraordinary conditions, without further plant shutdowns beyond the initial three-week closure in spring in response to a supplier closure.

I want to thank our employees for their dedication and hard work during this unprecedented time

Phil Horlock
President & Chief Executive Officer

Improving Costs, Efficiencies and Quality.

While operating in this challenging environment, I am very pleased with our progress in improving our underlying business structure. Full-year average selling price per bus increased by more than $6,000, or 7%, over last year. The increase was due to a combination of pricing and a richer mix of higher-priced vehicles, including electric-powered buses. We also continued to make great progress in driving down structural costs with our Transformational Cost Initiatives, improving profits by almost $15 million in the full year. In fact, this initiative has reduced our structural costs by more than $50 million since inception three years ago. With the lower demand, we eliminated our second-shift late in the third quarter, which drove efficiency and quality improvements through the balance of the year. Not stopping there, we have restructured our plant layout, so that by spring of 2021, we will have the same daily capacity on one shift that we previously had on two shifts. That's great for efficiency and great for quality! We believe we are well positioned for rapid profit and margin growth as we emerge from this pandemic.

Undisputed leader in alternative fuels.

Despite the significant COVID-related impact on orders, we had another great year in alternative-fuel bus sales, with a sales mix of 48%, tying last year's record. No other school bus OEM comes close to this! We saw an almost three-fold growth in our electric-powered bus sales this year, with 158 buses sold and a strong growth runway in that segment. Our alternative-fuel market share remained impressive, with leadership in propane- and electric-powered buses at 76% and 59%, respectively. But we aren't stopping there! We will be launching our all-new and exclusive 7.3 liter propane and

OUR BUSINESS PRIORITIES ARE CLEAR

The safety and well-being of our employees. We have taken significant measures to protect our employees from COVID-19, and have established a rigid protocol that has served us well to date. A safe and healthy workforce is key to our business continuity and we have an incredibly loyal and dedicated team of professionals.

Annual pricing to recover economics and the introduction of new products and features. With a 7% increase in average bus selling price in the last year, which includes pure pricing and a richer vehicle mix and higher option take, we are confident in our pricing capability.

Relentless focus on driving down structural costs. Through our Transformational Cost Initiatives, which delivered nearly $15 million in savings in fiscal 2020 and more than $50 million in savings since we started three years ago, we supplemented this program with targeted reductions in SG&A, specifically in the area of organizational structure.

Continued growth in the mix of alternative-fuel powered school buses. This is where we benefit from higher margins and increased owner loyalty compared with conventional fuels. Our leadership position across all of these fuel types, but particularly in propane where we achieved a 76% market share and electric at 59%, indicates our strategy is working, and we look forward to continued, strong growth.

Pursuing these priorities is fundamental to achieving our EBITDA margin target of at least 10% in the near-term and we are setting the foundation to achieve this target, despite the unprecedented impact of COVID-19 today.

"Our focused margin-growth strategy is working—increasing unit revenue, growing alternative-fuels and driving down structural costs."

2020 HIGHLIGHTS

8,878
Buses Sold

48%
Mix of Alternative-Fuel Buses

7%
Increase in Average Selling Price

gasoline engine in early 2021, developed in conjunction with our special partners at Ford and Roush, and only available on a Blue Bird school bus. With best-in-class combination of horsepower and torque, better fuel economy and a more compact footprint to make service even easier, "*The Best Just Got Better!*"

Looking Ahead ... and What's New?

It's inevitable that schools will resume in-classroom teaching and we believe the industry will rebound rapidly, especially as vaccinations are increasingly deployed in the first half of 2021. With our completed and planned business structure improvements, we are well positioned to capitalize on the market recovery. We have a history of robust cash generation and strong liquidity, a culture of leadership in growing segments, a clearly defined margin-growth strategy and an experienced team with a proven track record of delivering results and handling difficult times. We refused to be a victim when the pandemic started and we have focused on improving our capabilities and building for the future.

Growth in alternative-fuel powered school buses will continue to outpace the industry and we forecast that our non-diesel products will account for 60-70% of our sales mix three years from now, up from around 50% in 2020. Electric buses are particularly intriguing and interesting to us and we expect this to be the fastest growing segment over the next decade. Blue Bird has an aggressive and exciting product cycle plan over the next several years which should solidify our leadership position in the alternative-power segment and, notably, in the increasingly-strategic electric segment.

Importantly, we build the broadest range of customizable and robust chassis in the business—Type A, C and D in school bus terminology and Class 3 through 7 in the truck world—powered by electric, propane, CNG, gasoline and diesel. ***In 2021, we plan on offering our chassis to other transportation industries and look forward to exciting growth in the years ahead, particularly in the EV space.***

In Conclusion

As the industry rebounds, we are confident in restoring our profit glidepath to our near-term goal of 10%+ EBITDA margin. The fundamentals are in place and we have exciting plans for growth both inside and outside of the school bus industry. ***We are a billion-dollar business with bold plans!***

We are pleased that you are on this journey with us, and want to thank all of our customers, employees, dealers, suppliers, and shareholders for their continued support. Stay safe and healthy!

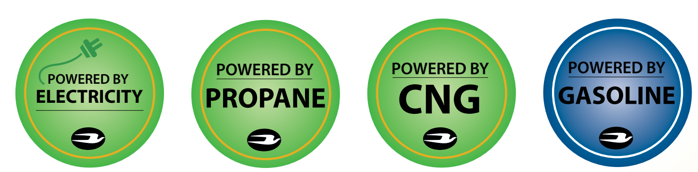
One Team...One Focus...One Blue Bird

Phil Horlock
President & Chief Executive Officer

UNDISPUTED LEADER
IN ALTERNATIVE-POWERED BUSES

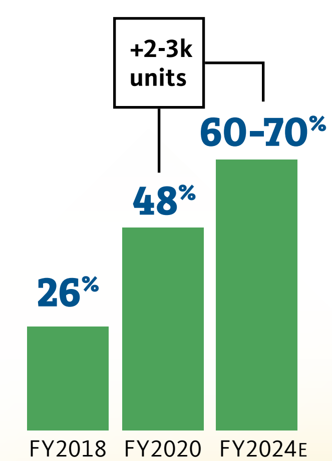
Blue Bird offers the widest range of alternative-to-diesel products in the market: electric, propane, CNG and gasoline across all body styles.

Our exclusive ultra-low-NOx propane and zero-emission electric buses make the environment cleaner and our children safer. With thousands more of our alternative-fueled vehicles on the road than all of our competitors combined, we are the undisputed leader in the fastest-growing segment of the market.



INCREASING ALT POWER MIX

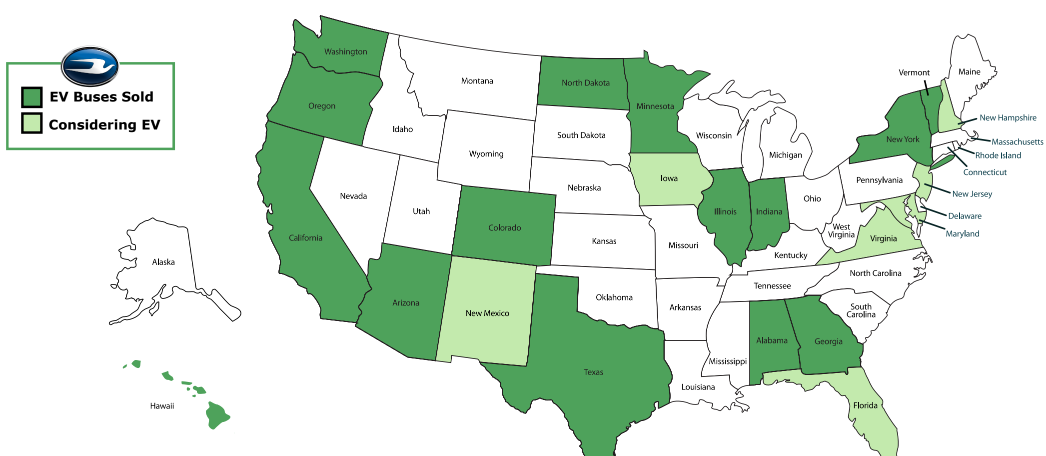
PROJECTED FUTURE GROWTH LED BY ELECTRIC AND PROPANE



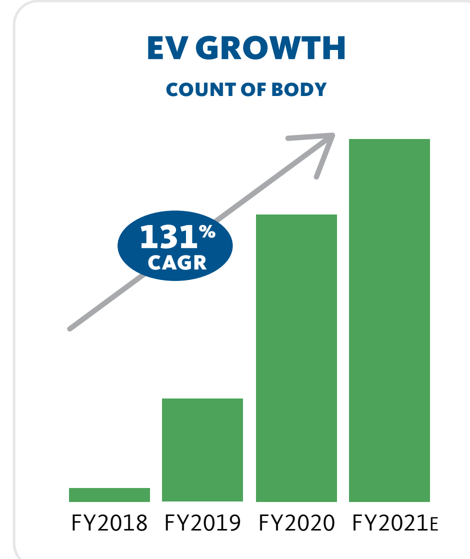
MARKET LEADER IN ELECTRIC-POWERED SCHOOL BUSES

Blue Bird is the only manufacturer that has produced and deployed every type of electric-powered school bus—Type A, C and D—and holds more than 50% share of the US and Canadian market. As both pioneer and leader in alternative-fuel vehicles, Blue Bird was first to market electric school buses in 1994. With advances in battery technology, we deployed our modern EV line in 2018. Since then, we have sold over 300 units, and that number keeps growing! We are prepared for increased growth in this segment and increased our plant capacity for EV production to 1,000 units per year in 2020. We are confident in the outstanding growth potential of our EV buses and chassis with continuing availability of significant grants and funding, reducing battery costs and favorable EV policies declared by President Biden with specific callout for school bus electrification.

OVER 300 EV BUSES SOLD IN 15 STATES...



...AND MORE TO COME!



"Blue Bird is building on its rich heritage of innovation and technology leadership to be #1 in the rapidly evolving U.S. electric school bus market. Additionally, our EV expertise is opening up new and exciting opportunities for Blue Bird in commercial EV markets."

TREVOR J. RUDDERHAM,
SVP Electrification & Product Planning

WHY ELECTRIC SCHOOL BUSES?

MORE AND MORE DISTRICTS ARE INTERESTED IN PURCHASING EV SCHOOL BUSES, BECAUSE *ELECTRIC MAKES CENTS!*

1 Affordability

Initial grants (principally in California) to support clean air goals by reducing the cost gap between ICE vehicles and Electric.

- State-level grants (CEC, TVIP, Air Quality Boards etc.)
- Special-purpose grants (VW Settlement, Bezos Grant etc.)
- Reducing costs of electrification (principally lower battery costs)

2 Non-Traditional Funding Sources

Driven by the growth of renewable energy, new funding from the energy sector is becoming available to acquire school bus fleets as incremental energy storage.

- Utilities funding bus acquisitions (Dominion, Duke)
- Other funding sources (Montgomery County example)

3 Game-Changing Moves

Emerging regulations to support clean air initiatives.

- California Advanced Clean Truck Regulations (75% ZEV by 2035)
- Biden Policies (potentially convert 500,000 school buses to EV and restore U.S. as member of Paris Accord)

Corporate Sustainability

Blue Bird prioritizes our employees, our community and our shareholders.
Going Green is more than just an economic initiative for us:
WE STRIVE TO MAKE THE WORLD A BETTER PLACE, ONE BUS AT A TIME.

Over half of all Blue Bird buses built in 2020 were alternatively-powered.
Blue Bird continues to be the leader in alternative power. This is extremely important to the growth of our company, as operators become more aware of the impact of their bus fleets on air quality and economic costs within their local communities. For nearly a decade, we have been the undisputed leader in this field, and anticipate rapid growth in the coming years. The new administration under President Biden endorses this view.

Blue Bird has a long and exclusive partnership with Ford and ROUSH CleanTech for alternative-powered engines.
Blue Bird, Ford and Roush CleanTech have enjoyed an exclusive partnership in alternative-powered school buses for more than 10 years. Since 2012, the collaboration between the school bus manufacturer, engine provider and fuel system developer has resulted in 1,300 districts operating more than 18,000 propane and gasoline-powered school buses. Eighty percent of school districts in North America have yet to try a propane-powered bus, making this “green” segment an outstanding opportunity for continued growth.

Blue Bird has incorporated, and will continue to incorporate, zero-to-landfill initiatives in all new upgrades to our manufacturing plant and processes.
With the addition of its new, state-of-the-art automotive paint facility, Blue Bird continues to invest in process improvements and plant upgrades with sustainability and the environmental impact top of mind. Each project and process improvement proposal includes an environmental impact and sustainability assessment, which is dedicated to identifying immediate and long-term impacts on waste reduction.

Giving back—Blue Bird cares for its community and its employees.
Despite the economic impact of COVID-19, The Blue Bird School Bus Foundation continued to contribute to local and nearby charitable activities that support school-aged children in the United States, both from a financial and employee involvement aspect. In addition, we took aggressive action in response to COVID-19, instituting rigorous workplace protocols to protect our employees, including mandatory temperature checks, protective masks, social distancing and COVID testing.

BLUE BIRD

2020
FORM 10-K

THE MOST TRUSTED SCHOOL BUS

POWERED BY ELECTRICITY | POWERED BY PROPANE | POWERED BY CNG | POWERED BY GASOLINE | POWERED BY DIESEL

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

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 3, 2020

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)	(IRS Employer Identification No.)

3920 Arkwright Road, 2nd Floor, Macon, Georgia, 31210
(Address of Principal Executive Offices)
(Zip Code)

(478) 822-2801
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

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

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

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

At April 4, 2020, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $135.4 million based on the closing sales price of $8.87 as reported on The NASDAQ Global Market on April 3, 2020. For the purpose of this response, executive officers, directors, and holders of 10% or more of the registrant's common stock are considered to be affiliates of the registrant at that date.

At December 14, 2020, there were 27,055,404 outstanding shares of the registrant's $0.0001 par value common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be delivered to stockholders in connection with the Registrant's 2021 Annual Meeting of Stockholders are incorporated by reference in response to Part III of this report.

BLUE BIRD CORPORATION
FORM 10-K

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PART I
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Report") of Blue Bird Corporation ("Blue Bird" or the "Company") contains forward-looking statements. Except as otherwise indicated by the context, references in this Report to "we," "us" and "our" are to the consolidated business of the Company. All statements in this Report, including those made by the management of the Company, other than statements of historical fact, are forward-looking statements. These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Forward-looking statements may contain words such as "may," "will," "should," "could," "would," "expect," "plan," "estimate," "project," "forecast," "seek," "target," "anticipate," "believe," "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 trial 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;*
- *negative changes in the market for Blue Bird products;*
- *expansion plans and opportunities;*
- *challenges or unexpected costs related to manufacturing;*
- *future impacts from the novel coronavirus pandemic known as "COVID-19", and any other pandemics, public health crises, or epidemics, on capital markets, manufacturing and supply chain abilities, consumer and customer demand, school system operations, workplace conditions, and any other unexpected impacts, which could include, among other effects:*
    - *disruption in global financial and credit markets;*
    - *supply shortages and supplier financial risk, especially from our single-source suppliers impacted by the pandemic;*
    - *negative impacts to manufacturing operations or the supply chain from shutdowns or other disruptions in operations;*
    - *negative impacts on capacity and/or production in response to changes in demand due to the pandemic, including possible cost containment actions;*
    - *financial difficulties of our customers impacted by the pandemic;*
    - *reductions in market demand for our products due to the pandemic; and*
    - *potential negative impacts of various actions taken by federal, state and/or local governments in response to the pandemic.*

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 this Report, particularly the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." 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 this Report.

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 Securities and Exchange Commission ("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 Annual Report on Form 10-K. 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.

Item 1. Business

The Company (formerly Hennessy Capital Acquisition Corp.) was incorporated in Delaware on September 24, 2013 as a special purpose acquisition company, or SPAC. 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., a Delaware corporation ("School Bus Holdings" or "SBH") from The Traxis Group, B.V. (the "Seller"). 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, $0.0001 par value (the "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.

In May 2016, the Seller, ASP BB Holdings LLC, a Delaware limited liability company ("ASP"), and the Company, entered into an agreement pursuant to which the Seller agreed to sell the 12,000,000 shares of Common Stock of the Company owned by Seller (the "Transaction Shares") to ASP. 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.

The following description of our business describes the business historically operated by School Bus Holdings and its subsidiaries under the "Blue Bird" name as an independent enterprise prior to the Business Combination and as subsidiaries of Blue Bird Corporation (formerly Hennessy Capital Acquisition Corp.) after the Business Combination.

The periodic reports filed by us with the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website: http://investors.blue-bird.com. This includes Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to those reports. Section 16 filings made with the SEC by any of our executive officers or directors with respect to our Common Stock also are made available free of charge through our website. We post each of these documents on our website as soon as reasonably practicable after it is electronically filed with the SEC. Our reports filed with the SEC may also be found at the SEC's website at www.sec.gov. The Company's Common Stock is traded on The NASDAQ Global Market under the symbol "BLBD".

The corporate governance information on our website includes our Corporate Governance Principles, Code of Conduct and Ethics and the Charters for each of the Committees of our Board of Directors. Any amendments to our Code of Ethics or waivers granted to our directors and executive officers will be posted on our corporate website.

In addition to the information contained in this Form 10-K for the fiscal year ended October 3, 2020 ("2020 Form 10-K Report" or "Report"), information about our Company can be found at http://investors.blue-bird.com, including extensive information about our management team, our products and our corporate governance.

The foregoing information regarding content on our website is for convenience only and shall not be deemed to be incorporated by reference into this Report nor filed with the SEC.

Overview

We are the leading independent designer and manufacturer of school buses, with more than 579,000 buses sold since our formation in 1927.

We review and present 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 sale 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. Refer to Note 11, *Segment Information*, to the Company's consolidated financial statements for additional financial information regarding our reportable segments including the primary geographic areas in which we earn revenues.

Our performance in recent years has been driven by the implementation of repeatable processes focused on product initiatives, continuous improvement of both competitiveness and manufacturing flexibility, and lowering our cost of capital, as described below:

1. **Alternative Fuel Initiatives** — We believe Blue Bird is the clear leader in alternative fuel school buses (defined as buses that do not operate on diesel fuel) and we continue to introduce new products to support growing consumer demand for these products.

    - **Propane** — In fiscal 2012, we entered into our exclusive relationship with Ford Motor Company and Roush Clean Tech to offer propane-powered Type C school buses. We have continued to lead the industry with this offering.
        - We launched the industry's first .05g/bhp-hr NOx propane engine in fiscal 2017. This engine operates four times cleaner than the current emission standard and is significantly better for the environment than competitors' published offerings.
        - We launched the industry's first .02g/bhp-hr NOx propane engine in August 2018. This engine complies with Ultra Low NOx classification and has an emissions level at 10% of the current standard and competitive offerings.

    - **Compressed Natural Gas ("CNG")** — Blue Bird was the first Original Equipment Manufacturer ("OEM") to introduce a CNG powertrain for the Rear Engine Type D bus using Cummins Westport technology. In 2016, we launched a new CNG product using a Ford engine and transmission and a Roush Clean Tech fuel delivery system to provide CNG in a Type C bus.

    - **Electric** — Blue Bird is the first major school bus manufacturer to market, and presently the clear leader in, electric bus sales among all major OEMs. We have partnered with Cummins, one of our long-standing engine suppliers, to design and develop our electric vehicle offering. We offer electric solutions in both our Type C and Type D buses and commenced delivery to customers in fiscal 2018. With demand and interest growing quickly, we have expanded our capacity six-fold in fiscal 2020 to 1,000 electric vehicles.

    - **Gasoline** — In fiscal 2016, we re-introduced gasoline engines in school buses, again using a Ford engine and transmission and a Roush Clean Tech fuel delivery. This product has been successful and continues to grow the Blue Bird customer base.

2. **Diesel** — Blue Bird works closely with Cummins on diesel engines, which continue to be the power source for the majority of school buses sold.

3. **Product Initiatives** — We continue to update and improve our products.

    - Blue Bird introduced the first Electronic Stability Control system on school buses as an optional offering in fiscal 2017, and made it a standard feature in fiscal 2019. We also made rear-view cameras standard in fiscal 2019.

    - During fiscal 2020, we continued our transition work from the Ford 6.8L V10 engine to the all-new 7.3L V8 engine. We expect to deliver our first units with the new 7.3L V8 Ford engines in April 2021.

4. **Manufacturing and Process Initiatives** — We have commenced a number of initiatives to continue to build customer loyalty, reduce costs, and enhance competitiveness.

    - We launched our all-new, state-of-the-art 60,000 square foot paint facility in July 2019. Using robotic technology, the new paint facility is designed to paint a bus three times faster than can be done manually, with a higher paint transfer rate and consistent, outstanding coverage. In keeping with Blue Bird's going green, the facility features a zero-to-landfill design. All paint over spray is captured, dried and sent to a power generation plant to be used as fuel.

    - We contracted with industry leaders to revise our production techniques in our plant. The result was a six-fold increase in our electric powered bus capacity and the ability to transition to one operating shift from two, and still meet demand for the production of our buses during our peak manufacturing times.

    - We commenced an initiative with industry leaders to make structural reductions in cost on existing and future products to enhance our cost competitiveness.

5. **Access to Capital** — We refinanced our term debt on substantially better terms in December 2016 (the "Credit Agreement"). Since then, the Credit Agreement has been amended on three different occasions and as of the date of this filing, provides total revolving commitments of $100.0 million. Additional details and discussion of these amendment can be found in the "Liquidity and Capital Resources" section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K.

Our management believes that Blue Bird is in a leading position in the industry due to our range of alternative fuel offerings and our strong diesel offering. We believe that alternative fuels will continue to capture market share in the industry as customers realize benefits on the total cost of ownership and as the adoption of green technology gains traction. Furthermore, we believe that our new product, process, and manufacturing initiatives are fully aligned with our long-term objectives.

As a result of the concentration of Blue Bird's sales in the school bus industry in the United States and Canada, our operations are affected by national, state, and local economic and political factors that impact spending for public and, to a lesser extent, private education. Unlike the discretionary portion of school budgets, the offering of school bus services is typically viewed as a mandatory part of the public infrastructure across the United States and Canada, ensuring that funding for new school buses receives some level of priority in all economic climates. All 50 States, the District of Columbia, and the 13 Canadian Provinces have fleets of school buses in operation.

Bus Segment

Our buses are sold through an extensive network of 50 United States and Canadian dealers that, in their territories, are exclusive to our Company on Type C and Type D school buses. We also sell directly to major fleet operators, the United States Government, state governments and authorized dealers in a number of foreign countries.

In fiscal 2020, we sold 8,878 buses throughout the world. Refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for discussion of our unit volumes.

Approximately 93% of our buses sold in fiscal 2020 were sold through distributors and dealers. The Company holds no equity or control position in any of the distributors or dealers.

We design, engineer, manufacture, and sell three types of buses: (i) Type C school buses, (ii) Type D school buses, and (iii) specialty buses. Each of our Type C and Type D buses is manufactured and assembled on its own dedicated purpose-built chassis in Fort Valley, Georgia. Regardless of specifications, all school bus bodies that we manufacture include our signature 14-gauge one piece steel bows roof system, complemented by a rugged and sturdy floor structure.

Specialty buses include school buses that are converted to suit applications required by the United States Government, state and local governments, and various customers for commercial and export markets.

The Blue Bird Micro Bird by Girardin Type A bus is produced through Micro Bird Holdings, Inc., an unconsolidated Canadian joint venture with Girardin Minibus JV Inc. ("Micro Bird"), and is sold through our dealer network. This is a smaller bus than the Type C or Type D bus and is produced on a chassis provided by either Ford or GM.

Parts Segment

Parts are key for routine maintenance, replacement of parts that are damaged in service, and replacement of parts that suffer from wear and tear through the useful life of the vehicle.

In fiscal 2020, parts sales represented 6.4% of Company net sales.

We maintain a parts distribution center in Delaware, Ohio that fills demand for our Company specific and all-makes parts. Additional demand for parts is fulfilled by drop ship and direct sales. To fulfill demand for parts that are not maintained at the distribution center, we are linked to approximately 40 suppliers that ship directly to dealers and independent service centers.

Our 50 dealers have approximately 250 parts and service locations across the United States and Canada, the majority of which are owned by independent operators, to complement their primary locations. Field service engineers provide technical support to our dealer network. At the end of fiscal 2020, service engineers had an average of over 25 years of experience with our Company and are strategically placed throughout the United States and Canada to better serve both dealers and end-customers. The network leverages our parts inventory, technical training, and online warranty network to address customer service needs.

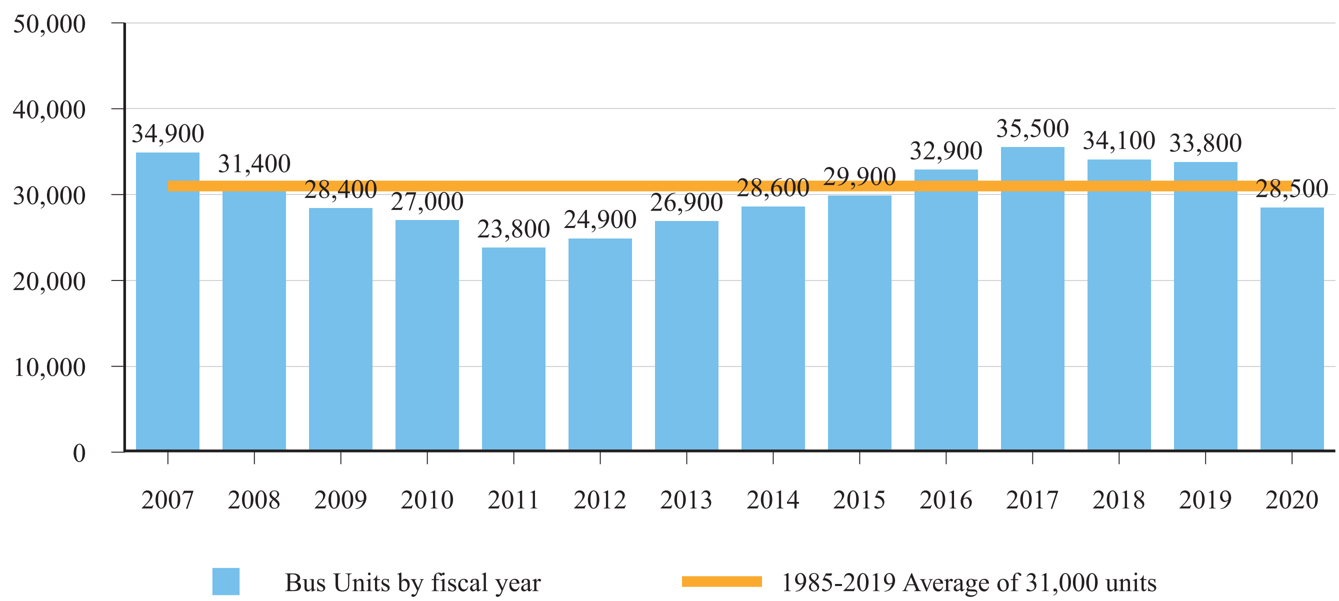
Our Industry

The school bus serves a critical role in the United States and Canadian education systems. According to School Transportation News, in normal non-pandemic years, nearly 50 percent of the U.S. student population rides a school bus. School buses are distinguished from other types of buses by design characteristics associated with increased safety as mandated by federal, state, and municipal regulations.

Our management has developed a forecasting model using R.L. Polk vehicle registration data, population of school age children forecasts from the National Center for Education Statistics and bus ridership data collected and published by School Transportation News. Our management utilizes this and other models to assess historical experience and to predict demand for school buses in future periods. The ability to purchase new buses to fulfill predicted demand, however, is based on the assumption that funds will be available through property taxes and other state sources.

The United States and Canadian school bus industry for Type C and Type D buses has averaged approximately 31,000 unit sales annually between 1985 and 2019. Unit sales for fiscal 2020 are projected to be about 28,500, a decrease of 15.7% versus fiscal 2019 primarily driven by school closures due to the COVID-19 pandemic.

United States and Canada School Bus Sales - Type C & Type D



Source: Historical registration data are based on R.L. Polk vehicle registration data.

The low point in the industry occurred in 2011, at approximately 23,800 units, and was the result of the decline in the United States economy and, in particular, the collapse of the housing market in 2008 and 2009. Property taxes are the primary source of funds for school bus purchases and were impacted in the 2010-2011 period as a result of the substantial recession in the United States economy in general, and housing market in particular, preceding and during that period.

The school bus industry fully recovered from the downturn in 2010-2011 and since 2016 had been operating at levels approximately 10% higher than the long-term average, supported by positive demographic trends, pent-up demand from several years of below-trend bus sales, and a growing tax base for education-related spending. In 2020, countermeasures taken to battle the COVID-19 pandemic included virtual and hybrid schooling in many jurisdictions throughout the US and Canada. The uncertainty of when and how schools would open materially affected the Type C and Type D school bus industry in 2020. We expect that for so long as these measures remain in place, demand for school buses will be depressed making historical seasonality unpredictable.

Post pandemic, our management believes, based on our models, that Type C and Type D school bus registrations will return to a similar level as has been experienced over the last several years (2016-2019). We believe that (i) the industry has been operating below its historical long-term average of approximately 31,000 unit sales per year since the recession and that the pandemic adds to that demand, (ii) there are over 175,000 buses in the United States and Canadian fleets that have been in service for 15 or more years, and (iii) the population of school age children is increasing.

Local property and municipal tax receipts are key drivers of school district transportation budgets. Budgets for school bus purchases are directly related to property tax receipts, which are projected to continue a recovery that began in 2012. Home prices have continued to climb during the pandemic as home-buyers have taken advantage of low mortgage rates and thus put additional pressure on housing inventories. The forecast for continued appreciation in housing prices due to the national shortage of homes is expected to have a positive effect on property tax receipts in the near-term, and school transportation budgets are expected to directly benefit from larger municipal spending budgets. We believe that incremental demand may be achieved as a result of (i) the average age of a school bus in service (approximately 11.5 years), and (ii) an increased student population during the period from 2013 to 2020 (based on information from the National Center of Education Studies, we expect total student enrollment in the United States to increase by over 0.5 million students from 2018 to 2025).

In addition to strong property tax collections, additional funding for school buses is being made available in connection with the Volkswagen ("VW") settlement with the Federal Government in regard to emissions violations. Of the $14.7 billion in settlement funds, $2.9 billion was allocated to the VW Diesel Emissions Environmental Mitigation Trust for state government projects to reduce NOx output from ten categories; school buses are one of the ten categories. To date, all 52 states and/or territories (includes DC and Puerto Rico) spending plans have been issued, with 50 finalized. Nearly $270 million of the $2.9 billion in VW settlement funds has been awarded thus far; many more millions are under review by state agencies but are not yet publicly available. Of the $270 million awarded, $109 million has been issued to school bus projects. Several states are continuing and/or increasing their focus on school bus projects. Given the historical trend and future projections, we expect as much as $1 billion in additional VW funds may ultimately be allocated, or have a high probability of allocation, to school bus purchases through 2028.

Beyond the VW funds, traditional grant programs are expected to persist, including the EPA's National Clean Diesel Program and its various state versions. These are valuable programs for potential propane and CNG engine platform sales, as annual budgets for these programs usually range from $40.0 to $100.0 million. Additionally, in November 2020, the Bezos Earth Fund awarded a grant of $100 million, to be disbursed over a five-year period, to the World Resources Institute, a global research organization that focuses on climate initiatives, among others. A portion of this grant will be used to accelerate the adoption of zero emission school buses in the United States.

We believe our leadership in alternative fuels, coupled with this external funding, provides a strong foundation to continue to increase sales of our propane, gasoline, CNG and electric bus platforms.

Our Competitive Strengths

We believe that our competitive strengths are derived from the following factors:

Reputation for safety, product quality/reliability/durability, and drivability. Our longevity and reputation in the school bus industry have made us an iconic American brand. We are the only principal manufacturer with chassis and body production specifically designed for school bus applications and the only school bus company to offer compliance with industry recognized safety tests-Altoona Testing, Colorado Rack Test and the Kentucky Pole Test-as a standard specification across our entire product line.

Alternative fuel leadership. We believe we are the market leader in electric, propane, gasoline, and CNG fuel powered-buses, having sold approximately eight times more alternative fuel school buses than all of our competitors combined from fiscal 2010 through fiscal 2020. In fiscal 2020, we sold 4,262 propane, gasoline, CNG, and electric powered buses, a decrease of 20% versus the prior year, primarily caused by school closures due to the COVID-19 pandemic.

Innovative product leadership. We believe we have consistently led the school bus industry with innovative product leadership through several industry firsts, including the first Type D CNG school bus, the first unique school bus chassis, and the first OEM-manufactured propane bus. In fiscal 2016, years ahead of our competition, we launched the industry's first gasoline powered Type C bus (utilizing an exclusive Ford and Roush CleanTech powertrain), and we were first-to-market with Electronic Stability Control. Also in 2016, we launched a new CNG product using a Ford engine and transmission and a Roush Clean Tech fuel delivery system to provide CNG in a Type C bus. In fiscal 2018, we sold our first Type D electric vehicles and in fiscal 2019 we introduced our Type C electric vehicle. In fiscal 2020, we sold 158 Type C and Type D electric vehicles.

Strong distribution model. We have built an extensive, experienced network of 50 dealers to distribute our buses across the United States and Canada, and during recent years have significantly enhanced our relationships with large fleet operators. Our dealers have an average tenure of more than 30 years with us and do not sell competing Type C or Type D school bus products in the areas assigned to them by us.

Highly-skilled and committed workforce. We benefit from a highly-skilled, committed hourly workforce of approximately 1,500 employees who support our customized assembly operations at our 900,000 square foot integrated chassis manufacturing and body assembly facility and 340,000 square foot component fabrication facility. Our employees are trained to maximize production efficiency by following customized processes developed by us.

Strong management team. We are led by a highly experienced and committed management team with an established track record in the United States and Canadian school bus industry.

Sales Volume

In fiscal 2020, we sold 8,878 Type C and Type D buses, including 8,430 school buses, 178 commercial buses, 36 export buses and 234 Government Services Administration ("GSA") buses. Our Type C school bus accounted for 77% of unit sales and our Type D school bus accounted for 18% of unit sales. Commercial, GSA and export buses, which can be ordered with either the Type C or Type D chassis, accounted for the remaining 5% of unit sales.

Our Dealer Network

In fiscal 2020, we sold approximately 93% of our vehicles through our United States and Canadian dealer network, currently consisting of 50 dealers that, in their territories, are exclusive to us with Type C and D school buses. School buses sold in the United States and Canada through our dealer network are purchased by school districts and private schools, as well as small and medium size contractors that provide services to school districts on a fee basis. Bus purchases and contractor fees are funded through local school district budgets. Purchases of school buses are typically made through a bid process at the district or state level, with dealers coordinating this process. Dealers develop collaborative relationships with school districts, district transportation directors, and key officials in their states.

Our dealers have access to financing through Blue Bird Capital Services (“BBCS”), a private-label financing product maintained by an independent third party, TCF Inventory Finance, Inc. We do not assume any balance sheet risk with respect to this type of financing and do not receive any direct economic benefit from BBCS.

Other Distribution Channels

Fleet Operators. We also sell school buses directly to large national fleets that span multiple states and such sales are managed internally by our National Account Sales Team.

Export Dealers. We regularly monitor opportunities to sell our Type C and Type D buses in either school bus or other configurations in international markets and typically sell these products through dealers assigned to those territories.

U.S. Government; Other Specialty Sales. We also sell buses through our United States GSA contract, an expedited procurement procedure designed to meet the needs of bus customers authorized to purchase through the GSA contracting offices, including the U.S. Air Force, U.S. Army, Homeland Security and the U.S. Department of Agriculture. This full line of bus models is configured for adult or school bus use. In addition to the base GSA specifications, we offer several additional configurations to provide a wide range of passenger capacities and optional features. We also offer a full line of activity bus and Multi-Function School Activity Bus (“MFSAB”) products. With varying vehicle sizes, capacities, fuel choices, and engine types, our bus options enable our customers to tailor their transportation solutions to their specific needs, be it transporting a church congregation or shuttling workers to job sites.

Government Contracts

As a U.S. government contractor, we are subject to specific regulations and requirements as mandated by our contracts. These regulations include Federal Acquisition Regulations, Defense Federal Acquisition Regulations, and the Code of Federal Regulations. We are also subject to routine audits and investigations by U.S. government agencies such as the Defense Contract Management Agency and Defense Contract Audit Agency. These agencies review and assess compliance with contractual requirements, cost structure, cost accounting, and applicable laws, regulations, and standards.

A portion of our existing U.S. government contracts extend over multiple years and are conditioned upon the continuing availability of congressional appropriations. In addition, our U.S. government contracts generally permit the contracting government agency to terminate the contract, in whole or in part, either for the convenience of the government or for default based on our failure to perform under the contract.

Suppliers

We purchase our engine and transmission components on a single-source basis from major OEM manufacturers with sophisticated engineering, production and logistics capabilities, as reflected in the table below:

Component	OEM Supplier
Diesel engines	Cummins Inc.
Diesel emissions kits	Cummins Inc.
Propane, gasoline, and CNG (Type C) engines and transmissions	Ford Motor Company
Diesel transmissions	Allison Transmission
Propane, gasoline, and CNG (Type C) fueling kits	Roush CleanTech

Our purchasing department continually works to improve our purchasing processes by rationalizing the supplier base (reducing the supplier base by approximately one-third in the last five years) and by implementing improved control processes. We regularly perform supplier audits and, when necessary, will meet with under-performing suppliers in order to enhance performance. At October 3, 2020, we had in place long-term supply contracts (addressing both component price and supply) covering nearly 81% of the value of our purchases from suppliers, including long-term agreements with our major single-source suppliers.

As a result of the COVID-19 pandemic, we have experienced intermittent supplier shortages. While we experienced some shortages due to the pandemic, we continue to work with our suppliers to receive our material components on a regular basis.

Competition

The school bus industry is highly competitive. Our two principal competitors are Thomas Built Bus and IC Bus. Thomas Built Bus is a subsidiary of Daimler Trucks North America and IC Bus is a subsidiary of Navistar International.

We compete primarily on the basis of price, product diversification, school bus innovation, safety, quality, durability and drivability of our products, and the scope and strength of our dealer network. As our principal competitors are parts of larger corporations, our competitors may have greater access to financial capital, human resources, and business opportunities. Such access, in turn, may be used by such companies to compete with us and others in the industry.

Facilities

Our corporate headquarters are located in Macon, Georgia. Our Bus segment operates a fabrication plant and an integrated chassis manufacturing and body assembly plant in Fort Valley, Georgia, where components for Type C, Type D, and specialty buses are manufactured and assembled. Our Parts segment operates a parts distribution center located in Delaware, Ohio. We own our facilities in Fort Valley, Georgia (approximately 1.5 million square feet). We lease facilities in Macon, Georgia (approximately 0.3 million square feet) and Delaware, Ohio (approximately 0.1 million square feet). Our Micro Bird joint venture leases its facility (0.1 million square feet) in Drummondville, Quebec, Canada.

Intellectual Property and Technology

We seek trademark protection in the United States and outside of the United States where available and when appropriate. Among other trademarks, we have registered trademark rights in the principal names and designs used by us and Micro Bird in the United States, Canada and elsewhere. We use these registered marks in connection with all aspects of our branding. However, we also rely on a number of significant unregistered trademarks and other unregistered intellectual property in the day-to-day operation of our business. Without the protections afforded by registration, our ability to protect and use our trademarks and other unregistered intellectual property may be limited and could negatively affect our business.

In addition to trademarks, we rely heavily on trade secrets and know-how to develop and maintain our competitive position. For example, significant aspects of our product designs, manufacturing processes and cost containment steps are based on unpatented trade secrets and know-how. Trade secrets and know-how can be difficult to protect. We seek to protect our proprietary technology and processes, in part, by confidentiality agreements with our employees, suppliers and other commercial partners. These agreements are designed to protect our proprietary information. We also seek to preserve the integrity and confidentiality of our data, designs and trade secrets by maintaining physical security of our premises and physical and electronic security of our information technology systems. While we have confidence in these individuals, organizations and systems, agreements or security measures may be breached, and we may not have adequate remedies for any breach. In addition, our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our suppliers or contractors use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how.

Government Regulation

Our products must satisfy various legal, environmental, health and safety requirements at federal, state and municipal levels. Compliance with such requirements adds to the costs that must be incurred in order to manufacture a school bus. Failure to comply with such requirements could lead to substantial additional regulatory costs.

At the federal level, Federal Motor Vehicle Safety Standards ("FMVSS") govern the safety of all motor vehicles sold for use in the United States. More than half of the FMVSS regulations apply to school buses. For example, federal regulations require school buses to be painted "school bus yellow" and to be equipped with specific warning and safety devices. School buses are also built with the body on top of chassis frame rails. This so-called "high floor" construction moves the passenger compartment above the typical automotive "crash zone" and therefore provides an added measure of safety should a collision occur. Steel rollover cages and heavy duty bumpers are designed to provide incremental protection, in contrast with standard transit buses with "low floor" construction that offer lower curb height access with limited or no steel reinforcement.

After a school bus is sold, regulation of the operation of the school bus becomes the responsibility of the state in which it operates. Today, each state has its own rules and regulations pertaining to the manufacture, design, operation and safety of the school buses operated in their jurisdictions. As a result, we cannot manufacture to a single set of specifications, but rather must assure that each manufactured bus conforms to the specifications of the particular jurisdiction in which it will be operated.

We must also consider the rules and regulations of foreign jurisdictions. In Canada, where our Micro Bird joint venture operates, school buses are governed by the Canadian Motor Vehicle Safety Regulations. These regulations are patterned after the FMVSS regulations, although differences do exist between the two regulatory systems.

Seasonality

Historically, our business has been highly seasonal with school districts buying their new schools buses so that they will be available for use on the first day of the school year, typically in mid-August to early September. This has resulted in our third and fourth fiscal quarters becoming our two busiest quarters, the latter ending on the Saturday closest to September 30. Our quarterly results of operations, cash flows, and liquidity have been and are likely to be impacted by the seasonal patterns. Working capital has historically been a significant use of cash during the first fiscal quarter and a significant source of cash generation in the fourth fiscal quarter with planned shutdowns during our first fiscal quarter. With the COVID-19 pandemic impact on school systems and the uncertainty surrounding in-person schooling schedules and duration, seasonality and working capital trends have become unpredictable. Seasonality and variations from historical seasonality have impacted the comparison of working capital and liquidity results between fiscal periods.

Environmental Matters

We are subject to various federal, state and local laws and regulations governing the protection of the environment and health and safety, including those regulating the following: soil, surface water and groundwater contamination; the generation, storage, handling, use, disposal and transportation of hazardous materials; the emission and discharge of materials, including greenhouse gases ("GHG") into the environment; and the health and safety of our employees. We are also required to obtain environmental permits from governmental authorities for certain operations. We have taken various steps to comply with these numerous and sometimes complex laws, regulations and permits. Compliance with environmental requirements historically has not had a material impact on our capital expenditures, earnings, or competitive position. We have made, and will continue to make, capital and other expenditures pursuant to such requirements. If we violate or fail to comply with these requirements, we could be subject to fines, penalties, enforcement actions or lawsuits.

For additional information regarding potential environmental issues at Blue Bird's Fort Valley, Georgia facility, refer to Item 1A. "Risk Factors - Risk Factors Relating to Our Business and Industry - Environmental obligations and liabilities could have a negative impact on our financial condition, cash flows and profitability."

Environmental laws, regulations, and permits and the enforcement thereof, change frequently and have become more stringent over time. Among other things, more rigorous GHG emission requirements are in various stages of development. For example, the United States Environmental Protection Agency ("U.S. EPA") has promulgated the GHG Reporting Rule, which requires reporting of GHG data and other relevant information from large sources and suppliers in the United States, and the GHG Tailoring Rule, which requires certain facilities with significant GHG emissions to obtain emissions permits under the authority of the Clean Air Act (typically limited to only the largest stationary sources of GHG). The United States Congress has also considered imposing additional restrictions on GHG emissions. Any additional regulation of GHG emissions by either the United States Congress and/or the U.S. EPA could include a cap-and-trade system, technology mandate, emissions tax, reporting requirement, or other program and could subject us to significant costs, including those relating to emission credits, pollution control equipment, monitoring, and reporting, as well as increased energy and raw material prices.

Our facilities and operations could in the future be subject to regulations related to climate change and climate change itself may also have some impact on the Company's operations. However, these impacts are currently uncertain and the Company cannot presently predict the nature and scope of those impacts.

Research and Development

Refer to Note 2, *Summary of Significant Accounting Policies and Recently Issued Accounting Standards*, to the accompanying consolidated financial statements for information on research and development.

Warranty

We provide warranties on all of the buses and parts we sell. Warranties are offered for specific periods of time and mileage, and vary depending upon the type of product and the geographic location of its sale. Pursuant to these warranties, we will repair, replace, or adjust all parts on a bus that are defective in factory-supplied materials or workmanship during the specified warranty period. In addition to the costs associated with this warranty coverage provided on our vehicles, we also incur costs as a result of field service actions (i.e., safety recalls and service bulletins), and customer satisfaction actions. Component suppliers, in particular major component suppliers such as engines and transmissions, provide warranties on their products.

Legal Proceedings

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

Employees

At October 3, 2020, we employed 1,736 full-time employees. Our workforce is non-union.

Item 1A. Risk Factors

You should carefully consider the following risk factors in addition to the other information included in this Report, including matters addressed in the section entitled "Cautionary Note Regarding Forward-Looking Statements." We may face additional risks and uncertainties that are not presently known to us, or that we currently deem immaterial, which may also impair our business. The following discussion should be read in conjunction with the financial statements and notes to the financial statements included in this Report.

Risk Factors Relating to Our Business and Industry

The current COVID-19 pandemic continues to have, and other public health crises, epidemics or pandemics could have, a material adverse effect on our business, results of operations, financial condition, and cash flows, particularly resulting from supply chain disruptions, reductions in demand for our products, disruptions or other developments negatively impacting our workforce or workplace conditions, and/or reduced access to capital markets and reductions in liquidity.

During our fiscal 2020, the novel coronavirus known as "COVID-19" spread throughout the world creating a global pandemic. The pandemic has, among other impacts:

- negatively impacted demand for school buses due to schools operating totally or partially virtually;
- triggered a significant downturn in capital markets;
- caused significant disruptions in global supply chains;
- significantly altered global consumer demand;
- halted a material number of global manufacturing operations resulting from plant shut-downs; and
- changed global workplace conditions resulting from "shelter-in-place" orders and "work from home" employer policies.

The degree to which the COVID-19 pandemic impacts our future business, results of operations and financial condition will depend on future developments, which are uncertain, including but not limited to the duration, spread and severity of the pandemic, government responses and other actions to mitigate the spread of and to treat COVID-19, and when and to what extent normal business, economic and social activity and conditions resume. We are similarly unable to predict the extent to which the pandemic impacts our customers, suppliers and other partners and their financial conditions, but adverse effects on these parties could also adversely affect us. Finally, the COVID-19 pandemic makes it challenging for management to estimate the future performance of our business.

The pandemic materially impacted our fiscal 2020 results, causing lower customer orders for both buses and bus parts, supply disruptions, and absenteeism among our hourly production workforce. The continuing development and fluidity of the pandemic precludes any prediction as to the ultimate severity of the adverse impacts on our business, financial condition, results of operations, or liquidity, but we experienced reduced orders and enacted a manufacturing plant shut-down for the first two weeks of our third quarter in fiscal 2020. A prolonged economic downturn resulting from the continuing pandemic would likely have a material adverse impact on our business, financial condition, results of operations, and liquidity.

At the present time, we consider the following areas to be the most significant material risks to our business resulting from the current pandemic:

Supply Chain Disruptions

We rely on specialist suppliers, some of which are single-source suppliers, for critical components (including but not limited to engines, transmissions and axles) and replacement of any of these components with like parts from another supplier normally requires engineering and testing resources, which entail costs and take time. We also currently rely on a limited number of single-source suppliers and/or have limited alternatives for important bus parts such as diesel engines and emission components, propane and gasoline engines including powertrains, control modules, steering systems, seats, specialty resins, and other key components. In addition to protecting our employees' health, our plant shut-down was partially due to an inability to obtain critical components from our suppliers in the first several months of the COVID-19 pandemic. Future delays or interruptions in the supply chain due to the COVID-19 pandemic expose us to the following risks which would likely significantly increase our costs and/or impact our ability to meet customer demand:

- we or our third-party suppliers may lose access to critical services and components, resulting in an interruption in the manufacture, assembly, and delivery or shipment of our products;

- we or our third-party suppliers may not be able to respond to unanticipated changes in customer orders;

- we or our suppliers may have excess or inadequate inventory of materials and components;

- we or our third-party suppliers may be subject to price fluctuations due to the pandemic and a lack of long-term supply arrangements for key components;

- we may experience delays in delivery by our third-party suppliers due to changes in demand from us or their other customers;

- fluctuations in demand for products that our third-party suppliers manufacture for others may affect their ability or willingness to deliver components to us in a timely manner;

- we may not be able to find new or alternative components or reconfigure our products and manufacturing processes in a timely manner if the necessary components become unavailable; and

- our third-party suppliers may encounter financial hardships unrelated to our demand, which could inhibit their ability to fulfill our orders and meet our requirements.

Reductions in demand for buses and bus parts

The school bus market is predominantly driven by long-term trends in the level of spending by states, municipalities, and independent contractors. Demand for school buses is further influenced by overall acquisition priorities of municipalities, availability of school bus financing, student population changes, school district busing policies, price and other competitive factors, fuel prices and environmental regulations. In response to the pandemic, many school systems in North America canceled in-person schooling for the remainder of the 2019-2020 school year. The cancellations disrupted the seasonal order pattern for school buses. There remains uncertainty as to when traditional in-person schooling will resume, but we do know that many school systems did not resume in person classes for the fall of 2020. Uncertainty in the form of learning (e.g., a reduction of in-person to more remote arrangements) may lead to a reduction in bus orders until a degree of normalcy returns to the manner in which K-12 education is provided. Delays in the start of the 2020-2021 school year also impacted the near-term demand for our buses. Reductions in bus orders would negatively impact revenues in our Bus segment. A reduction in bus usage will likely reduce the demand for maintenance and replacement parts, which would negatively impact revenues in our Parts segment.

Disruptions or other developments negatively impacting our workforce or workplace conditions

Almost all U.S. states, including Georgia where our headquarters and manufacturing facilities are located, have issued “shelter-in-place” orders, quarantines, executive orders and similar government orders, restrictions and recommendations for their residents to control the spread of COVID-19. Many of these orders have been and may continue to be re-issued at or after their expiration, and future orders may introduce broader restrictions. Such orders, restrictions and recommendations, and the perception that additional orders, restrictions or recommendations could occur, have resulted in widespread closures of businesses not deemed “essential,” work stoppages, interruptions, slowdowns and delays, work-from-home policies and travel restrictions. While our business has been deemed essential by the State of Georgia, we have employed remote work policies when and where possible to be responsive to the health risks that may impact our employees. Given the nature of our business, we do not have the ability to manufacture a bus without our on-site manufacturing personnel. While we have not experienced any pervasive COVID-19 illnesses to date, if we were to experience some form of outbreak within our facilities, we would take all appropriate measures to protect the health and safety of our employees, which could include a temporary halt in production. Any extended production halt or diminution in production capacity would likely have a negative impact on our ability to fulfill orders and thus negatively impact our revenues, profitability and cash flows.

Reduced profitability and liquidity, resulting in possible restructuring of our credit facilities, and/or inadequate access to credit and capital markets

The COVID-19 pandemic has materially adversely impacted global commercial activity and has contributed to significant volatility in financial markets. The pandemic continues to have a materially adverse impact on economic and market conditions, and may result in an extended period of global economic slowdown and significant disruptions in global financial markets, potentially reducing our ability to access capital, which could in the future negatively affect our liquidity.

The continuing pandemic could cause a more severe contraction in our profits and/or liquidity which could lead to issues complying with the financial covenants in our credit facility. Our primary financial covenants are (i) for fiscal 2021, minimum consolidated EBITDA, which is an adjusted EBITDA metric that could differ from Adjusted EBITDA appearing in the Company's periodic filings on Form 10-K or Form 10-Q as the adjustments to the calculations are not uniform, at the end of each fiscal quarter for the consecutive four fiscal quarter period most recently then ending; b) for fiscal 2021 and the first two quarters of fiscal 2022, minimum liquidity at the end of each month, and (iii) beginning in fiscal 2022 and thereafter, Total Net Leverage Ratio, defined as the ratio of (a) consolidated net debt to (b) consolidated EBITDA. We may need to seek amendment for additional covenant relief or even refinance the debt to a "covenant light" or "no covenant" structure. We cannot assure our investors that we would be successful in amending or refinancing our existing debt. An amendment or refinancing of our existing debt could lead to higher interest rates and possible up front expenses than included in our historical financial statements.

General economic conditions in the markets we serve have a significant impact on demand for our buses.

The school bus market is predominantly driven by long-term trends in the level of spending by municipalities. The principal factors underlying spending by municipalities are housing prices, property tax levels, municipal budgeting issues and voter initiatives. Demand for school buses is further influenced by overall acquisition priorities of municipalities, availability of school bus financing, student population changes, school district busing policies, price and other competitive factors, fuel prices and environmental regulations. Significant deterioration in the economic environment, housing prices, property tax levels or municipal budgets could result in fewer new orders for school buses or could cause customers to seek to postpone or reduce orders, which could result in lower revenues, profitability and cash flows.

Our products may not achieve or maintain market acceptance or competing products could gain market share, which could adversely affect our competitive position.

We operate in a highly competitive domestic market. Our principal competitors are Thomas Built Bus (owned by Daimler Trucks North America) and IC Bus (owned by Navistar International), which, at the consolidated level, have potential access to more technical, financial and marketing resources than our Company. Our competitors may develop or gain access to products that are superior to our products, develop methods of more efficiently and effectively providing products and services, or adapt more quickly than we do to new technologies or evolving customer requirements. IC Bus and Thomas Built Bus both sell propane-powered school buses. This brings both competitors into direct competition with our propane-powered school buses. Our competitors may achieve cost savings or be able to withstand a substantial downturn in the market because their businesses are consolidated with other vehicle lines. In addition, our competitors could be, and have been in the past, vertically integrated by designing and manufacturing their own components (including engines) to reduce their costs. The school bus market does not have "Buy America" regulations, so competitors or new entrants to the market could manufacture school buses in more cost-effective jurisdictions and import them to the United States to compete with us. Any increase in competition may cause us to lose market share or compel us to reduce prices to remain competitive, which could result in reduced sales, profitability and cash flows.

Our business is cyclical, which has had, and could have future, adverse effects on our sales and results of operations and lead to significant shifts in our results of operations from quarter to quarter that make it difficult to project long-term performance.

The school bus market historically has been and is expected to continue to be cyclical. This cyclicality has an impact both on the school bus industry and also on the comparative analysis of quarterly results of our Company.

Customers historically have replaced school buses in lengthy cycles. Moreover, weak macroeconomic conditions can adversely affect demand for new school buses and lead to an overall aging of school bus fleets beyond a typical replacement cycle. To the extent the increase in school bus demand is attributable to pent-up demand rather than overall economic growth, future school bus sales may lag behind improvements in general economic conditions or property tax levels. During downturns, we may find it necessary to reduce line rates and employee levels due to lower overall demand. An economic downturn may reduce, and in the past, including 2020, has reduced, demand for school buses, resulting in lower sales volumes, lower prices and decreased profits.

Primarily as a result of the seasonal nature of our business, we operate with negative working capital for significant portions of our fiscal year. During economic downturns, this tends to result in our utilizing a substantial portion of our cash reserves.

We may be unable to obtain critical components from suppliers, which could disrupt or delay our ability to deliver products to customers.

We rely on specialist suppliers for critical components (including engines, transmissions and axles) and replacement of any of these components with like parts from another supplier normally requires engineering and testing resources, which entail costs and take time. The lack of ready-to-implement alternatives could give such suppliers, some of which have substantial market power, significant leverage over us if these suppliers elected to exert their market power over us, which leverage could adversely impact the terms and conditions of purchase, including pricing, warranty claims and delivery schedules. We seek to mitigate supply chain risks with our key suppliers by entering into long-term agreements, by commencing contract negotiations with suppliers of critical components significantly before contract expiration dates, and by diversifying our suppliers of key components with contingency programs when possible.

If any of our critical component suppliers limit or reduce the supply of components due to commercial reasons, financial difficulties or other problems, we could experience a loss of revenues due to our inability to fulfill orders. These single-source and other suppliers are each subject to quality and operational issues, materials shortages, unplanned demand, reduction in capacity and other factors that may disrupt the flow of goods to us or to our customers, which would adversely affect our business and customer relationships.

We have no assurance that our suppliers will continue to meet our requirements. If supply arrangements are interrupted, we may not be able to find another supplier on a timely or satisfactory basis. We may incur significant set-up costs, delays and lag time in manufacturing should it become necessary to replace any key suppliers. Our business interruption insurance coverage may not be adequate for any interruptions that we could encounter and may not continue to be available in amounts and on terms acceptable to us. Production delays could, under certain circumstances, result in penalties or liquidated damages in certain of our GSA contracts.

Our ability to sell our products may be negatively affected by trade policies and tariffs.

We import some of our components from China and other foreign countries. Our purchases may be subject to the effects of the United States trade policy, including the imposition of tariffs and anti-dumping/countervailing duties on these components. We cannot assure you that our ability to sell our products at reasonable margins will not be impaired by the imposition of tariffs or other changes in trade policy which may make it more difficult or more expensive to purchase our products.

We rely substantially on single-source suppliers which could materially and adversely impact us if they were to interrupt the supply of component parts to us.

We currently rely on a limited number of single-source suppliers and/or have limited alternatives for important bus parts such as diesel engines and emission components, propane and gasoline engines including powertrains, control modules, steering systems, seats, specialty resins, and other key components. Shortages and allocations by such manufacturers may result in inefficient operations and a build-up of inventory, which could negatively affect our working capital position.

New laws, regulations or governmental policies regarding environmental, health and safety standards, or changes in existing ones, may have a significant negative impact on how we do business.

Our products must satisfy various legal, environmental, health and safety requirements, including applicable emissions and fuel economy requirements. Meeting or exceeding government-mandated safety standards can be difficult and costly. Such regulations are extensive and may, in certain circumstances, operate at cross purposes. While we are managing our product development and production operations to reduce costs, unique local, state, federal and international standards can result in additional costs for product development, testing and manufacturing. We depend on third party single-source suppliers to comply with applicable emissions and fuel economy standards in the manufacture of engines supplied to us for our buses. Increased environmental, safety, emissions, fuel economy or other regulations may result in additional costs and lag time to introduce new products to market.

Safety or durability incidents associated with a school bus malfunction may result in loss of school bus sales that could have material adverse effects on our business.

The school bus industry has few competitors due to the importance of brand and reputation for safety and durability, compliance with stringent safety and regulatory requirements, an understanding of the specialized product specifications in each region and specialized technological and manufacturing know-how. If incidents associated with school bus malfunction transpired that called into question our reputation for safety or durability, it could harm our brand and reputation and cause consumers to question the safety, reliability and durability of our products. Lost school bus sales resulting from safety or durability incidents could materially adversely affect our business.

Disruption of our manufacturing and distribution operations would have an adverse effect on our financial condition and results of operations.

We manufacture school buses at facilities in Fort Valley, Georgia and distribute parts from a distribution center located in Delaware, Ohio. If operations at our manufacturing or distribution facilities were to be disrupted for a significant length of time as a result of significant equipment failures, natural disasters, power outages, fires, explosions, terrorism, adverse weather conditions, labor disputes, cyber-attacks or other reasons, we may be unable to fill dealer or customer orders and otherwise meet demand for our products, which would have an adverse effect on our business, financial condition and results of operations. Any interruption in production or distribution capability could require us to make substantial capital expenditures to fill customer orders, which could negatively affect our profitability and financial condition. We maintain property damage insurance that we believe to be adequate to provide for reconstruction of facilities and equipment, as well as business interruption insurance to mitigate losses resulting from any production interruption or shutdown caused by an insured loss. However, any recovery under our insurance policies may not offset the lost sales or increased costs that may be experienced during the disruption of operations. Also, our property damage and business interruption insurance coverage may not be applicable or adequate for any such disruption and may not continue to be available in amounts and on terms acceptable to us.

Rationalization or restructuring of manufacturing facilities, including plant expansions and system upgrades at our manufacturing facilities, may cause production capacity constraints and inventory fluctuations.

The rationalization of our manufacturing facilities has at times resulted in, and similar rationalizations or restructurings in the future may result in, temporary constraints upon our ability to produce the quantity of products necessary to fill orders and thereby complete sales in a timely manner. In addition, system upgrades at our manufacturing facilities that impact ordering, production scheduling and other related manufacturing processes are complex, and could impact or delay production targets. A prolonged delay in our ability to fill orders on a timely basis could affect customer demand for our products and increase the size of our raw material inventories, causing future reductions in our manufacturing schedules and adversely affecting our results of operations. Moreover, our continuous development and production of new products will often involve the retooling of existing manufacturing equipment. This retooling may limit our production capacity at certain times in the future, which could materially adversely affect our results of operations and financial condition. In addition, the expansion, reconfiguration, maintenance and modernization of existing manufacturing facilities and the start-up of new manufacturing operations, could increase the risk of production delays and require significant investments of capital.

We may incur material losses and costs related to product warranty claims.

We are subject to product warranty claims in the ordinary course of our business. Our standard warranty covers the bus for one year and certain components for up to five years. We attempt to adequately price ongoing warranty costs into our bus purchase contracts; however, our warranty reserves are estimates and if we produce poor quality products, develop new products with deficiencies or receive defective materials or components, we may incur material unforeseen costs in excess of what we have provided for in our contracts or reserved in our financial statements.

In addition, we may not be able to enforce warranties and extended warranties received or purchased from our suppliers if such suppliers refuse to honor such warranties or go out of business. Also, a customer may choose to pursue remedies directly under its contract with us over enforcing such supplier warranties. In such a case, we may not be able to recover our losses from the supplier.

We may incur material losses and costs as a result of product liability claims and recalls.

We face an inherent risk of exposure to product liability claims if the use of our products results, or is alleged to result, in personal injury and/or property damage. If we manufacture a defective product or if component failures result in damages that are not covered by warranty provisions, we may experience material product liability losses in the future. In addition, we may incur significant costs to defend product liability claims. We could also incur damages and significant costs in correcting any defects, lose sales and suffer damage to our reputation. Our product liability insurance coverage may not be adequate for all liabilities we could incur and may not continue to be available in amounts and on terms acceptable to us. Significant product liability claims could have a material adverse effect on our financial condition, results of operations and cash flows. Moreover, the adverse publicity that may result from a product liability claim or perceived or actual defect with our products could have a material adverse effect on our ability to market our products successfully.

We are subject to potential recalls of our products from customers to cure manufacturing defects or in the event of a failure to comply with customers' order specifications or applicable regulatory standards, as well as potential recalls of components or parts manufactured by suppliers that we purchase and incorporate into our school buses. We may also be required to remedy or retrofit buses in the event that an order is not built to a customer's specifications or where a design error has been made. Significant retrofit and remediation costs or product recalls could have a material adverse effect on our financial condition, results of operations and cash flows.

A failure to renew dealer agreements or cancellation of, or significant delay in, new bus orders may result in unexpected declines in revenue and profitability.

We rely to a significant extent on our dealers to sell our products to the end consumer. A loss of one or more significant dealers or a reduction in the market share of existing dealers would lead to a loss of revenues that could materially adversely affect our business and results of operations.

Our dealer agreements are typically for a five-year term; however, the dealer can usually cancel the agreement for convenience without penalty upon 90 days' notice. While most of our dealers have been purchasing from us for more than two decades, we can provide no assurance that we will be able to renew our dealer agreements on favorable terms, or at all, at their scheduled expiration dates. If we are unable to renew a contract with one or more of our significant dealers, our revenues and results of operations could be adversely affected until an alternative solution is implemented (e.g., a new dealer or combining the territory with another, existing Blue Bird dealer). If dealer agreements are terminated with one or more of our top 10 dealers, significant orders are canceled or delayed or we incur a significant decrease in the level of purchases from any of our top 10 dealers, our sales and operating results would be adversely impacted. In addition, our new bus orders are subject to potential reduction, cancellation and/or significant delay. Although dealers generally only order buses from us after they have a firm order from a school district, orders for buses are also generally cancelable until 14 weeks prior to delivery.

The inability to attract and retain key personnel could adversely affect our business and results of operations.

Our ability to operate our business and implement our strategies depends, in part, on the efforts of our executive officers and other key employees. Our future success depends, in large part, on our ability to attract and retain qualified personnel, including manufacturing personnel, sales professionals and engineers. The unexpected loss of services of any of our key personnel or the failure to attract or retain other qualified personnel could have a material adverse effect on the operation of our business.

While we have enjoyed good relations and a collaborative approach with our work force, employment relationships can deteriorate over time. Given the extent to which we rely on our employees, any significant deterioration in our relationships with our key employees or overall workforce could materially harm us. Work stoppages or instability in our relationships with our employees could delay the production and/or development of our products, which could strain relationships with customers and cause a loss of revenues which would adversely affect our operations. In addition, local economic conditions in the Central Georgia area (where our principal manufacturing facilities are located) may impact our ability to attract and retain qualified personnel.

Changes in laws or regulations related to the manufacture of school buses, or a failure to comply with such laws and regulations, could adversely affect our business and results of operations.

We are subject to laws and regulations enacted by national, regional and local governments, including non-U.S. governments, related to the manufacture of our school buses. Compliance with, and monitoring of, applicable laws and regulations may be difficult, time consuming and costly, which could negatively impact our business and results of operations. Our products must satisfy a complex compliance scheme due to variability in and potentially conflicting local, state, federal and international laws and regulations. The cost of compliance may be substantial in a period due to the potential for modification or customization of our school buses in any of the 50 plus jurisdictions in which our buses are sold. In addition, if we expand into more international jurisdictions, we could potentially incur additional costs in order to tailor our products to the applicable local law requirements of such jurisdictions. Further, we must comply with additional regulatory requirements applicable to us as a federal contractor for our GSA contracts, which increases our costs. GSA contracts are also subject to audit and increased inspections and costs of compliance. Any potential penalties for non-compliance with laws and regulations may not be covered by insurance that we carry.

Environmental obligations and liabilities could have a negative impact on our financial condition, cash flows and profitability.

Potential environmental issues have been identified at our facility in Fort Valley, Georgia, including the solid waste management units at the facility's old landfill. Potential remediation costs and obligations could require the expenditure of capital and, if greater than expected, or in excess of applicable insurance coverage, could have a material adverse effect on our results of operations, liquidity or financial condition. We are cooperating with the Georgia Environmental Protection Division and have conducted a site-wide investigation under the current hazardous waste management law. All investigations of suspect areas have been completed. Implementation of a corrective action plan is forthcoming, which will consist of re-surfacing the landfill cap, possible monitoring, and ground water use restrictions for the old landfill. There are currently no proposed remediation actions to be included in the corrective action plan. Based on the data generated from the latest site investigation, we believe our environmental risks have been reduced, but not eliminated.

Our worker’s compensation insurance may not provide adequate coverage against potential liabilities.

Although we maintain a workers’ compensation insurance stop loss policy to cover us for costs and expenses we may incur due to injuries to our employees resulting from work-related injuries over our self-insured limit, this insurance may not provide adequate coverage against potential liabilities as we incur the costs and expenses up to our self-insured limit. In addition, we may incur substantial costs in order to comply with current or future health and safety laws and regulations. These current or future laws and regulations may negatively impact our manufacturing operations. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

Our future competitiveness and ability to achieve long-term profitability depend on our ability to control costs, which requires us to improve our organization continuously and to increase operating efficiencies and reduce costs.

In order to operate profitably in our market, we are continually transforming our organization and rationalizing our operating processes. Our future competitiveness depends upon our continued success in implementing these initiatives throughout our operations. While some of the elements of cost reduction are within our control, others, such as commodity costs, regulatory costs and labor costs, depend more on external factors, and there can be no assurance that such external factors will not materially adversely affect our ability to reduce our costs.

Our operating results may vary widely from period to period due to the sales cycle, seasonal fluctuations and other factors.

Our orders with our dealers and customers generally require time-consuming customization and specification. We incur significant operating expenses when we are building a bus prior to sale or designing and testing a new bus. If there are delays in the sale of buses to dealers or customers, such delays may lead to significant fluctuations in results of operations from quarter to quarter, making it difficult to predict our financial performance on a quarterly basis. Further, if we were to experience a significant amount of cancellations of or reductions in purchase orders, it would reduce our future sales and results of operations.

Our business is subject to seasonal and other fluctuations. In particular, we have historically experienced higher revenues during the third quarter and fourth quarter versus the first quarter and second quarter during each fiscal year. This seasonality is caused primarily by school districts ordering more school buses prior to the beginning of a school year. Our ability to meet customer delivery schedules is dependent on a number of factors including, but not limited to, access to components and raw materials, an adequate and capable workforce, assembling/engineering expertise for certain projects and sufficient manufacturing capacity. The availability of these factors may in some cases be subject to conditions outside of our control. A failure to deliver in accordance with our performance obligations may result in financial penalties under certain of our GSA contracts and damage to existing customer relationships, damage to our reputation and a loss of future bidding opportunities, which could cause the loss of future business and could negatively impact our financial performance.

With the COVID-19 pandemic impact on school systems and the uncertainty surrounding in-person schooling schedules and duration, seasonality and sales cycle trends have become unpredictable. Seasonality and variations from historical seasonality have impacted and could continue to impact the comparison of results between fiscal periods.

Our defined benefit pension plan is currently underfunded and pension funding requirements could increase significantly due to a reduction in funded status as a result of a variety of factors, including weak performance of financial markets, declining interest rates and investments that do not achieve adequate returns.

Our defined benefit pension plan currently holds a significant amount of equity and fixed income securities. Our future funding requirement for our frozen defined benefit pension plan (“Pension Plan”) qualified with the Internal Revenue Service depends upon the future performance of assets placed in trusts for this plan, the level of interest rates used to determine funding levels, the level of benefits provided for by the Pension Plan and any changes in government laws and regulations. Future funding requirements generally increase if the discount rate decreases or if actual asset returns are lower than expected asset returns, as other factors are held constant. If future funding requirements increase, we would be required to contribute more funds, which would negatively impact our cash flows.

We enter into firm fixed-price school bus sales contracts without price escalation clauses which could subject us to losses if we have cost overruns or if our costs increase.

We often bid on contracts weeks or months before school buses are delivered and enter into school bus sales contracts with fixed prices per bus. The sales contracts generally do not have an indexed price escalation formula to account for economic fluctuations between the contract date and the delivery date. As a result, we typically are unable to pass along increased costs due to economic fluctuations to our customers. We generally purchase steel one quarter in advance, but because we generally do not hedge our other primary raw materials (rubber, aluminum and copper), changes in prices of raw materials can significantly impact operating margins. Our actual costs and any gross profit realized on these fixed-price contracts could vary from the estimated costs on which these contracts were originally based.

Our current or future indebtedness could impair our financial condition and reduce the funds available to us for growth or other purposes. Our debt agreements impose certain operating and financial restrictions, with which failure to comply could result in an event of default that could adversely affect our business.

We have substantial indebtedness. If our cash flows and capital resources are insufficient to fund the interest payments on our outstanding borrowings under our credit facility and other debt service obligations and keep us in compliance with the covenants under our debt agreements or to fund our other liquidity needs, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot assure investors that we would be able to take any of these actions, that these actions would permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, which may impose significant operating and financial restrictions on us and could adversely affect our ability to finance our future operations or capital needs; obtain standby letters of credit, bank guarantees or performance bonds required to bid on or secure certain customer contracts; make strategic acquisitions or investments or enter into alliances; withstand a future downturn in our business or the economy in general; engage in business activities, including future opportunities for growth, that may be in our interest; and plan for or react to market conditions or otherwise execute our business strategies.

If we cannot make scheduled payments on our debt, or if we breach any of the covenants in our debt agreements, we will be in default and, as a result, our lenders could declare all outstanding principal and interest to be due and payable, could terminate their commitments to lend us money and foreclose against the assets securing our borrowings, and we could be forced into bankruptcy or liquidation.

In addition, we and certain of our subsidiaries may incur significant additional indebtedness, including additional secured indebtedness. Although the terms of our debt agreements contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and additional indebtedness incurred in compliance with these restrictions could be significant. Incurring additional indebtedness could increase the risks associated with our substantial indebtedness, including our ability to service our indebtedness.

Our profitability depends on achieving certain minimum school bus sales volumes and margins. If school bus sales deteriorate, our results of operations, financial condition, and cash flows will suffer.

Our continued profitability requires us to maintain certain minimum school bus sales volumes and margins. As is typical for a vehicle manufacturer, we have significant fixed costs and, therefore, changes in our school bus sales volume can have a disproportionately large effect on profitability. If our school bus sales decline to levels significantly below our assumptions, due to a financial downturn, renewed recessionary conditions, changes in consumer confidence, geopolitical events, inability to produce sufficient quantities of school buses, limited access to financing or other factors, our financial condition, results of operations and cash flows would be materially adversely affected.

We may need additional financing to execute our business plan and fund operations, which additional financing may not be available on reasonable terms or at all.

Our future growth, including the potential for future market expansion and opportunities for future international growth, may require substantial additional capital. We will consider raising additional funds through various financing sources, including the sale of our equity securities or the procurement of additional commercial debt financing. However, there can be no assurance that such funds will be available on commercially reasonable terms, if at all. If such financing is not available on satisfactory terms, we may be unable to execute our growth strategy, and operating results may be adversely affected. Any additional debt financing will increase expenses and must be repaid regardless of operating results and may involve restrictions limiting our operating flexibility. If we issue equity securities to raise additional funds, the percentage ownership of our existing stockholders will be reduced, and our stockholders may experience additional dilution in net book value per share. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, are not sufficient to satisfy our capital needs, we may be required to decrease the pace of, or eliminate, our future product offerings and market expansion opportunities and potentially curtail operations.

Interest rates could change substantially, materially impacting our profitability.

Our borrowings under our credit facility are at variable rates of interest and expose us to interest rate risk. We monitor and manage this exposure as part of our overall risk management program, which recognizes the unpredictability of interest rates and seeks to reduce potentially adverse effects on our business. The majority of our debt interest payments are protected against increases in short-term rates, however, changes in interest rates cannot always be predicted, hedged, or offset with price increases to eliminate earnings volatility.

An impairment in the carrying value of goodwill and other long-lived intangible assets could negatively affect our operating results.

We have a substantial amount of goodwill and purchased intangible assets on our balance sheet, concentrated in our bus segment and specifically related to the dealer network and our trade name. Under generally accepted accounting principles, long-lived assets are required to be reviewed for impairment at least annually, or more frequently if potential interim indicators exist that could result in impairment. If any business conditions or other factors cause profitability or cash flows to significantly decline, we may be required to record a non-cash impairment charge, which could adversely affect our operating results. Events and conditions that could result in impairment include a prolonged period of global economic weakness, a further decline in economic conditions or a slow, weak economic recovery, sustained declines in the price of our Common Stock, adverse changes in the regulatory environment, adverse changes in the market share of our products, adverse changes in interest rates or other factors leading to reductions in the long-term sales or profitability that we expect.

If Blue Bird Capital Services cannot provide financial services to our dealers and customers to acquire our products, our sales and results of operations could deteriorate.

Our dealers and customers benefit from Blue Bird Capital Services ("BBCS"), a private label financing product. BBCS provides floorplan financing for certain of our network dealers and provides a modest amount of vehicle lease financing to school districts. Although we neither assume any balance sheet risk nor receive any direct economic benefit from BBCS, which is financed by TCF Inventory Finance, Inc., we could be materially adversely affected if BBCS was unable to provide this financing and our dealers were unable to obtain alternate financing, at least until a replacement for BBCS was identified. BBCS faces a number of business, economic and financial risks that could impair its access to capital and negatively affect its business and operations and its ability to provide financing and leasing to our dealers and customers. Because BBCS serves as an additional source of leasing and financing options for dealers and customers, an impairment of BBCS' ability to provide such financial services could negatively affect our efforts to expand our market penetration among customers who rely on these financial services to acquire new school buses and dealers that seek financing.

We rely heavily on trade secrets to gain a competitive advantage in the market and the unenforceability of our nondisclosure agreements may adversely affect our operations.

Historically, we have not relied upon patents to protect our design or manufacturing processes or products. Instead, we rely significantly on maintaining the confidentiality of our trade secrets and other information related to our operations. Accordingly, we require all executives, engineering employees and suppliers to sign a nondisclosure agreement to protect our trade secrets, business strategy and other proprietary information. If the provisions of these agreements are found unenforceable in any jurisdiction in which we operate, the disclosure of our proprietary information may place us at a competitive disadvantage. Even where the provisions are enforceable, the confidentiality clauses may not provide adequate protection of our trade secrets and proprietary information in every such jurisdiction.

We require training sessions for our employees regarding the protection of our trade secrets, business strategy and other proprietary information. Our employee training may not provide adequate protection of our trade secrets and proprietary information.

We may be unable to prevent third parties from using our intellectual property rights, including trade secrets and know-how, without our authorization or from independently developing intellectual property that is the same as or similar to our intellectual property, particularly in those countries where the laws do not protect our intellectual property rights as fully as in the United States. The unauthorized use of our trade secrets or know-how by third parties could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our business or increase our expenses as we attempt to enforce our rights.

Our intellectual property rights may not be successfully asserted in the future or may be invalidated, circumvented or challenged.

We rely on a number of significant unregistered trademarks and other unregistered intellectual property in the day-to-day operation of our business. Without the protections afforded by registration, our ability to protect and use our trademarks and other unregistered intellectual property may be limited, which could negatively affect our business in the future. In addition, while we have not faced intellectual property infringement claims from others in recent years, in the event successful infringement claims are brought against us, particularly claims (under patents or otherwise) against our product design or manufacturing processes, such claims could have a material adverse effect on our business, financial condition or results of operation.

Security breaches and other disruptions to our information technology networks and systems could substantially interfere with our operations and could compromise the confidentiality of our proprietary information, notwithstanding the fact that no such breaches or disruptions have materially impacted us to date.

We rely upon information technology systems and networks, some of which are managed by third-parties, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities, including supply chain management, manufacturing, invoicing and collection of payments from our dealer network and customers. Additionally, we collect and store sensitive data, including intellectual property, proprietary business information, the proprietary business information of our dealers and suppliers, as well as personally identifiable information of our employees, in data centers and on information technology systems. The secure operation of these information technology systems, and the processing and maintenance of this information, is critical to our business operations and strategy. Despite security measures and business continuity plans, our information technology systems and networks may be vulnerable to damage, disruptions or shutdowns due to attacks by hackers or breaches due to errors or malfeasance by employees, contractors and others who have access to our networks and systems, or other disruptions during the process of upgrading or replacing computer software or hardware, hardware failures, software errors, third-party service provider outages, power outages, computer viruses, telecommunication or utility failures or natural disasters or other catastrophic events. The occurrence of any of these events could compromise our systems and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disrupt operations and reduce the competitive advantage we hope to derive from our investment in technology. Our insurance coverage may not be available or adequate to cover all the costs related to significant security attacks or disruptions resulting from such attacks.

Our business could be materially adversely affected by changes in foreign currency exchange rates.

We sell the majority of our buses and parts in United States Dollars. Our foreign customers have exposures to risks related to changes in foreign currency exchange rates on our sales in that region. Foreign currency exchange rates can have material adverse effects on our foreign customers' ability to purchase our products. Further, we have certain sales contracts that are transacted in Canadian Dollars. While we aim to hedge any such transactions, that may not always be the case. As a result, foreign currency fluctuations and the associated remeasurements and translations could have a material adverse effect on our results of operations and financial condition.

The manufacture of our Type A buses is conducted by the Micro Bird joint venture that we do not control and cannot operate solely for our benefit.

The manufacture of Type A buses is carried out by a 50/50 Canadian joint venture, Micro Bird Holdings, Inc., an unconsolidated Canadian joint venture with Girardin Minibus JV Inc. (“Micro Bird”). In joint ventures, we share ownership and management of a company with one or more parties who may not have the same goals, strategies, priorities or resources as we do and may compete with us outside the joint venture. Joint ventures are intended to be operated for the equal benefit of all co-owners, rather than for our exclusive benefit. Operating a business as a joint venture often requires additional organizational formalities as well as time-consuming procedures for sharing information and making decisions. In joint ventures, we are required to foster our relationships with co-owners as well as promote the overall success of the joint venture, and if a co-owner changes or relationships deteriorate, our success in the joint venture may be materially adversely affected. The benefits from a successful joint venture are shared among the co-owners, so that we do not receive all the benefits from our joint venture.

Other Risk Factors Relating to an Investment in Our Common Stock

Our only significant asset is ownership of 100% of the capital stock of School Bus Holdings and we do not currently intend to pay cash dividends on our Common Stock. Consequently, stockholders' ability to achieve a return on their investment will depend on appreciation in the price of our Common Stock.

We have no direct operations and no significant assets other than the ownership of 100% of the capital stock of School Bus Holdings. We depend on School Bus Holdings and its subsidiaries for distributions, loans and other payments to generate the funds necessary to meet our financial obligations, including our expenses as a publicly traded company, and to pay any dividends with respect to our Common Stock, if any. Legal and contractual restrictions in agreements governing our current indebtedness, as well as our financial condition and operating requirements, may limit our ability to obtain cash from School Bus Holdings and its subsidiaries. While we are permitted to pay dividends in certain circumstances under our credit facility, as long as we are in compliance with our obligations under the credit facility, we do not expect to pay cash dividends on our Common Stock. Any future dividend payments are within the absolute discretion of our board of directors and will depend on, among other things, our results of operations, working capital requirements, capital expenditure requirements, financial condition, level of indebtedness, contractual restrictions with respect to payment of dividends, business opportunities, anticipated cash needs, provisions of applicable law and other factors that our board of directors may deem relevant.

Concentration of ownership of our Common Stock may have the effect of delaying or preventing a change in control.

Approximately 42% of our Common Stock is owned by ASP Holdings LLC, an entity owned by American Securities LLC ("American Securities"). As a result, American Securities has the ability to significantly influence the outcome of corporate actions of our Company requiring stockholder approval. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our Common Stock.

Shares of our Common Stock are reserved for issuance, which would have the effect of diluting the existing shareholders.

On May 28, 2015 and March 12, 2020, we registered 3,700,000 and 1,500,000 Common Stock shares, respectively, representing the shares of common stock issuable under the Blue Bird Corporation 2015 Omnibus Equity Incentive Plan (the “Incentive Plan”) and, pursuant to Rule 416(c) under the Securities Act of 1933, as amended, an indeterminable number of additional shares of common stock issuable under the Incentive Plan, as such amount may be adjusted as a result of stock splits, stock dividends, recapitalizations, anti-dilution provisions and similar transactions. At October 3, 2020, there were 1,820,792 Common Stock shares remaining to be issued under the Incentive Plan.

Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation and bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;

- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death, or removal of a director with or without cause by stockholders, which prevents stockholders from being able to fill vacancies on our board of directors;

- subject to any rights of holders of existing preferred shares, the ability of our board of directors to determine whether to issue shares of our preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer, or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;

- limiting the liability of, and providing indemnification to, our directors and officers;

- controlling the procedures for the conduct and scheduling of stockholder meetings;

- providing for a staggered board, in which the members of the board of directors are divided into three classes to serve for a period of three years from the date of their respective appointment or election;

- permitting the removal of directors with or without cause by stockholders voting a majority of the votes cast if, at any time and for so long as, American Securities beneficially owns, in the aggregate, capital stock representing at least 40% of the outstanding shares of our Common Stock;

- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders’ meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer’s own slate of directors or otherwise attempting to obtain control of our Company;

- requiring an affirmative vote of at least two-thirds (2/3) of our entire board of directors and by the holders of at least 66.67% of the voting power of our outstanding voting stock in order to adopt an amendment to our certificate of incorporation if, at any time and for so long as, American Securities beneficially owns, in the aggregate, capital stock representing at least 50% of the outstanding shares of our Common Stock; and

- requiring an affirmative vote of at least two-thirds (2/3) of our entire board of directors or by the holders of at least 66.67% of the voting power of our outstanding voting stock to amend our bylaws if, at any time and for so long as, American Securities beneficially owns, in the aggregate, capital stock representing at least 50% of the outstanding shares of our Common Stock.

These provisions, alone or together, could delay hostile takeovers and changes in control of our Company or changes in our board of directors and management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding Common Stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding Common Stock. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our Common Stock and could also affect the price that some investors are willing to pay for our Common Stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are located in Macon, Georgia. Our Bus segment operates a fabrication plant and an integrated chassis manufacturing and body assembly plant in Fort Valley, Georgia, where components for Type C, Type D, and specialty buses are manufactured and assembled. Our Parts segment operates a parts distribution center located in Delaware, Ohio. We own our facilities in Fort Valley, Georgia (approximately 1.5 million square feet). We lease facilities in Macon, Georgia (approximately 0.3 million square feet) and Delaware, Ohio (approximately 0.1 million square feet). Our Micro Bird joint venture leases its facility (0.1 million square feet) in Drummondville, Quebec, Canada.

Item 3. Legal Proceedings

In the ordinary course of business, we may be a party to various legal proceedings from time to time. We do not believe that there is any pending or threatened proceeding against us, which, if determined adversely, would have a material effect on our business, results of operations, or financial condition.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

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

Our Common Stock is currently quoted on the NASDAQ Global Market under the symbol "BLBD". At December 14, 2020, there were 82 holders of record of the Company's Common Stock. Management of the Company believes that there are in excess of 3,000 beneficial holders of our Common Stock.

Dividends

We have not paid any dividends on our Common Stock to date. It is our present intention to retain any earnings for use in our business operations and, accordingly we do not anticipate that the board of directors will declare any dividends in the foreseeable future on our Common Stock. In addition, certain of our loan agreements restrict the payment of dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information for all equity compensation plans at October 3, 2020, under which the equity securities of the Company were authorized for issuance:

Plan Category (1)	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	316,859	$ 16.69	1,820,792

(1) There are no equity compensation plans not approved by stockholders.

Item 6. Selected Financial Data

The Company reports its operations on a 52-53 week fiscal year ending on the Saturday closest to September 30. There were 53 weeks in the fiscal year ended October 3, 2020, all other years presented below had 52 weeks. The following table sets forth selected consolidated financial data of the Company taking into account completion of the Business Combination and the subsequent change of the Company's fiscal year to the historic fiscal year of School Bus Holdings for each of its five most recent fiscal years, which have been derived from the consolidated financial statements of the Company. See Notes 1 and 2 to the consolidated financial statements for further explanation regarding Basis of Presentation and impact of Recently Adopted Accounting Standards.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. This selected consolidated financial data should be read in conjunction with Item 1A. "Risk Factors", Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", and the consolidated financial statements and the notes thereto included in Item 8. "Financial Statements".

in thousands, except per share data	Fiscal Year				
	2020	**2019**	**2018**	**2017**	**2016**
RESULTS OF OPERATIONS DATA					
Net sales	$ 879,221	$1,018,874	$1,024,976	$ 990,602	$ 932,010
Cost of goods sold	783,021	885,400	902,988	863,234	802,654
Gross profit	96,200	133,474	121,988	127,368	129,356
Operating expenses					
Selling, general and administrative expenses	74,206	89,642	86,911	67,836	98,393
Operating profit	21,994	43,832	35,077	59,532	30,963
Interest expense	(12,252)	(12,879)	(6,661)	(7,251)	(16,412)
Interest income	11	9	70	140	133
Other income (expense), net	738	(1,331)	(1,613)	(4,929)	(4,857)
Loss on debt extinguishment	—	—	—	(10,142)	—
Income before income taxes	10,491	29,631	26,873	37,350	9,827
Income tax (expense) benefit	(1,519)	(7,573)	2,620	(11,856)	(5,804)
Equity in net income of non-consolidated affiliate	3,213	2,242	1,327	3,307	2,877
Net income	12,185	24,300	30,820	28,801	6,900
Less: preferred stock dividends	—	—	1,896	4,261	3,878
Less: preferred stock repurchase	—	—	—	6,091	—
Net income available to common stockholders	$ 12,185	$ 24,300	$ 28,924	$ 18,449	$ 3,022
EARNINGS PER SHARE DATA					
Basic earnings per share	$ 0.45	$ 0.92	$ 1.15	$ 0.79	$ 0.14
Diluted earnings per share	0.45	0.90	1.08	0.74	0.14
BALANCE SHEET DATA					
Total assets	$ 317,415	$ 365,413	$ 307,430	$ 295,816	$ 277,866
Long-term debt	164,204	173,226	132,239	143,224	140,366
Total liabilities	370,645	433,224	335,766	354,326	364,840
Total stockholders' deficit	(53,230)	(67,811)	(28,336)	(58,510)	(86,974)

Item 7. 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 audited financial statements for the fiscal years ended October 3, 2020, September 28, 2019 and September 29, 2018 and related notes appearing elsewhere in this Report. Our actual results may not be indicative of future performance. This discussion and analysis contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those discussed or incorporated by reference in the sections of this Report titled "Special Note Regarding Forward-Looking Statements" and "Risk Factors". Actual results may differ materially from those contained in any forward-looking statements. Certain monetary amounts, percentages and other figures included in this Report have been subjected 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 October 3, 2020 as "fiscal 2020". We refer to the fiscal year ended September 28, 2019 as "fiscal 2019" and we refer to the fiscal year ended September 29, 2018 as "fiscal 2018". There were 53 weeks in fiscal year 2020 and there were 52 weeks in fiscal years 2019 and 2018.

Executive Overview

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

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

Impact of COVID-19 on Our Business

Beginning in our second fiscal quarter of 2020, the novel coronavirus known as "COVID-19" began to spread throughout the world, resulting in a global pandemic. The pandemic triggered a significant downturn in global commerce as early as February 2020 and the challenging market conditions are expected to continue for an extended period of time. In early April, in an effort to contain the spread of COVID-19, maintain the well-being of our employees and stakeholders, address the reduced demand from our customers and be responsive and efficient with supply chain constraints, we closed our manufacturing facilities for two weeks and requested our office employees to work from home. In late April, we successfully restarted manufacturing operations and have continued to manufacture buses since that time without further material disruption. While we have not experienced any pervasive COVID-19 illnesses to date, if we were to experience some form of outbreak within our facilities, we would take all appropriate measures to protect the health and safety of our employees, which could include another temporary halt in production.

The pandemic has resulted, and is likely to continue to result, in significant economic disruption and has adversely affected our business. It will continue to adversely impact our business for a significant portion of our fiscal year 2021 and perhaps beyond. Significant uncertainty exists concerning the magnitude of the impact and duration of the COVID-19 pandemic and its impact on the overall U.S and global economy. While the global market downturn, closures and limitations on movement are expected to be temporary, the duration of any demand reductions, production and supply chain disruptions, and related financial impacts, cannot be estimated at this time.

The full impacts from COVID-19 on the Company's financial results in fiscal year 2020 negatively affected our revenues and profits. We continue to monitor and assess the level of future customer demand, the ability of school boards to make timely decisions, the ability of suppliers to resume and maintain operations, the ability of our employees to continue to work, and our ability to maintain continuous production as we plan for fiscal 2021 and beyond. A prolonged economic downturn would have a material adverse impact on our sales and financial results beyond fiscal 2020. See PART I, Item 1A. "Risk Factors", of this Annual Report for a discussion of the material risks we believe we face particularly related to the COVID-19 pandemic.

The Company has taken actions to control spending and secure adequate liquidity, including minor headcount rationalization and changes to the minimum required financial covenants via execution of a third amendment to the Credit Agreement in December 2020. Further detail and discussion of this amendment can be found in the "Liquidity and Capital Resources" section of this Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K. Even with adequate liquidity, we are evaluating and considering further actions to reduce costs and spending across our organization to be responsive to potential longer-term impacts on our business from the pandemic. Our actions may include reducing hiring activities, limiting discretionary spending, limiting spending on capital investment projects or other steps necessary to preserve adequate liquidity. We will continue to actively monitor the situation and may need to take further actions required by federal, state or local authorities, or enact measures we determine are in the best interests of our employees, customers, suppliers and shareholders. For further details and discussion about our liquidity, refer to the following "Liquidity and Capital Resources" section of this Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K.

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 school districts, and therefore new school buses. Property tax revenues are a function of land and building prices, based on assessments of property value by state or county assessors and millage rates voted by the local electorate.
- *Student enrollment and delivery mechanisms for learning*. Increases or decreases in the number of school bus riders have a direct impact on school district demand. Due to the COVID-19 pandemic and evolving protocols for social distancing and public health concerns, the future form of educational delivery is uncertain, and increased remote learning could reasonably be expected to decrease the number of school bus riders.
- *Revenue mix*. We are able to charge more for certain of our products (e.g., Type C propane-powered school buses, Electric 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.* Historically, our sales have been subject to seasonal variation based on the school calendar with the peak season during our third and fourth fiscal quarters. Sales during the third and fourth fiscal quarters were 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. With the COVID-19 pandemic impact on school systems and the uncertainty surrounding in-person schooling schedules and duration, seasonality has become unpredictable. Seasonality and variations from historical seasonality have impacted the comparison of results between fiscal periods.

Factors Affecting Our Expenses and Other Items

Our expenses and other line items in our 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 due to changes in sales volume, efforts by certain suppliers to pass through the economics associated with key commodities, design changes with respect to specific components, design changes with respect to specific bus models, wage increases for plant labor, productivity of plant labor, delays in receiving materials and other logistical challenges, 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, along with 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. Interest expense also includes unrealized gains or losses from interest rate hedges, if any, and changes in the fair value of interest rate derivatives not designated in hedge accounting relationships, if any, as well as expenses related to debt guarantees, if any.
- *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.
- *Other expense, net*. This includes periodic pension expense as well as gains or losses on foreign currency, if any. Other immaterial amounts not associated with operating expenses may also be included here.
- *Equity in net income of non-consolidated affiliate*. We include in this line item our 50% share of net income or loss from our investment in Micro Bird, our unconsolidated 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”. Adjusted EBITDA and Free Cash Flow are financial metrics that are utilized by management and the board of directors to determine (a) the annual cash bonus payouts, if any, to be made to certain members of management based upon the terms of the Company’s Management Incentive Plan, and (b) whether the performance criteria have been met for the vesting of certain equity awards granted annually to certain members of management based upon the terms of the Company’s Omnibus Equity Incentive Plan. Additionally, consolidated EBITDA, which is an adjusted EBITDA metric defined by our Amended Credit Agreement that could differ from Adjusted EBITDA discussed above as the adjustments to the calculations are not uniform, is used to determine the Company's ongoing compliance with several financial covenant requirements, including being utilized in the denominator of the calculation of the Total Net Leverage Ratio. Accordingly, management views these non-GAAP financial metrics as key for the above purposes and as a useful way to evaluate the performance of our operations as discussed further below.

Adjusted EBITDA is defined as net income prior to interest income; interest expense including the component of operating lease expense (which is presented as a single operating expense in selling, general and administrative expenses in our GAAP financial statements) that represents interest expense on lease liabilities; income taxes; and depreciation and amortization including the component of operating lease expense (which is presented as a single operating expense in selling, general and administrative expenses in our GAAP financial statements) that represents amortization charges on right-of-use lease assets; as adjusted for certain non-cash charges or credits that we may record on a recurring basis such as stock-compensation expense and unrealized gains or losses on certain derivative financial instruments; net gains or losses on the disposal of assets as well as certain charges such as (i) significant product design changes; (ii) transaction related costs; (iii) discrete expenses related to major cost cutting initiatives; or (iv) costs directly attributed to the COVID-19 pandemic. While certain of the charges that are added back in the Adjusted EBITDA calculation, such as transaction related costs and operational transformation and major product redesign initiatives, represent operating expenses that may be recorded in more than one annual period, the significant project or transaction giving rise to such expenses is not considered to be indicative of the Company’s normal operations. Accordingly, we believe that these, as well as the other credits and charges that comprise the amounts utilized in the determination of Adjusted EBITDA described above, should not be used in evaluating the Company’s ongoing annual operating 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 ongoing operations, excluding decisions made with respect to capital investment, financing, and certain other significant initiatives or transactions as outlined in the preceding paragraph. We believe the non-GAAP measures offer additional financial metrics that, when coupled with the GAAP results and the reconciliation to GAAP results, provide a more complete understanding of our results of operations and the factors and trends affecting our business.

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

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

Our measure of Free Cash Flow is used in addition to and in conjunction with results presented in accordance with GAAP and it should not be relied upon to the exclusion of GAAP financial measures. Free Cash Flow reflects an additional way of evaluating 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 total cash provided by/used in operating activities as adjusted for net cash paid for the acquisition or disposal of fixed assets and intangible assets. We use Free Cash Flow, and ratios based on Free Cash Flow, to conduct and evaluate our business because, although it is similar to cash flow from operations, we believe it is a more conservative measure of cash flow since purchases of fixed assets and intangible assets are a necessary component of ongoing operations. Accordingly, 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 sale 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 fiscal years ended October 3, 2020 and September 28, 2019:

(in thousands)	2020	2019
Net sales	$ 879,221	$ 1,018,874
Cost of goods sold	783,021	885,400
Gross profit	$ 96,200	$ 133,474
Operating expenses		
Selling, general and administrative expenses	74,206	89,642
Operating profit	$ 21,994	$ 43,832
Interest expense	(12,252)	(12,879)
Interest income	11	9
Other income (expense), net	738	(1,331)
Income before income taxes	$ 10,491	$ 29,631
Income tax expense	(1,519)	(7,573)
Equity in net income of non-consolidated affiliate	3,213	2,242
Net income	$ 12,185	$ 24,300
Other financial data:		
Adjusted EBITDA	$ 54,681	$ 81,829
Adjusted EBITDA Margin	6.2%	8.0%

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

(in thousands)	2020	2019
Net Sales by Segment		
Bus	$ 822,616	$ 952,242
Parts	56,605	66,632
Total	$ 879,221	$ 1,018,874
Gross Profit by Segment		
Bus	$ 76,059	$ 110,015
Parts	20,141	23,459
Total	$ 96,200	$ 133,474

Net sales. Net sales were $879.2 million for the fiscal year ended 2020, a decrease of $139.7 million, or 13.7%, compared to $1.019 billion for the fiscal year ended 2019. The decrease in net sales is attributed to the COVID-19 pandemic which caused the unplanned and abrupt increase in remote learning arrangements and an uncertainty in how school districts administered and will continue to administer schooling, resulting in a decreased demand for school buses.

Bus sales decreased $129.6 million, or 13.6%, reflecting a decrease in units booked which was partially offset by higher sales prices. In the fiscal year ended 2020, 8,878 units were booked compared to 11,017 units booked for the fiscal year ended 2019. The decrease in Bus revenue and volumes reflect the timing of orders being significantly impacted by COVID-19. The 7.2% increase in unit price for the fiscal year ended 2020 compared to the fiscal year ended 2019 mainly reflects the full-year impact of pricing actions taken in fiscal 2019 to partially offset commodity costs, as well as product and customer mix changes.

Parts sales decreased $10.0 million, or 15.0%, for the fiscal year ended 2020 compared to the fiscal year ended 2019, as we had lower sales volume, mainly from lower school bus units in operation due to school closures caused by the COVID-19 pandemic. Stay at home orders and school closures reduced bus repair and maintenance activities due to lower bus use.

Cost of goods sold. Total cost of goods sold was $783.0 million for the fiscal year ended 2020, a decrease of $102.4 million, or 11.6%, compared to $885.4 million for the fiscal year ended 2019. As a percentage of net sales, total cost of goods sold increased from 86.9% to 89.1%.

Bus segment cost of goods sold decreased $95.7 million, or 11.4%, for the fiscal year ended 2020 compared to the fiscal year ended 2019 due to reduced sales volumes. The average cost of goods sold per unit for the fiscal year ended 2020 was 10.0% higher compared to the average cost of goods sold per unit for the fiscal year ended 2019 due to increases in manufacturing costs from several COVID-19 related factors including hourly workforce absenteeism and supply disruptions, each of which created manufacturing inefficiencies and higher costs.

The $6.7 million, or 15.5%, decrease in parts segment cost of goods sold for the fiscal year ended 2020 compared to the fiscal year ended 2019 aligned with the decrease in sales volume noted above.

Operating profit. Operating profit was $22.0 million for the fiscal year ended 2020, a decrease of $21.8 million, or 49.8%, compared to $43.8 million for the fiscal year ended 2019. Profitability was negatively impacted by a decrease of $37.3 million in gross profit, which was partially offset by a decrease of $15.4 million in selling, general and administrative expenses due in large part to several significant product development initiatives during fiscal 2019 as well as cost control measures implemented in fiscal 2020, as a response to the COVID-19 pandemic, including headcount reductions and lower travel-related expense.

Interest expense. Interest expense was $12.3 million for the fiscal year ended 2020, a decrease of $0.6 million, or 4.9%, compared to $12.9 million for the fiscal year ended 2019. The decrease was primarily attributed to lower interest rates and a lower average borrowing level on the term debt.

Income taxes. We recorded income tax expense of $1.5 million for the fiscal year ended 2020, compared to an income tax expense of $7.6 million for the fiscal year ended 2019. The reduction in expense was primarily attributed to lower amounts of taxable income in 2020 due to the impacts of COVID-19 on our operations.

The effective tax rate for the fiscal year ended 2020 differed from the statutory Federal income tax rate of 21.0%. There were minor items that lowered the effective tax rate to 14.5%, primarily the impacts of tax credits and state taxes on the Federal rate. These were offset to a lesser degree by the recording of a partial valuation allowance for state taxes and minor provision to return adjustments.

The effective tax rate for the fiscal year ended 2019 was 25.6%, which differed from the statutory federal income tax rate of 21%. The difference was mainly due to the unfavorable impact of valuation allowances, share-based and other compensation limitations, and state taxes, which included the application of tax credits claimed as offsets against our payroll tax liabilities. The valuation allowance increased mainly due to the accrual of income tax credits that were greater than our ability to utilize before expiration. These items were partially offset by benefits from federal and state tax credits.

Adjusted EBITDA. Adjusted EBITDA was $54.7 million, or 6.2% of net sales, for the fiscal year ended 2020, a decrease of $27.1 million, or 33.2%, compared to $81.8 million, or 8.0% of net sales, for the fiscal year ended 2019. The decrease in Adjusted EBITDA was primarily the result of decreased revenues and gross profit due to the COVID-19 pandemic as well as higher manufacturing costs. The decrease was partially offset by lower adjusted selling, general and administrative expenses.

The following table sets forth a reconciliation of net income to Adjusted EBITDA for the fiscal years presented:

(in thousands)	**2020**	**2019**
Net income	$ 12,185	$ 24,300
Adjustments:		
Interest expense, net (1)	12,616	13,279
Income tax expense	1,519	7,573
Depreciation, amortization, and disposals (2)	15,096	11,102
Operational transformation initiatives	3,404	10,594
Foreign currency hedges	—	109
Share-based compensation	4,141	4,273
Product redesign initiatives	4,068	10,540
Restructuring charges	646	—
Costs directly attributed to the COVID-19 pandemic (3)	1,000	—
Other	6	59
Adjusted EBITDA	$ 54,681	$ 81,829
Adjusted EBITDA Margin (percentage of net sales)	6.2%	8.0%

(1) Includes $0.4 million and $0.4 million for fiscal 2020 and 2019, respectively, representing interest expense on operating lease liabilities, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Consolidated Statements of Operations.

(2) Includes $0.7 million and $0.7 million for fiscal 2020 and 2019, respectively, representing amortization on right-of-use operating lease assets, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Consolidated Statements of Operations.

(3) Primarily costs incurred for third party cleaning services and personal protective equipment for our employees in response to the COVID-19 pandemic.

Consolidated Results of Operations for the fiscal years ended September 28, 2019 and September 29, 2018:

(in thousands)	2019	2018
Net sales	$ 1,018,874	$ 1,024,976
Cost of goods sold	885,400	902,988
Gross profit	$ 133,474	$ 121,988
Operating expenses		
Selling, general and administrative expenses	89,642	86,911
Operating profit	$ 43,832	$ 35,077
Interest expense	(12,879)	(6,661)
Interest income	9	70
Other expense, net	(1,331)	(1,613)
Income before income taxes	$ 29,631	$ 26,873
Income tax (expense) benefit	(7,573)	2,620
Equity in net income of non-consolidated affiliate	2,242	1,327
Net income	$ 24,300	$ 30,820
Other financial data:		
Adjusted EBITDA	$ 81,829	$ 70,379
Adjusted EBITDA Margin	8.0%	6.9%

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

(in thousands)	2019	2018
Net Sales by Segment		
Bus	$ 952,242	$ 962,769
Parts	66,632	62,207
Total	$ 1,018,874	$ 1,024,976
Gross Profit by Segment		
Bus	$ 110,015	$ 100,002
Parts	23,459	21,986
Total	$ 133,474	$ 121,988

Net sales. Net sales were $1.02 billion for the fiscal year ended 2019, a decrease of $6.1 million, or 0.6%, compared to $1.02 billion for the fiscal year ended 2018.

Bus sales decreased $10.5 million, or 1.1%, reflecting a decrease in units booked partially offset by slightly higher sales prices. In the fiscal year ended 2019, 11,017 units were booked compared to 11,649 units booked in the fiscal year ended 2018. The average net sales price per unit for the fiscal year ended 2019 was 4.6% higher than the price per unit for the fiscal year ended 2018. The increase in unit price mainly reflects pricing actions taken to partially offset commodity costs, as well as product and customer mix changes.

Parts sales increased $4.4 million, or 7.1%, for the fiscal year ended 2019 compared to the fiscal year ended 2018, resulting from higher volumes primarily due to incentive and shipping programs launched in the fiscal year ended 2018.

Cost of goods sold. Total cost of goods sold was $885.4 million for the fiscal year ended 2019, a decrease of $17.6 million, or 1.9%, compared to $903.0 million for the fiscal year ended 2018. As a percentage of net sales, total cost of goods sold decreased from 88.1% to 86.9%.

Bus segment cost of goods sold decreased $20.5 million, or 2.4%, for the fiscal year ended 2019 compared to the fiscal year ended 2018. The average cost of goods sold per unit was 3.2% higher compared to the average cost of goods sold per unit for the fiscal year ended 2018 due to raw material price increases related to rising commodity costs and tariffs, which were offset by cost savings resulting from our operational improvement initiatives.

The $3.0 million, or 7.3%, increase in parts segment cost of goods sold for the fiscal year ended 2019 compared to the fiscal year ended 2018 was primarily attributed to increased parts sales volume.

Operating profit. Operating profit was $43.8 million for the fiscal year ended 2019, an increase of $8.8 million, or 25.0%, compared to $35.1 million for the fiscal year ended 2018. Profitability was positively impacted by an increase of $11.5 million in gross profit, which was partially offset by an increase of $2.7 million in selling, general and administrative expenses due in large part to several non-recurring product development initiatives as well as higher share-based compensation expense.

Interest expense. Interest expense was $12.9 million for the fiscal year ended 2019, an increase of $6.2 million, or 93.3%, compared to $6.7 million for the fiscal year ended 2018. The increase was primarily attributed to a point increase in the weighed-average annual effective interest rate on the term loan, higher average borrowing levels, and changes in the interest rate collar fair value recorded in interest expense.

Income taxes. We recorded income tax expense of $7.6 million for the fiscal year ended 2019, compared to income tax benefit of $2.6 million for the fiscal year ended 2018.

The effective tax rate for the fiscal year ended 2019 was 25.6%, which differed from the federal statutory tax rate of 21.0%. The difference was mainly due to the unfavorable impact of valuation allowances, share-based and other compensation limitations, and state taxes, which included the application of tax credits claimed as offsets against our payroll tax liabilities. The valuation allowance increased mainly due to the accrual of income tax credits that were greater than our ability to utilize before expiration. These items were partially offset by benefits from federal and state tax credits.

The effective tax rate for the fiscal year ended 2018 was (9.7)%, which differed from the statutory federal income tax rate of 24.5%, mainly due to one-time events like the decrease in our uncertain tax positions and a re-measurement of our deferred tax assets and liabilities as a result of the Tax Act. The rate was also favorably impacted by normal tax rate benefit items, such as the domestic production activities deduction, federal and state tax credits, and share based award related deductions in excess of recorded book expense.

Adjusted EBITDA. Adjusted EBITDA was $81.8 million, or 8.0% of net sales, for the fiscal year ended 2019, an increase of $11.5 million, or 16.3%, compared to $70.4 million, or 6.9% of net sales, for the fiscal year ended 2018. The increase in Adjusted EBITDA was primarily the result of increased gross profit.

The following table sets forth a reconciliation of net income to Adjusted EBITDA for the fiscal years presented:

(in thousands)	2019	2018
Net income	$ 24,300	$ 30,820
Adjustments:		
Discontinued operations income	—	(81)
Interest expense, net (1)	13,279	6,591
Income tax expense (benefit)	7,573	(2,620)
Depreciation, amortization, and disposals (2)	11,102	9,214
Operational transformation initiatives	10,594	17,708
Foreign currency hedges	109	(109)
Share-based compensation	4,273	2,628
Product redesign initiatives	10,540	6,253
Other	59	(25)
Adjusted EBITDA	$ 81,829	$ 70,379
Adjusted EBITDA Margin (percentage of net sales)	8.0%	6.9%

(1) Includes $0.4 million for fiscal 2019, representing interest expense on operating lease liabilities, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Consolidated Statements of Operations.

(2) Includes $0.7 million for fiscal 2019, representing amortization on right-of-use operating lease assets, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Consolidated Statements of Operations.

Liquidity and Capital Resources

The Company's primary sources of liquidity are cash generated from operations, available cash, and borrowings under the credit facility. At October 3, 2020, the Company had $44.5 million of available cash and cash equivalents (net of outstanding checks) and $135.0 million of additional borrowings available under the revolving line of credit portion of its credit facility. The Company's revolving line of credit is available for working capital requirements, capital expenditures and other general corporate purposes. At October 3, 2020, the Company was in compliance with all covenants required by the credit facility.

Credit Agreement

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

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

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

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

The Credit Agreement contains negative and affirmative covenants affecting the Company and its subsidiaries including the Borrower, with certain exceptions set forth in the Credit Agreement. The negative covenants and restrictions include, among others: limitations on liens, dispositions of assets, consolidations and mergers, loans and investments, indebtedness, transactions with affiliates (including management fees and compensation), dividends, distributions and other restricted payments, change in fiscal year, fundamental changes, amendments to and subordinated indebtedness, restrictive agreements, sale and leaseback transactions and certain permitted acquisitions. Dividends, distributions, and other restricted payments are permitted in certain circumstances under the Credit Agreement, generally based upon our levels of excess free cash flow and Unrestricted Cash (as defined in the Credit Agreement) and maintenance of specified Total Net Leverage Ratios.

First Amended Credit Agreement

On September 13, 2018, the Company executed an amendment to the Credit Agreement (the "First Amended Credit Agreement"), by and among the Company, the Borrower, and Bank of Montreal, acting as administrative agent together with other lenders. The First Amended Credit Agreement provided for an aggregate lender commitment of $50.0 million in additional term loan borrowings (the "Incremental Term Loan"). The Incremental Term Loan was intended to finance a portion of a tender offer up to $50.0 million, which transaction closed in October 2018.

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

After giving effect to the First Amended Credit Agreement, the interest payable with respect to the Term Loan Facility was (i) from the first amendment effective date until the first quarter ended on or about September 30, 2018, LIBOR plus 2.25% and (ii) commencing with the fiscal quarter ended on or about September 30, 2018 and thereafter, dependent on the Total Net Leverage Ratio of the Company, an election of either base rate or LIBOR pursuant to the table below. The Company's Total Net Leverage Ratio is defined as the ratio of (a) consolidated net debt to (b) consolidated EBITDA, which is an adjusted EBITDA metric that could differ from Adjusted EBITDA appearing in the Company's periodic filings on Form 10-K or Form 10-Q as the adjustments to the calculations are not uniform, at the end of each fiscal quarter for the consecutive four fiscal quarter period most recently then ending.

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

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

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

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

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

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

Second Amended Credit Agreement

On May 7, 2020, the Company entered into a second amendment which amended the First Amended Credit Agreement, dated as of September 13, 2018 (the "Second Amended Credit Agreement"). The Second Amended Credit Agreement provided $41.9 million in additional revolving commitments bringing the total revolving commitments to $141.9 million. The revolving commitments under the Second Amended Credit Agreement matures on September 13, 2023, which is the fifth anniversary of the effective date of the First Amended Credit Agreement. The interest rate pricing grid remained unchanged, but the LIBOR floor was amended from 0% to 0.75%.

Third Amended Credit Agreement

On December 4, 2020, the Company executed a third amendment to the Credit Agreement, the First Amended Credit Agreement and the Second Amended Credit Agreement (the "Third Amended Credit Agreement" and collectively, the "Amended Credit Agreement"). The Third Amended Credit Agreement, among other things, provides for certain temporary amendments to the Credit Agreement from the third amendment effective date through and including the first date on which (a)(i) a compliance certificate is timely delivered with respect to a fiscal quarter ending on or after March 31, 2022 demonstrating compliance with certain financial performance covenants for such fiscal quarter (the "Limited Availability Period"), or (ii) the Borrower elects to terminate the Limited Availability Period; and (b) the absence of a default or event of default under the Amended Credit Agreement.

Amendments to the financial performance covenants provide that during the Limited Availability Period, a higher maximum Total Net Leverage Ratio is permitted, and requires the Company to maintain liquidity (in the form of undrawn availability under the Revolving Credit Facility and unrestricted cash and cash equivalents) of at least $15.0 million. For the duration between the fiscal quarter ending December 31, 2020 and the fiscal quarter ending September 30, 2021 that falls within the Limited Availability Period, a quarterly minimum consolidated EBITDA covenant applies instead of a maximum Total Net Leverage Ratio.

The pricing grid in the First Amended Credit Agreement, which is based on the ratio of the Company's consolidated net debt to consolidated EBITDA, remains unchanged. However, during the Limited Availability Period, an additional margin of 0.50% applies.

During the Limited Availability Period, the Amended Credit Agreement requires that the Borrower prepay existing revolving loans and, if undrawn and unreimbursed letters of credit exceed $7.0 million, cash collateralize letters of credit if unrestricted cash and cash equivalents exceed $20.0 million, as determined on a semimonthly basis. Any issuance, amendment, renewal, or extension of credit during the Limited Availability Period may not cause unrestricted cash and cash equivalents to exceed $20.0 million, or cause the aggregate outstanding Revolving Credit Facility principal to exceed $100.0 million. The Third Amended Credit Agreement also implements a cap on permissible investments, restricted payments, certain payments of indebtedness and the fair market value of all assets subject to permitted dispositions during the Limited Availability Period.

For the duration of the Limited Availability Period, the Amended Credit Agreement sets forth additional monthly reporting requirements, and requires subordination agreements and intercreditor arrangements for certain other indebtedness and liens subject to administrative agent approval.

Short-Term and Long-Term Liquidity Requirements

Our ability to make principal and interest payments on borrowings under our 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. During fiscal 2020, the novel coronavirus known as "COVID-19" spread throughout the world, resulting in a global pandemic. The pandemic materially impacted our fiscal 2020 results causing lower customer orders for both buses and parts, supply disruptions, higher rates of absenteeism among our hourly production workforce, and a temporary shutdown of manufacturing. The continuing development and fluidity of the pandemic precludes any prediction as to the ultimate severity of the adverse impacts on our business, financial condition, results of operations, and liquidity. A prolonged economic downturn resulting from the continuing pandemic would likely have a material adverse impact on our financial results. See PART I, Item 1A. "Risk Factors", of this Annual Report for a discussion of the material risks we believe we face particularly related to the COVID-19 pandemic.

The pandemic could cause a severe contraction in our profits and/or liquidity which could lead to issues complying with our Credit Facility covenants. Our primary financial covenants are (i) for fiscal 2021, minimum consolidated EBITDA, an adjusted EBITDA metric that could differ from Adjusted EBITDA appearing in the Company's periodic filings on Form 10-K or Form 10-Q as the adjustments to the calculations are not uniform, at the end of each fiscal quarter for the consecutive four fiscal quarter period most recently then ending; b) for fiscal 2021 and the first two quarters of fiscal 2022, minimum liquidity at the end of each month, and (iii) beginning in fiscal 2022 and thereafter, Total Net Leverage Ratio, defined as the ratio of (a) consolidated net debt to (b) consolidated EBITDA. We may need to seek additional covenant relief or even refinance the debt to a "covenant light" or "no covenant" structure. We cannot assure our investors that we would be successful in amending or refinancing our existing debt. An amendment or refinancing of our existing debt could lead to higher interest rates and possible up front expenses than included in our historical financial statements.

On March 27, 2020 the President of the United States signed the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") into law. The CARES Act, among other things, includes provisions related to the deferment of employer-side social security payments (the Employer Payroll Tax Payment Deferral Provision). We have elected to defer these payments that would otherwise be due and payable through December 31, 2020. A 50% minimum payment of the deferred amount is due on December 31, 2021 with the remainder due by December 31, 2022. We estimate between $4.0 and $6.0 million in payments could be delayed. We also have and expect to defer contributions to our defined benefit pension plan of approximately $3.2 million for fiscal 2020. The delayed contribution payments are due on January 4, 2021.

Seasonality

Historically, our business has been highly seasonal with school districts buying their new schools buses so that they will be available for use on the first day of the school year, typically in mid-August to early September. This has resulted in our third and fourth fiscal quarters becoming our two busiest quarters, the latter ending on the Saturday closest to September 30. Our quarterly results of operations, cash flows, and liquidity have been and are likely to be impacted by the seasonal patterns. Working capital has historically been a significant use of cash during the first fiscal quarter and a significant source of cash generation in the fourth fiscal quarter with planned shutdowns during our first fiscal quarter. With the COVID-19 pandemic impact on school systems and the uncertainty surrounding in-person schooling schedules and duration, seasonality and working capital trends have become unpredictable. Seasonality and variations from historical seasonality have impacted the comparison of working capital and liquidity results between fiscal periods.

Cash Flows

The following table sets forth general information derived from our statement of cash flows for the fiscal years presented:

(in thousands)	2020	2019	2018
Cash and cash equivalents, beginning of year	$ 70,959	$ 60,260	$ 62,616
Total cash provided by operating activities	3,459	55,706	48,353
Total cash used in investing activities	(18,803)	(35,467)	(32,104)
Total cash used in financing activities	(11,108)	(9,540)	(18,605)
Change in cash and cash equivalents	(26,452)	10,699	(2,356)
Cash and cash equivalents, end of year	$ 44,507	$ 70,959	$ 60,260

Total cash provided by operating activities

Cash flows provided by operating activities totaled $3.5 million for the fiscal year ended 2020, as compared with $55.7 million of cash flows provided by operating activities for the fiscal year ended 2019. The primary drivers of the $52.2 million decrease were the following:

- A year over year reduction of $12.1 million in net income.

- The effect of net changes in operating assets and liabilities negatively impacted 2020 operating cash flow by $35.0 million compared to 2019. The primary drivers in this category were the unfavorable changes in accounts payable and accrued expenses of $75.7 million as well as accounts receivable of $10.6 million, which were partially offset by improvements in inventory level changes of $43.8 million and other assets of $9.7 million.

- The impact of non-cash items (net source of cash) were $5.1 million higher in fiscal 2019 compared to fiscal 2020. Non-cash items impact net income, but do not have direct cash outflows associated with them. The significant differences were the impact of higher amounts of deferred taxes of $6.6 million, share-based compensation of $0.1 million, and pension amortization expense of $1.0 million in fiscal 2019 compared to fiscal 2020. These were partially offset by an increase in depreciation and amortization expense in fiscal 2020 of $4.0 million.

Cash flows provided by operating activities totaled $55.7 million for the fiscal year ended 2019, as compared with $48.4 million of cash flows provided by operating activities for the fiscal year ended 2018. The primary drivers of the $7.4 million increase were the following:

- Changes in pension and accrued expenses provided $24.0 million in incremental cash compared to the prior year. In fiscal 2019, the pension liability increased by $24.5 million (source of cash) compared to fiscal 2018. In fiscal 2018, the pension liability decreased by $11.3 million (use of cash). The release of $7.6 million in fiscal 2018 for uncertain tax positions lowered the accrued expense balance (use of cash).

- Non-cash items (source of cash) were $5.4 million higher compared to the fiscal year ended 2018. Non-cash items impact net income, but do not have direct cash outflows associated with them. The significant drivers in fiscal 2019 were non-cash interest expense from our interest rate collar, an increase in share-based compensation expense, and an increase in depreciation expense which totaled $6.0 million.

The above increases were partially offset by the following that decreased operating cash flows compared to the prior year:

- Working capital, consisting of accounts receivable, inventory, and accounts payable changes, negatively impacted fiscal 2019 versus the prior year by $8.6 million, as we had a larger inventory balance in fiscal 2019 (use of cash), which was partially offset by a higher accounts payable balance and lower accounts receivable balance (both sources of cash).

- The cash flow difference due to changes in other assets was a $4.7 million decrease (source of cash) from fiscal 2018 to fiscal 2019, but a $2.8 million increase (use of cash) from fiscal 2017 to fiscal 2018. The combined changes resulted in $7.4 million decrease in fiscal 2019 from the prior year. The primary driver of the change was a $3.8 million federal income tax receivable recorded in fiscal 2019 that was not recorded in fiscal 2018.

- Net income was lower by $6.5 million in fiscal 2019 compared to the prior year.

Total cash used in investing activities

Cash flows used in investing activities totaled $18.8 million for the fiscal year ended 2020, as compared with $35.5 million of cash flows used in investing activities for the fiscal year ended 2019. The $16.7 million decrease in cash used was primarily due to decreased spending on manufacturing assets associated with our new paint facility in fiscal 2020 as compared to fiscal 2019.

Cash flows used in investing activities totaled $35.5 million for the fiscal year ended 2019, as compared with $32.1 million of cash flows used in investing activities for the fiscal year ended 2018. The $3.4 million increase in cash used was primarily due to increased spending on manufacturing assets associated with our paint facility.

Total cash used in financing activities

Cash used in financing activities totaled $11.1 million for the fiscal year ended 2020, as compared with $9.5 million in cash used in financing activities for the fiscal year ended 2019. In fiscal 2020 we used more cash compared to the prior year on finance leases totaling $0.8 million million, debt issuance costs totaling $0.9 million, and payments of employee taxes for share-based compensation activity totaling $2.9 million. An increased source of cash, which partially offset cash use, was $2.7 million more in cash received for warrant exercises compared to the prior year. All of our existing warrants are now expired or exercised so this component of cash from financing activities is not expected to repeat in future years.

Cash used in financing activities totaled $9.5 million for the fiscal year ended 2019, as compared with $18.6 million in cash used in financing activities for the fiscal year ended 2018. The $9.1 million decrease in cash used was mainly attributed to a decrease of $26.6 million in cash spent on share repurchases under share repurchase programs, a $1.9 million decrease in cash dividends paid on preferred stock, and a $2.1 million decrease in debt principal payments. The decreases in cash used were partially offset by an increase of $2.0 million paid for debt issuance costs and a $1.6 million increase in cash taxes paid for employee taxes on vested restricted stock and stock option exercises.

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

Free cash flow

Management believes the non-GAAP measurement of free cash flow, defined as net cash 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 fiscal years presented:

(in thousands)	2020	2019	2018
Total cash provided by operating activities	$ 3,459	$ 55,706	$ 48,353
Cash paid for fixed assets and acquired intangible assets	(18,968)	(35,514)	(32,118)
Free cash flow	$ (15,509)	$ 20,192	$ 16,235

Free cash flow for the fiscal year ended 2020 was $35.7 million lower than free cash flow for the fiscal year ended 2019, primarily due to a $52.2 million decrease in cash provided by operating activities as discussed above. This was partially offset by a reduction of $16.5 million in cash paid for manufacturing assets as we limited capital expenditures in fiscal 2020 and had significant capital expenditures related to our new paint facility in fiscal 2019 that did not recur.

Free cash flow for the fiscal year ended 2019 was $4.0 million higher than free cash flow for the fiscal year ended 2018, primarily due to a $7.4 million increase from cash provided by operating activities as discussed above, partially offset by an increase of $3.4 million in cash paid for manufacturing assets.

Off-Balance Sheet arrangements

We had outstanding letters of credit totaling $6.9 million at October 3, 2020, the majority of which secure our self-insured workers compensation program, the collateral for which is regulated by the State of Georgia.

We had a $3.0 million guarantee outstanding at October 3, 2020 which relates to a guarantee of indebtedness for a term loan with a remaining maturity up to 2.3 years. The $3.0 million represents the estimated maximum amount we would be required to pay upon default of all guaranteed indebtedness, and we believe the likelihood of required performance to be remote.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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.

Use of Estimates and Assumptions

The preparation of financial statements in accordance with 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 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.

Revenue Recognition

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

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

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

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

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

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

Self-Insurance

The Company is self-insured for the majority of its workers' compensation and medical claims. The expected ultimate cost for claims incurred as of the balance sheet date is not discounted and is recognized as a liability. Self-insurance losses for claims filed and claims incurred but not reported are accrued based upon estimates of the aggregate liability for uninsured claims using loss development factors and actuarial assumptions followed in the insurance industry and historical loss development experience. At October 3, 2020 and September 28, 2019, reserves totaled approximately $5.0 million and $4.7 million, respectively.

Inventories

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 ("FIFO") 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. Obsolete inventory amounts are based on historical usage and assumptions about future demand.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the assets acquired less liabilities assumed in connection with such acquisition. In accordance with the provisions of Accounting Standards Codification ("ASC") 350, *Intangibles—Goodwill and Other* ("ASC 350"), goodwill and intangible assets with indefinite useful lives acquired in an acquisition are not amortized, but instead are tested for impairment at least annually or more frequently should an event occur or circumstances indicate that the carrying amount may be impaired. Such events or circumstances may be a significant change in business climate, economic and industry trends, legal factors, negative operating performance indicators, significant competition, changes in strategy or disposition of a reporting unit or a portion thereof. Although management believes the assumptions used in the determination of the value of the enterprise are reasonable, no assurance can be given that these assumptions will be achieved. As a result, impairment charges may occur when goodwill is tested for impairment in the future.

We have two reporting units for which we test goodwill for impairment: Bus and Parts. In the evaluation of goodwill for impairment, we have the option to perform a qualitative assessment to determine whether further impairment testing is necessary or to perform a quantitative assessment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. Under the qualitative assessment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. If under the quantitative assessment the fair value of a reporting unit is less than its carrying amount, then the amount of the impairment loss, if any, must be measured under step two of the impairment analysis. In step two of the analysis, we would record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value should such a circumstance arise.

Fair value of the reporting units is estimated primarily using the income approach, which incorporates the use of discounted cash flow ("DCF") analysis. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market shares, sales volumes and prices, costs to produce, tax rates, capital spending, discount rate and working capital changes. The cash flow forecasts are based on approved strategic operating plans.

During the fourth quarter of each fiscal year presented, we performed our annual impairment assessment of goodwill which did not indicate that an impairment existed.

In the evaluation of indefinite lived assets for impairment, we have the option to perform a qualitative assessment to determine whether further impairment testing is necessary, or to perform a quantitative assessment by comparing the fair value of an asset to its carrying amount. The Company's intangible asset with an indefinite useful life is the Blue Bird trade-name. Under the qualitative assessment, an entity is not required to calculate the fair value of the asset unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. If a qualitative assessment is not performed or if a quantitative assessment is otherwise required, then the entity compares the fair value of an asset to its carrying amount and the amount of the impairment loss, if any, is the difference between fair value and carrying value. The fair value of our trade name is derived by using the relief from royalty method, which discounts the estimated cash savings we realize by owning the name instead of otherwise having to license or lease it.

During the fourth quarter of each fiscal year presented, we performed our annual impairment assessment of our trade name which did not indicate that an impairment existed.

Our intangible assets with definite useful lives include customer relationships and engineering designs, which are amortized over their estimated useful lives of 2, 7, or 20 years using the straight-line method. These assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. No impairments have been recorded.

Pensions

We have pension benefit costs and obligations, which are developed from actuarial valuations. Actuarial assumptions attempt to anticipate future events and are used in calculating the expense and liability relating to our plan. These factors include assumptions we make about interest rates and expected investment return on plan assets. In addition, our actuarial consultants also use subjective factors such as mortality rates to develop our valuations. We review and update these assumptions on an annual basis at the beginning of each fiscal year. We are required to consider current market conditions, including changes in interest rates, in making these assumptions. Effective January 1, 2006, the benefit plan was frozen to all participants. No accrual of future benefits is earned or calculated beyond this date. Accordingly, our obligation estimate is based on benefits earned at that time discounted using an estimate of the single equivalent discount rate determined by matching the plan's future expected cash flows to spot rates from a yield curve comprised of high quality corporate bond rates of various durations. The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the pension benefit obligation. In estimating that rate, appropriate consideration is given to the returns being earned by the plan assets in the fund and rates of return expected to be available for reinvestment and a building block method and we consider asset allocations, input from an external pension investment adviser, and risks and other factors adjusted for our specific investment strategy. The focus is on long-term trends and provides for the consideration of recent plan performance.

The actuarial assumptions that we use may differ materially from actual results due to changing market and economic conditions as well as longer or shorter life spans of participants. These differences may result in a significant impact to the measurement of our pension benefit obligations, and to the amount of pension benefits expense we may record. For example, at October 3, 2020, a one-half percent increase in the discount rate would reduce the projected benefit obligation of our pension plans by approximately $10.2 million, while a one-half percent decrease in the discount rate would increase the projected benefit obligation of our pension plans by approximately $11.7 million.

Product Warranty Costs

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 a unit is sold. The methodology to determine the warranty reserve calculates the 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 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 cost of goods sold on the Consolidated Statements of Operations. The current methodology to determine 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.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes* ("ASC 740"), which requires an asset and liability approach to financial accounting and reporting for income taxes. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities. The Company evaluates its ability, based on the weight of evidence available, to realize future tax benefits from deferred tax assets and establishes a valuation allowance to reduce a deferred tax asset to a level which, more likely than not, will be realized in future years.

The Company recognizes uncertain tax positions based on a cumulative probability assessment if it is more likely than not that the tax position will be sustained upon examination by an appropriate tax authority with full knowledge of all information. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Amounts recorded for uncertain tax positions are periodically assessed, including the evaluation of new facts and circumstances, to ensure sustainability of the positions. The Company records interest and penalties related to unrecognized tax benefits in income tax expense.

Recent Accounting Pronouncements

A discussion of recently issued accounting standards applicable to the Company is described in Note 2, *Summary of Significant Accounting Policies and Recently Issued Accounting Standards,* in the Notes to Consolidated Financial Statements contained elsewhere in this Report, and we incorporate such discussion by reference herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in interest rates, currency exchange rates, and commodity prices.

Interest Rate Risk

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

Commodity Risk

The Company and its suppliers incorporate raw and finished commodities such as steel, copper, aluminum, and other automotive type commodities into its products. We often bid on contracts weeks or months before school buses are delivered and enter into school bus sales contracts with fixed prices per bus. The sales contracts generally do not have an indexed price escalation formula to account for economic fluctuations between the contract date and the delivery date. As a result, we are typically unable to pass along increased economic fluctuation costs to our customers. We generally purchase steel one quarter in advance, but because we generally do not otherwise hedge steel or the other primary commodities we purchase (rubber, aluminum and copper), changes in prices of raw materials can significantly impact future operating margins.

Currency Risk

The Company transacts substantially all of its sales in United States Dollars. Our foreign customers have exposure to risks related to changes in foreign currency exchange rates on our sales in that region, due in part to the time elapsed between a fixed price order date and delivery/payment for the order. Foreign currency exchange rates can have material adverse effects on our foreign customers' ability to purchase our products. Therefore, at times, we may allow them to pay in their local currency and we may utilize derivative instruments to hedge changes in foreign currency exchange rates for those transactions.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors
Blue Bird Corporation
Macon, Georgia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Blue Bird Corporation (the "Company") as of October 3, 2020 and September 28, 2019, the related consolidated statements of operations and comprehensive income, stockholders' deficit, and cash flows for each of the three years in the period ended October 3, 2020, and the related notes and schedule (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at October 3, 2020 and September 28, 2019, and the results of its operations and its cash flows for each of the three years in the period ended October 3, 2020**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of October 3, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated December 17, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

/s/ BDO USA, LLP

We have served as the Company's auditor since 2016.

Atlanta, Georgia

December 17, 2020

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Blue Bird Corporation
Macon, Georgia

Opinion on Internal Control over Financial Reporting

We have audited Blue Bird Corporation's (the "Company's") internal control over financial reporting as of October 3, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 3, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of October 3, 2020 and September 28, 2019, the related consolidated statements of operations and comprehensive income, stockholders' deficit, and cash flows for each of the three years in the period ended October 3, 2020, and the related notes and schedule and our report dated December 17, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP

Atlanta, Georgia

December 17, 2020

BLUE BIRD CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands except for share data)		October 3, 2020		September 28, 2019
Assets				
Current assets				
Cash and cash equivalents	$	44,507	$	70,959
Accounts receivable, net		7,623		10,537
Inventories		56,523		78,830
Other current assets		8,243		11,765
Total current assets	$	116,896	$	172,091
Property, plant and equipment, net		103,372		100,058
Goodwill		18,825		18,825
Intangible assets, net		51,632		54,720
Equity investment in affiliate		14,320		11,106
Deferred tax assets		4,365		3,600
Finance lease right-of-use assets		6,983		4,638
Other assets		1,022		375
Total assets	$	317,415	$	365,413
Liabilities and Stockholders' Deficit				
Current liabilities				
Accounts payable	$	57,602	$	102,266
Warranty		8,336		9,161
Accrued expenses		15,773		28,697
Deferred warranty income		8,540		8,632
Finance lease obligations		1,280		716
Other current liabilities		10,217		10,310
Current portion of long-term debt		9,900		9,900
Total current liabilities	$	111,648	$	169,682
Long-term liabilities				
Long-term debt	$	164,204	$	173,226
Warranty		13,038		13,182
Deferred warranty income		14,048		15,413
Deferred tax liabilities		254		168
Finance lease obligations		5,879		3,921
Other liabilities		14,315		12,108
Pension		47,259		45,524
Total long-term liabilities	$	258,997	$	263,542
Guarantees, commitments and contingencies (Note 10)				
Stockholders' deficit				
Preferred stock, $0.0001 par value, 10,000,000 shares authorized, 0 issued with liquidation preference of $0 at October 3, 2020 and September 28, 2019	$	—	$	—
Common stock, $0.0001 par value, 100,000,000 shares authorized, 27,048,404 and 26,476,336 shares outstanding at October 3, 2020 and September 28, 2019, respectively.		3		3
Additional paid-in capital		88,910		84,271
Accumulated deficit		(33,464)		(45,649)
Accumulated other comprehensive loss		(58,397)		(56,154)
Treasury stock, at cost, 1,782,568 shares at October 3, 2020 and September 28, 2019		(50,282)		(50,282)
Total stockholders' deficit	$	(53,230)	$	(67,811)
Total liabilities and stockholders' deficit	$	317,415	$	365,413

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

BLUE BIRD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands except for share data)	Fiscal Years Ended 2020		Fiscal Years Ended 2019		Fiscal Years Ended 2018	
Net sales	$	879,221	$	1,018,874	$	1,024,976
Cost of goods sold		783,021		885,400		902,988
Gross profit	$	96,200	$	133,474	$	121,988
Operating expenses						
Selling, general and administrative expenses		74,206		89,642		86,911
Operating profit	$	21,994	$	43,832	$	35,077
Interest expense		(12,252)		(12,879)		(6,661)
Interest income		11		9		70
Other income (expense), net		738		(1,331)		(1,613)
Income before income taxes	$	10,491	$	29,631	$	26,873
Income tax (expense) benefit		(1,519)		(7,573)		2,620
Equity in net income of non-consolidated affiliate		3,213		2,242		1,327
Net income	$	12,185	$	24,300	$	30,820
Earnings per share:						
Net income (from above)	$	12,185	$	24,300	$	30,820
Less: preferred stock dividends		—		—		1,896
Net income available to common stockholders	$	12,185	$	24,300	$	28,924
Basic weighted average shares outstanding		26,850,999		26,455,436		25,259,595
Diluted weighted average shares outstanding		27,086,555		27,043,814		28,616,862
Basic earnings per share	$	0.45	$	0.92	$	1.15
Diluted earnings per share	$	0.45	$	0.90	$	1.08

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

BLUE BIRD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Fiscal Years Ended 2020	Fiscal Years Ended 2019	Fiscal Years Ended 2018
Net income	$ 12,185	$ 24,300	$ 30,820
Other comprehensive (loss) income, net of tax			
Net change in defined benefit pension plan	(2,243)	(17,727)	5,448
Total other comprehensive (loss) income, net of tax	$ (2,243)	$ (17,727)	$ 5,448
Comprehensive income	$ 9,942	$ 6,573	$ 36,268

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

BLUE BIRD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended		
(in thousands)	2020	2019	2018
Cash flows from operating activities			
Net income	$ 12,185	$ 24,300	$ 30,820
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	14,400	10,383	9,042
Non-cash interest expense	3,651	3,822	771
Share-based compensation	4,141	4,273	2,628
Equity in net income of affiliate	(3,213)	(2,242)	(1,327)
(Gain) loss on disposal of fixed assets	(76)	5	114
Deferred taxes	29	6,632	5,655
Amortization of deferred actuarial pension losses	1,720	2,758	3,521
Foreign currency hedges	—	109	(109)
Changes in assets and liabilities:			
Accounts receivable	2,914	13,530	(13,920)
Inventories	22,308	(21,497)	17,786
Other assets	5,068	(4,651)	2,755
Accounts payable	(40,258)	6,318	3,096
Accrued expenses, pension and other liabilities	(19,410)	9,707	(14,307)
Dividend from equity investment in affiliate	—	2,259	1,828
Total adjustments	$ (8,726)	$ 31,406	$ 17,533
Total cash provided by operating activities	$ 3,459	$ 55,706	$ 48,353
Cash flows from investing activities			
Cash paid for fixed assets and acquired intangible assets	$ (18,968)	$ (35,514)	$ (32,118)
Proceeds from sale of fixed assets	165	47	14
Total cash used in investing activities	$ (18,803)	$ (35,467)	$ (32,104)
Cash flows from financing activities			
Borrowings under the term loan	$ —	$ 50,000	$ —
Repayments of the term loan	(9,900)	(9,900)	(7,850)
Principal payments on finance leases	(945)	(133)	—
Cash paid for capital leases	—	—	(158)
Cash paid for debt issuance costs	(935)	—	(2,006)
Payment of dividends on preferred stock	—	—	(1,896)
Cash paid for employee taxes on vested restricted shares and stock option exercises	(3,568)	(636)	(2,211)
Proceeds from exercises of warrants	4,240	1,499	22,102
Common stock, preferred stock, and warrant repurchases under share repurchase programs	—	—	(26,586)
Tender offer repurchase of common stock and preferred stock	—	(50,370)	—
Total cash used in financing activities	$ (11,108)	$ (9,540)	$ (18,605)
Change in cash and cash equivalents	(26,452)	10,699	(2,356)
Cash and cash equivalents, beginning of year	70,959	60,260	62,616
Cash and cash equivalents, end of year	$ 44,507	$ 70,959	$ 60,260

(in thousands)	Fiscal Years Ended 2020	2019	2018
Supplemental disclosures of cash flow information			
Cash paid or received during the period:			
Interest paid, net of interest received	$ 7,591	$ 10,408	$ 5,782
Income tax (received) paid, net of tax refunds	(1,542)	4,586	3,673
Non-cash Investing and Financing Activities:			
Changes in accounts payable for capital additions to property, plant and equipment and other current assets for capitalized intangible assets	$ (5,422)	$ 8,040	$ 6,389
Cashless exercise of stock options	5,246	481	3,570
Cashless exercise of warrants	—	416	—
Right-of-use assets obtained in exchange for operating lease obligations	—	8,040	—
Right-of-use assets obtained in exchange for finance lease obligations	3,496	4,770	—
Conversion of preferred stock into common stock	—	9,264	—

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

BLUE BIRD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

(in thousands except for share data)	Common Stock			Convertible Preferred Stock				Treasury Stock		
	Shares	Par Value	Additional Paid-In-Capital	Shares	Amount	Accumulated Other Comprehensive Loss	Accumulated Deficit	Shares	Amount	Total Stockholders' Deficit
Balance, September 30, 2017	23,739,344	$ 2	$ 45,418	400,000	$ 40,000	$ (43,875)	$ (100,055)	—	$ —	$ (58,510)
Exercise of stock warrants	1,921,901	1	22,102	—	—	—	—	—	—	22,103
Restricted stock activity	33,963	—	(370)	—	—	—	—	—	—	(370)
Stock option activity	97,504	—	(1,841)	—	—	—	—	—	—	(1,841)
Preferred stock dividends	—	—	(1,896)	—	—	—	—	—	—	(1,896)
Share repurchase program	(1,183,412)	—	(26,586)	—	—	—	—	—	—	(26,586)
Preferred stock conversion	2,649,962	—	30,700	(307,000)	(30,700)	—	—	—	—	—
Share-based compensation expense	—	—	2,496	—	—	—	—	—	—	2,496
Net income	—	—	—	—	—	—	30,820	—	—	30,820
Other comprehensive income, net of tax	—	—	—	—	—	5,448	—	—	—	5,448
Balance, September 29, 2018	27,259,262	$ 3	$ 70,023	93,000	$ 9,300	$ (38,427)	$ (69,235)	—	$ —	$ (28,336)
Adoption of new revenue recognition standard (ASC 606) adjustment	—	—	—	—	—	—	(714)	—	—	(714)
Exercise of stock warrants	144,996	—	1,499	—	—	—	—	—	—	1,499
Restricted stock activity	51,195	—	(596)	—	—	—	—	—	—	(596)
Stock option activity	3,836	—	(40)	—	—	—	—	—	—	(40)
Tender offer share repurchases	(1,782,568)	—	(52)	(364)	(36)	—	—	1,782,568	(50,282)	(50,370)
Preferred stock conversion	799,615	—	9,264	(92,636)	(9,264)	—	—	—	—	—
Share-based compensation expense	—	—	4,173	—	—	—	—	—	—	4,173
Net income	—	—	—	—	—	—	24,300	—	—	24,300
Other comprehensive loss, net of tax	—	—	—	—	—	(17,727)	—	—	—	(17,727)
Balance, September 28, 2019	26,476,336	$ 3	$ 84,271	—	$ —	$ (56,154)	$ (45,649)	1,782,568	$ (50,282)	$ (67,811)
Exercise of stock warrants	368,712	—	4,240	—	—	—	—	—	—	4,240
Restricted stock activity	94,724	—	(1,623)	—	—	—	—	—	—	(1,623)
Stock option activity	108,632	—	(1,945)	—	—	—	—	—	—	(1,945)
Share-based compensation expense	—	—	3,967	—	—	—	—	—	—	3,967
Net income	—	—	—	—	—	—	12,185	—	—	12,185
Other comprehensive loss, net of tax	—	—	—	—	—	(2,243)	—	—	—	(2,243)
Balance, October 3, 2020	27,048,404	$ 3	$ 88,910	—	$ —	$ (58,397)	$ (33,464)	1,782,568	$ (50,282)	$ (53,230)

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

BLUE BIRD CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Basis of Presentation

Nature of Business

Blue Bird Body Company, a wholly-owned subsidiary of Blue Bird, 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.

COVID-19

Beginning in our second fiscal quarter of 2020, the novel coronavirus known as "COVID-19" began to spread throughout the world, resulting in a global pandemic. The pandemic impacted our fiscal 2020 results, causing lower customer orders for both buses and bus parts, supply disruptions, higher rates of absenteeism among our hourly production workforce and a temporary shutdown of manufacturing. The continuing development and fluidity of the pandemic precludes any prediction as to the ultimate severity of the adverse impacts on our business, financial condition, results of operations, and liquidity. A prolonged economic downturn resulting from the continuing pandemic would likely have a material adverse impact on our financial results.

Basis of Presentation

The accompanying 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 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 2020 there were 53 weeks and there were 52 weeks in fiscal years 2019 and 2018.

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

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, including the extent and duration of the COVID-19 related economic impacts, 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 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.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

Accounts receivable consist of amounts owed to the Company by customers. The Company monitors collections and payments from customers, and generally does not require collateral. Accounts receivable are generally due within 30 to 90 days. The Company provides for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. The Company reserves for an account when it is considered potentially uncollectible. The Company estimates its allowance for doubtful accounts based on historical experience, aging of accounts receivable and information regarding the creditworthiness of its customers. To date, losses have been within the range of management's expectations. The Company writes off accounts receivable if it determines that the account is uncollectible.

Revenue Recognition

The Company records revenue when the following five steps have been completed:

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

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

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

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

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

See Note 12, *Revenue*, for further revenue information. See Note 3, *Supplemental Financial Information,* for further information on warranties.

Self-Insurance

The Company is self-insured for the majority of its workers' compensation and medical claims. The expected ultimate cost for claims incurred as of the balance sheet date is not discounted and is recognized as a liability. Self-insurance losses for claims filed and claims incurred but not reported are accrued based upon estimates of the aggregate liability for uninsured claims, using loss development factors and actuarial assumptions followed in the insurance industry and historical loss development experience. See Note 3, *Supplemental Financial Information,* and Note 16*, Benefit Plans,* for further information.

Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, accounts payable, revolving credit facilities and long-term debt. The carrying amounts of cash and cash equivalents, trade receivables and accounts payable approximate their fair values because of the short-term maturity and highly liquid nature of these instruments. The carrying value of the Company's term loan approximates fair value due to the variable interest rate. See Note 8, *Debt,* for further discussion.

Derivative Instruments

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

Inventories

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 ("FIFO") 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. Obsolete inventory amounts are based on historical usage and assumptions about future demand.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis using the following periods, which represent the estimated useful lives of the assets:

	Years
Buildings	15 - 33
Machinery and equipment	5 - 10
Office furniture, equipment and other	3 - 10
Computer equipment and software	3 - 7

Costs, including capitalized interest and certain design, construction and installation costs related to assets that are under construction and are in the process of being readied for their intended use, are recorded as construction in progress and are not depreciated until such time as the subject asset is placed in service. Repairs and maintenance that do not extend the useful life of the asset are expensed as incurred. Upon sale, retirement, or other disposition of these assets, the costs and related accumulated depreciation are removed from the respective accounts and any gain or loss on the disposition is included on our Consolidated Statements of Operations.

Leases

We determine if an arrangement is or contains a lease at inception. The Company enters into lease arrangements primarily for office space, warehouse space, or a combination of both. We elected to account for leases with initial terms of 12 months or less as straight-line expense and not record assets or liabilities. For a lease with an initial term greater than 12 months, the Company recognizes a right-of-use ("ROU") asset and lease liability on the Consolidated Balance Sheets. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

We determine whether the lease is an operating or finance lease at inception based on the information and expectations for the lease at that time. Operating lease ROU assets are included in property, plant and equipment and the lease liabilities are included in other current liabilities and other liabilities on our Consolidated Balance Sheets. Finance lease ROU assets are included in finance lease right-of-use assets and the lease liabilities are included in finance lease obligations (current) and finance lease obligations (long-term) on our Consolidated Balance Sheets.

Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the leases recorded do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease ROU assets also include any base rental or lease payments made and excludes lease incentives.

The two components of operating lease expense, amortization and interest, are recognized on a straight-line basis over the lease term as a single expense element within selling, general and administrative expenses on the Consolidated Statements of Operations. Under the finance lease model, interest on the lease liability is recognized in interest expense and amortization of ROU assets is recorded on the Consolidated Statements of Operations based on the underlying use of the assets.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If we are required to analyze recoverability based on a triggering event, undiscounted future cash flows over the estimated remaining life of the asset, or asset group, are projected. If these projected cash flows are less than the carrying amount, an impairment loss is recognized to the extent the fair value of the asset less any costs of disposition is less than the carrying amount of the asset. Judgments regarding the existence of impairment indicators are based on market and operational performance. Evaluating potential impairment also requires estimates of future operating results and cash flows. No impairment charge was recognized in any of the periods presented.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the assets acquired less liabilities assumed in connection with such acquisition. In accordance with the provisions of ASC 350, *Intangibles—Goodwill and Other*, goodwill and intangible assets with indefinite useful lives acquired in an acquisition are not amortized, but instead are tested for impairment at least annually or more frequently should an event occur or circumstances indicate that the carrying amount may be impaired. Such events or circumstances may be a significant change in business climate, economic and industry trends, legal factors, negative operating performance indicators, significant competition, changes in strategy or disposition of a reporting unit or a portion thereof.

We have two reporting units for which we test goodwill for impairment: Bus and Parts. In the evaluation of goodwill for impairment, we have the option to perform a qualitative assessment to determine whether further impairment testing is necessary or to perform a quantitative assessment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. Under the qualitative assessment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. If, under the quantitative assessment, the fair value of a reporting unit is less than its carrying amount, then the amount of the impairment loss, if any, must be measured under step two of the impairment analysis. In step two of the analysis, we would record an impairment loss equal to the excess of the carrying value of the reporting unit's goodwill over its implied fair value, should such a circumstance arise.

Fair value of the reporting units is estimated primarily using the income approach, which incorporates the use of discounted cash flow ("DCF") analysis. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market shares, sales volumes and prices, costs to produce, tax rates, capital spending, discount rate and working capital changes. The cash flow forecasts are based on approved strategic operating plans and long-term forecasts.

In the evaluation of indefinite lived assets for impairment, we have the option to perform a qualitative assessment to determine whether further impairment testing is necessary, or to perform a quantitative assessment by comparing the fair value of an asset to its carrying amount. The Company's intangible asset with an indefinite useful life is the "Blue Bird" trade name. Under the qualitative assessment, an entity is not required to calculate the fair value of the asset unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. If a qualitative assessment is not performed or if a quantitative assessment is otherwise required, then the entity compares the fair value of an asset to its carrying amount and the amount of the impairment loss, if any, is the difference between fair value and carrying value. The fair value of our trade name is derived by using the relief from royalty method, which discounts the estimated cash savings we realized by owning the name instead of otherwise having to license or lease it.

Our intangible assets with a definite useful life are amortized over their estimated useful lives, 2, 7, or 20 years, using the straight-line method. The useful lives of our intangible assets are reassessed annually and they are tested for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable.

Debt Issue Costs

Amounts paid directly to lenders or as an original issue discount and amounts classified as issuance costs are recorded as a reduction in the carrying value of the debt, for which the Company had deferred financing costs totaling $2.2 million and $3.1 million at October 3, 2020 and September 28, 2019, respectively, incurred in connection with its debt facilities and related amendments.

All deferred financing costs are amortized to interest expense. The effective interest method is used for debt discounts related to the term loan. The Company's amortization of these costs was $0.9 million, $0.9 million and $0.8 million for the fiscal years ended 2020, 2019 and 2018, respectively, and is reflected as a component of interest expense on the Consolidated Statements of Operations. See Note 8, *Debt*, for a discussion of the Company's indebtedness.

Pensions

The Company accounts for its pension benefit obligations using actuarial models. The measurement of plan obligations and assets was made at October 3, 2020. Effective January 1, 2006, the benefit plan was frozen to all participants. No accrual of future benefits is earned or calculated beyond this date. Accordingly, our obligation estimate is based on benefits earned at that time discounted using an estimate of the single equivalent discount rate determined by matching the plan's future expected cash flows to spot rates from a yield curve comprised of high quality corporate bond rates of various durations. The Company recognizes the funded status of its pension plan obligations on the Consolidated Balance Sheet and records in other comprehensive income (loss) certain gains and losses that arise during the period, but are deferred under pension accounting rules. Pension expense is recognized as a component of other expense, net on our Consolidated Statements of Operations.

Product Warranty Costs

The Company's products are generally warranted against defects in material and workmanship for a period of one year to five years. A provision for estimated warranty costs is recorded at the time a unit is sold. The methodology to determine the warranty reserve calculates the 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 Bus segment 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 Consolidated Statements of Operations. The current methodology to determine 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. See Note 3, *Supplemental Financial Information,* for further information.

Research and Development

Research and development costs are expensed as incurred and included in selling, general and administrative expenses on our Consolidated Statements of Operations. For the fiscal years ended 2020, 2019 and 2018, the Company expensed $6.4 million, $11.5 million and $8.5 million, respectively.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes* ("ASC 740"), which requires an asset and liability approach to financial accounting and reporting for income taxes. Under this approach, deferred income taxes represent the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities. The Company evaluates its ability, based on the weight of evidence available, to realize future tax benefits from deferred tax assets and establishes a valuation allowance to reduce a deferred tax asset to a level which, more likely than not, will be realized in future years.

The Company recognizes uncertain tax positions based on a cumulative probability assessment if it is more likely than not that the tax position will be sustained upon examination by an appropriate tax authority with full knowledge of all information. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Amounts recorded for uncertain tax positions are periodically assessed, including the evaluation of new facts and circumstances, to ensure sustainability of the positions. The Company records interest and penalties related to unrecognized tax benefits in income tax expense.

Environmental Liabilities

The Company records reserves for environmental liabilities on a discounted basis when environmental investigation and remediation obligations are probable and related costs are reasonably estimable. See Note 10, *Guarantees, Commitments and Contingencies,* for further information.

Segment Reporting

Operating segments are components of an entity that engage in business activities with discrete financial information available that is regularly reviewed by the chief operating decision maker ("CODM") in order to assess performance and allocate resources. The Company's CODM is the Company's President and Chief Executive Officer. As discussed further in Note 11, *Segment Information*, the Company determined its operating and reportable segments to be Bus and Parts. The Bus segment includes the manufacturing and assembly of school 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.

Statement of Cash Flows

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

Recently Adopted Accounting Standards

ASU 2018-02 – In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*. This ASU provides guidance on a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for the effect of the tax rate change resulting from the Tax Cuts and Jobs Act (H.R.1) (the "Tax Act"). The amendments eliminate the stranded tax effects resulting from the Tax Act and improve the usefulness of information reported to financial statement users. This ASU was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We adopted this ASU, in the first quarter of fiscal 2020, and did not elect to reclassify the income tax effects of the Tax Act from AOCI to retained earnings. We use a specific identification approach to release the income tax effects in AOCI.

ASU 2019-12 – In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*, which simplifies the process for calculating interim (intraperiod) income taxes and the accounting for deferred tax liabilities for foreign equity-method investments, among other simplifications. We early adopted this standard effective the first quarter of fiscal 2020 and the the impacts of adopting this standard were not material.

Recently Issued Accounting Standards

ASU 2020-04 – On March 12, 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, providing temporary guidance to ease the potential burden in accounting for reference rate reform primarily resulting from the discontinuation of LIBOR, which is currently expected to occur on December 31, 2021. The amendments in ASU 2020-04 are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. An entity may elect to apply the amendments prospectively from March 12, 2020 through December 31, 2022. Our debt and derivative agreements currently reference LIBOR. Contract language is expected to be incorporated into these agreements to address the transition to an alternative reference rate. We are currently evaluating the impact this ASU may have on our consolidated financial statements.

3. Supplemental Financial Information

Accounts Receivable

Accounts receivable, net, consisted of the following at the dates indicated:

(in thousands)	October 3, 2020	September 28, 2019
Accounts receivable	$ 7,723	$ 10,637
Allowance for doubtful accounts	(100)	(100)
Accounts receivable, net	$ 7,623	$ 10,537

Product Warranties

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

(in thousands)	2020	2019	2018
Balance at beginning of period	$ 22,343	$ 22,646	$ 20,910
Add: current period accruals	8,980	10,869	11,454
Less: current period reductions of accrual	(9,949)	(11,172)	(9,718)
Balance at end of period	$ 21,374	$ 22,343	$ 22,646

Extended Warranties

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

(in thousands)	2020	2019	2018
Balance at beginning of period	$ 24,045	$ 23,191	$ 19,295
Add: current period deferred income	7,298	9,238	10,854
Less: current period recognition of income	(8,755)	(8,384)	(6,958)
Balance at end of period	$ 22,588	$ 24,045	$ 23,191

The outstanding balance of deferred warranty income in the table above is considered a "contract liability", and represents a performance obligation of the Company that we satisfy over the term of the arrangement but for which we have been paid in full at the time the warranty was sold. We expect to recognize $8.5 million of the outstanding contract liability in fiscal 2021, and the remaining balance thereafter.

Self-Insurance

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

(in thousands)	October 3, 2020	September 28, 2019
Current portion	$ 2,993	$ 2,933
Long-term portion	1,962	1,775
Total accrued self-insurance	$ 4,955	$ 4,708

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

Shipping and Handling

Shipping and handling revenues recognized were $16.9 million, $19.4 million and $20.7 million for the fiscal years ended 2020, 2019 and 2018, respectively. The related cost of goods sold were $14.5 million, $17.0 million and $17.8 million for the fiscal years ended 2020, 2019 and 2018, respectively.

Derivative Instruments

We are charged variable rates of interest on our indebtedness outstanding under the Amended Credit Agreement (defined in Note 8) which exposes us to fluctuations in interest rates. On October 24, 2018, the Company entered into a four-year interest rate collar with a $150.0 million notional value with an effective date of November 30, 2018. The collar was entered into in order to partially mitigate our exposure to interest rate fluctuations on our variable rate debt. The collar establishes a range where we will pay the counterparty if the three-month LIBOR rate falls below the established floor rate of 1.5%, and the counterparty will pay us if the three-month LIBOR rate exceeds the ceiling rate of 3.3% The collar settles quarterly through the termination date of September 30, 2022. No payments or receipts are exchanged on the interest rate collar contracts unless interest rates rise above or fall below the contracted ceiling or floor rates. During the fiscal year ended October 3, 2020, the three-month LIBOR rate fell below the established floor, which required an immaterial cash payment to the counterparty. Additionally, $0.5 million was accrued as interest expense in the fourth quarter of fiscal 2020 when the three-month LIBOR rate again fell below the established floor and is expected to be paid in the first quarter of fiscal 2021.

Changes in the interest rate collar fair value are recorded in interest expense as the collar does not qualify for hedge accounting. At October 3, 2020, the fair value of the interest rate collar contract was $(3.8) million and is included in "other current liabilities" on the Consolidated Balance Sheets. The fair value of the interest rate collar is a Level 2 fair value measurement, based on quoted prices of similar items in active markets.

4. Inventories

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

(in thousands)	October 3, 2020	September 28, 2019
Raw materials	$ 43,272	$ 60,033
Work in process	8,989	16,663
Finished goods	4,262	2,134
Total inventories	$ 56,523	$ 78,830

5. Property, Plant and Equipment

Property, plant and equipment, net, consisted of the following at the dates indicated:

(in thousands)	October 3, 2020	September 28, 2019
Land	$ 2,164	$ 2,164
Buildings	46,509	45,550
Machinery and equipment	100,112	97,460
Office furniture, equipment and other	2,184	2,182
Computer equipment and software	17,443	16,638
Construction in process	18,028	8,421
Property, plant and equipment, gross	186,440	172,415
Accumulated depreciation and amortization	(88,925)	(79,229)
Operating lease right-of-use assets (1)	5,857	6,872
Property, plant and equipment, net	$ 103,372	$ 100,058

(1) Further information is included in Note 10, *Guarantees, Commitments and Contingencies*.

Depreciation and amortization expense for property, plant and equipment was $10.1 million, $7.3 million, and $7.0 million for the fiscal years ended 2020, 2019, and 2018, respectively.

We capitalized $0.5 million of interest expense in the fiscal year ended 2020 related to the construction of plant manufacturing assets.

6. Goodwill

The carrying amounts of goodwill by reporting unit are as follows at the dates indicated:

(in thousands)	Gross Goodwill	Accumulated Impairments	Net Goodwill
October 3, 2020			
Bus	$ 15,139	$ —	$ 15,139
Parts	3,686	—	3,686
Total	$ 18,825	$ —	$ 18,825
September 28, 2019			
Bus	$ 15,139	$ —	$ 15,139
Parts	3,686	—	3,686
Total	$ 18,825	$ —	$ 18,825

In the fourth quarters of the fiscal years ended 2020 and 2019, we performed our annual impairment assessment of goodwill which did not indicate that an impairment existed; therefore, no impairments of goodwill have been recorded.

7. Intangible Assets

The gross carrying amounts and accumulated amortization of intangible assets are as follows at the dates indicated:

	October 3, 2020			September 28, 2019		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Total	Gross Carrying Amount	Accumulated Amortization	Total
Finite lived: Engineering designs	$ 3,156	$ 2,556	$ 600	$ 3,156	$ 1,337	$ 1,819
Finite lived: Customer relationships	37,425	26,209	11,216	37,425	24,340	13,085
Total amortized intangible assets	40,581	28,765	11,816	40,581	25,677	14,904
Indefinite lived: Trade name	39,816	—	39,816	39,816	—	39,816
Total intangible assets	$ 80,397	$ 28,765	$ 51,632	$ 80,397	$ 25,677	$ 54,720

Management considers the "Blue Bird" trade name to have an indefinite useful life and, accordingly, it is not subject to amortization. Management reached this conclusion principally due to the longevity of the Blue Bird name and because management considers renewal upon reaching the legal limit of the trademarks related to the trade name as perfunctory. The Company expects to maintain usage of the trade name on existing products and introduce new products in the future that will also display the trade name. During the fourth quarters of the fiscal years ended 2020 and 2019, we performed our annual impairment assessment of our trade name, which did not indicate that an impairment existed; therefore, no impairment of our indefinite lived intangible has been recorded.

Customer relationships are amortized on a straight-line basis over an estimated life of 20 years. Engineering designs are amortized on a straight-line basis over an estimated life of 2 or 7 years. Total amortization expense for intangible assets was $3.1 million, $2.9 million, and $2.0 million for the fiscal years ended 2020, 2019, and 2018, respectively.

Amortization expense for finite lived intangible assets for the next five years is expected to be as follows:

(in thousands)

Fiscal Years Ending	Amortization Expense
2021	$ 2,189
2022	2,010
2023	2,010
2024	1,869
2025	1,869
Thereafter	1,869
Total amortization expense	$ 11,816

8. Debt

Original Credit Agreement

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

The credit facility provided for under the Credit Agreement consisted 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 a $5.0 million swing-line sub-facility (the “Revolving Credit Facility,” and together with the Term Loan Facility, each a “Credit Facility” and collectively, the “Credit Facilities”). 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.

First Amendment to the Credit Agreement

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

The First Amended Credit Agreement also increased the revolving credit facility to $100.0 million from $75.0 million, a $25.0 million increase. The amendment extended the maturity date to September 13, 2023, five years from the effective date of the first amendment. The first amendment also amended the interest rate pricing matrix (as follows) as well as the principal payment schedule (as disclosed at the end of this footnote). In connection with the First Amended Credit Agreement, we incurred $2.0 million of debt discount and issuance costs, which were recorded as contra-debt and will be amortized over the life of the First Amended Credit Agreement using the effective interest method.

The interest rate on the Term Loan Facility was (i) from the first amendment effective date until the first quarter ended on or about September 30, 2018, LIBOR plus 2.25%, and (ii) commencing with the fiscal quarter ended on or about September 30, 2018 and thereafter, dependent on the Total Net Leverage Ratio of the Company, an election of either base rate or LIBOR pursuant to the table below:

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

Second Amendment to the Credit Agreement

On May 7, 2020, the Company entered into a second amendment which amended the First Amended Credit Agreement, dated as of September 13, 2018 (the "Second Amended Credit Agreement"). The Second Amended Credit Agreement provided $41.9 million in additional revolving commitments bringing the total revolving commitments to $141.9 million. The revolving commitments under the Second Amended Credit Agreement matures on September 13, 2023, which is the fifth anniversary of the effective date of the First Amended Credit Agreement. The interest rate pricing grid remained unchanged, but the LIBOR floor was amended from 0% to 0.75%. We incurred $0.9 million in fees related to the amendment. The fees were capitalized to other assets on the Consolidated Balance Sheets and are amortized on a straight-line basis to interest expense until maturity of the agreement.

Additional Disclosures

Debt consisted of the following at the dates indicated:

(in thousands)	October 3, 2020	September 28, 2019
2023 term loan, net of deferred financing costs of $2,246 and $3,124, respectively	$ 174,104	$ 183,126
Less: Current portion of long-term debt	9,900	9,900
Long-term debt, net of current portion	$ 164,204	$ 173,226

Term loans are recognized on the 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 the unpaid principal balance to approximate 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 October 3, 2020 and September 28, 2019, $176.4 million and $186.3 million, respectively, were outstanding on the term loans.

At October 3, 2020 and September 28, 2019, the stated interest rates on the term loans were 3.5% and 4.4%, respectively. At October 3, 2020 and September 28, 2019, the weighted-average annual effective interest rates for the term loans were 4.1% and 5.0%, respectively, which included amortization of the deferred financing costs.

No borrowings were outstanding on the Revolving Credit Facility at October 3, 2020; however, there were $6.9 million of Letters of Credit outstanding on October 3, 2020, providing the Company the ability to borrow $135.0 million on the revolving line of credit.

Interest expense on all indebtedness for the fiscal years ended 2020, 2019 and 2018 was $12.3 million, $12.9 million, and $6.7 million, respectively.

The schedule of remaining principal maturities for total debt is as follows:

(in thousands) Year	Principal Payments
2021	$ 9,900
2022	14,850
2023	151,600
Total remaining principal payments	$ 176,350

9. Income Taxes

The components of income tax (expense) benefit were as follows for the fiscal years presented:

(in thousands)	2020	2019	2018
Current tax provision:			
Federal	$ (1,425)	$ 156	$ 8,925
State	(65)	(985)	(559)
Foreign	—	(112)	(91)
Total current tax (provision) benefit	$ (1,490)	$ (941)	$ 8,275
Deferred tax provision:			
Federal	$ (715)	$ (5,844)	$ (6,816)
State	686	(788)	1,161
Total deferred tax (provision) benefit	(29)	(6,632)	(5,655)
Income tax (expense) benefit	$ (1,519)	$ (7,573)	$ 2,620

At October 3, 2020, the Company had $8.0 million in state tax credit carryforwards and no federal tax credit carryforwards. The Company maintains a partial valuation allowance on the state tax credit carryforwards. Of this balance, the Company estimates approximately $3.6 million of state tax credit carryforwards will expire unused between 2029 and 2031.

At October 3, 2020, the Company had $11.3 million in state net operating loss ("NOL") carryforwards and no Federal NOL carryfowards. Of this balance, the Company estimates approximately $10.9 million of state NOL carryforwards will expire unused between 2028 and 2033.

The effective tax rates for the fiscal years ended 2020, 2019 and 2018 were 14.5%, 25.6% and (9.7)%, respectively.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (“Tax Act”), which significantly changed U.S. tax law. The Tax Act lowered the Company’s U.S. statutory federal income tax rate from 35% to 21% effective January 1, 2018, while also imposing a deemed repatriation tax on previously deferred foreign income. While the statutory rate was 21% in 2018, the Company applied a transitional or blended U.S. statutory federal income tax rate of 24.5% for the fiscal year ended 2018.

The impact of the Tax Act decreased our benefit for income taxes by $2.1 million in 2018. The decrease was composed of $2.0 million related to the re-measurement of net deferred tax assets and liabilities and $0.1 million associated with the deemed repatriation tax. In 2018, we finalized our tax reform estimates under Staff Accounting Bulletin 118.

The effective tax rate for the fiscal year ended 2020 differed from the statutory Federal income tax rate of 21.0%. There were minor items that lowered the effective tax rate to 14.5%, primarily the impacts of tax credits and state taxes on the Federal rate. These were offset to a lesser degree by the recording of a partial valuation allowance for state taxes and minor provision to return adjustments.

The effective tax rate for the fiscal year ended 2019 significantly differed from the statutory federal income tax rate of 21%, mainly due to the unfavorable impact of valuation allowances, share-based and other compensation limitations, and state taxes, which included the application of tax credits claimed as offsets against our payroll tax liabilities. The valuation allowance increased mainly due to the accrual of income tax credits that were greater than our ability to utilize before expiration. These items were partially offset by benefits from federal and state tax credits.

The effective tax rate for the fiscal year ended 2018 differed from the statutory federal income tax rate of 24.5%, mainly due to one-time events like the decrease in our uncertain tax positions and a re-measurement of our deferred tax assets and liabilities as a result of the Tax Act. The rate was also favorably impacted by normal tax rate benefit items, such as the domestic production activities deduction, federal and state tax credits, and share based award related deductions in excess of recorded book expense.

A reconciliation between the reported income tax (expense) benefit and the amount computed by applying the statutory federal income tax rate is as follows:

(in thousands)	2020	2019	2018
Federal tax expense at statutory rate	$ (2,203)	$ (6,223)	$ (6,584)
(Increase) reduction in income taxes resulting from:			
State taxes, net	1,508	(611)	1,501
Change in uncertain tax positions	—	—	7,606
Share-based compensation	188	(320)	735
Permanent items	(33)	(59)	366
Valuation allowance	(977)	(1,043)	(783)
Tax credits	390	470	470
Return to accrual true-ups	(260)	115	1,699
Investor tax on non-consolidated affiliate income	(185)	14	1,734
Tax rate adjustments	—	(32)	(3,756)
Other	53	116	(368)
Income tax (expense) benefit	$ (1,519)	$ (7,573)	$ 2,620

The Company's liability arising from uncertain tax positions was recorded in other non-current liabilities on the Consolidated Balance Sheets. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(in thousands)	2020	2019	2018
Balance, beginning of year	$ —	$ —	$ 6,389
Lapses of applicable statute of limitations	—	—	(6,389)
Balance, end of year	$ —	$ —	$ —

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. There were no accrued interest and penalties at October 3, 2020 and September 28, 2019.

The Company is subject to taxation mostly in the United States and various state jurisdictions. At October 3, 2020, tax years prior to 2015 are generally no longer subject to examination by federal and most state tax authorities.

The following table sets forth the sources of and differences between the financial accounting and tax bases of the Company's assets and liabilities which give rise to the net deferred tax assets at the dates indicated:

(in thousands)	October 3, 2020	September 28, 2019
Deferred tax liabilities		
Property, plant and equipment	$ (11,029)	$ (12,944)
Other intangible assets	(11,807)	(12,054)
Investor tax on non-consolidated affiliate income	(668)	(495)
Other assets	(135)	(93)
Total deferred tax liabilities	$ (23,639)	$ (25,586)
Deferred tax assets		
NOL carryforward	$ 600	$ 601
Accrued expenses	8,419	7,923
Compensation	11,416	12,415
Inventories	1,017	1,023
Unearned income	3,444	3,669
Tax credits	6,307	5,863
Total deferred tax assets	$ 31,203	$ 31,494
Less: valuation allowance	(3,453)	(2,476)
Deferred tax assets less valuation allowance	$ 27,750	$ 29,018
Net deferred tax assets	$ 4,111	$ 3,432

10. Guarantees, Commitments and Contingencies

Litigation

At October 3, 2020, 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 impact 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.

Our environmental liability using a discount rate of 8.8%, included in current accrued expenses and other long-term liabilities on the Consolidated Balance Sheets, was $0.2 million and $0.4 million at October 3, 2020 and September 28, 2019, respectively. The estimated aggregate undiscounted amount that will be incurred over the next seven years is $0.6 million. At October 3, 2020, the estimated payments for each of the next five years are $0.1 million per year and the aggregate amount thereafter is $0.2 million. Future expenditures may exceed the amounts accrued and estimated.

Guarantees

In the ordinary course of business, we may provide guarantees for certain transactions entered into by our dealers. At October 3, 2020, we had a $3.0 million guarantee outstanding which relates to a guarantee of indebtedness for a term loan with a remaining maturity up to 2.3 years. The $3.0 million represents the estimated maximum amount we would be required to pay upon default of all guaranteed indebtedness, and we believe the likelihood of required performance to be remote. At October 3, 2020, $0.3 million was included in other current liabilities on our Consolidated Balance Sheets for the estimated fair value of the guarantee.

Lease Commitments

We have operating and finance leases for office space, warehouse space, or a combination of both. Our leases have remaining lease terms ranging from 4 years, 2 months to 7.2 years with the option to extend leases for up to 5.0 years.

The components of lease costs included on the Consolidated Statements of Operations are as follows:

(in thousands)		Fiscal Years Ended	
Lease cost	**Classification**	**2020**	**2019**
Operating leases	Selling, general and administrative expenses	$ 1,440	$ 1,898
Finance leases			
Amortization of lease assets	Cost of goods sold	1,168	133
Interest on lease liabilities	Interest expense	238	17
Short-term leases (1)	Cost of goods sold or selling, general and administrative expenses	1,390	1,356
Total lease cost		$ 4,236	$ 3,404

(1) Short-term lease cost includes both leases and rentals with initial terms of one year or less. Classification depends on the purpose of the underlying lease.

Total rent expense was $2.0 million for the fiscal year 2018.

The following table summarizes the lease amounts included on the Consolidated Balance Sheets as follows:

(in thousands)	**Balance Sheet Location**	**October 3, 2020**	**September 28, 2019**
Assets			
Operating	Property, plant and equipment	$ 5,857	$ 6,872
Finance (1)	Finance lease right-of-use	6,983	4,638
Total lease assets		$ 12,840	$ 11,510
Liabilities			
Current			
Operating	Other current liabilities	$ 1,060	$ 1,187
Finance	Finance lease obligations	1,280	716
Long-term			
Operating	Other liabilities	6,651	7,658
Finance	Finance lease obligations	5,879	3,921
Total lease liabilities		$ 14,870	$ 13,482

(1) Net of accumulated amortization of $1.3 million and $0.1 million, respectively.

The operating leases recorded do not assume renewal based on our analysis of those leases and their contractual terms. One of our finance leases assumes renewal based on our expectations with regard to the lease and the contractual terms.

Lease liability maturities are presented in the following table:

(in thousands)	October 3, 2020		
Fiscal Years Ended	**Operating**	**Finance**	**Total**
2021	$ 1,388	$ 1,530	$ 2,918
2022	1,404	1,530	2,934
2023	1,427	1,530	2,957
2024	1,444	1,530	2,974
2025	1,456	1,755	3,211
Thereafter	1,780	—	1,780
Total future minimum lease payments	8,899	7,875	16,774
Less: imputed interest	1,188	716	1,904
Total lease liabilities	$ 7,711	$ 7,159	$ 14,870

Lease terms and discount rates are presented in the following table:

	October 3, 2020	
	Operating	**Finance**
Weighted average remaining lease term	6.3 years	4.7 years
Weighted average discount rate	4.5%	3.8%

Supplemental cash flow information is presented in the following table:

	Fiscal Years Ended	
(in thousands)	**2020**	**2019**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows - operating leases	$ 1,711	$ 1,758
Operating cash flows - finance leases	238	17
Financing cash flows - finance leases	945	133
Right-of-use assets exchanged for lease liabilities		
Operating leases	$ —	$ 8,040
Finance leases	3,496	4,770

Purchase Commitments

In the ordinary course of business, the Company enters into short-term contractual purchase orders for manufacturing inventory and capital assets. The amount of these commitments is expected to be as follows:

(in thousands)	
Fiscal Years Ended	**Amount**
2021	$ 82,325
2022	159
Total purchase commitments	$ 82,484

11. Segment Information

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

Net sales

(in thousands)	2020	2019	2018
Bus (1)	$ 822,616	$ 952,242	$ 962,769
Parts (1)	56,605	66,632	62,207
Segment net sales	$ 879,221	$ 1,018,874	$ 1,024,976

(1) Parts segment revenue includes $4.1 million, $3.5 million, and $2.4 million for the fiscal years ended 2020, 2019 and 2018, respectively, related to inter-segment sales of parts that was eliminated by the Bus segment upon consolidation.

Gross profit

(in thousands)	2020	2019	2018
Bus	$ 76,059	$ 110,015	$ 100,002
Parts	20,141	23,459	21,986
Segment gross profit	$ 96,200	$ 133,474	$ 121,988

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

(in thousands)	2020	2019	2018
Segment gross profit	$ 96,200	$ 133,474	$ 121,988
Adjustments:			
Selling, general and administrative expenses	(74,206)	(89,642)	(86,911)
Interest expense	(12,252)	(12,879)	(6,661)
Interest income	11	9	70
Other income (expense), net	738	(1,331)	(1,613)
Income before income taxes	$ 10,491	$ 29,631	$ 26,873

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

(in thousands)	2020	2019	2018
United States	$ 795,207	$ 929,523	911,558
Canada	79,442	80,056	106,762
Rest of world	4,572	9,295	6,656
Total net sales	$ 879,221	$ 1,018,874	1,024,976

12. Revenue

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

	Fiscal Years Ended		
(in thousands)	2020	2019	2018
Diesel buses	$ 397,567	$ 476,909	$ 588,863
Alternative fuel buses (1)	381,555	426,508	344,021
Other (2)	45,191	50,906	31,900
Parts	54,908	64,551	60,192
Net sales	$ 879,221	$ 1,018,874	$ 1,024,976

(1) Includes buses sold with any fuel source other than diesel (e.g., gasoline, propane, CNG, electric).
(2) Includes shipping and handling revenue, extended warranty income, surcharges, chassis, and bus shell sales.

13. Stockholders' Deficit

Repurchase of Convertible Preferred Stock

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

Tender Offer

On October 15, 2018, the Company received $50.0 million in funding from the Amended Credit Agreement (refer to Note 8, *Debt*, for more information). In conjunction with the debt funding, we conducted a tender offer and accepted for purchase:

(i) 1,782,568 shares of our Common Stock at a price of $28.00 per share, which we held as Treasury Stock; and

(ii) 364 shares of our Series A Convertible Cumulative Preferred Stock at a price of $241.69 per share,

The total aggregate cost was approximately $50.3 million, which includes fees and expenses related to the tender offer.

14. Earnings Per Share

The following table presents the basic and diluted earnings per share computation for the fiscal years presented:

(in thousands except share data)	2020	2019	2018
Numerator:			
Net income	$ 12,185	$ 24,300	$ 30,820
Less: preferred stock dividends	—	—	1,896
Net income available to common stockholders	$ 12,185	$ 24,300	$ 28,924
Basic earnings per share (1):			
Weighted average common shares outstanding	26,850,999	26,455,436	25,259,595
Basic earnings per share	$ 0.45	$ 0.92	$ 1.15
Diluted earnings per share:			
Weighted average common shares outstanding	26,850,999	26,455,436	25,259,595
Weighted average dilutive securities, convertible preferred stock	—	98,984	2,294,205
Weighted average dilutive securities, restricted stock	188,791	180,032	50,891
Weighted average dilutive securities, warrants	—	179,105	737,183
Weighted average dilutive securities, stock options	46,765	130,257	274,988
Weighted average shares and dilutive potential common shares	27,086,555	27,043,814	28,616,862
Diluted earnings per share	$ 0.45	$ 0.90	$ 1.08

(1) Potentially dilutive securities representing 0.4 million and 0.2 million shares of common stock were excluded from the computation of diluted earnings per share for the fiscal years ended October 3, 2020 and September 28, 2019, respectively, as their effect would have been anti-dilutive.

15. Share-Based Compensation

In fiscal 2015, we adopted the Omnibus Equity Incentive Plan and in fiscal 2020 amended and restated the 2015 Omnibus Equity Incentive Plan (the "Plan"). The Plan is administered by the Compensation Committee of our Board of Directors and the Committee may grant awards for the issuance up to an aggregate of 5,200,000 shares of common stock in the form of non-qualified stock options, incentive stock options, stock appreciation rights (collectively, "SARs" and each individually a "SAR"), restricted stock, restricted stock units, performance shares, performance units, incentive bonus awards, other cash-based awards and other stock-based awards. The exercise price of a share subject to a stock option may not be less than 100% of the fair market value of a share of the Company's common stock with respect to the grant date of such stock option. No portion of the options shall vest and become exercisable after the date on which the optionee's service with the Company and its subsidiaries terminates. The vesting of all unvested shares of common stock subject to an option will automatically be accelerated in connection with a "Change in Control," as defined in the Plan.

New shares of the Company's common stock are issued upon stock option exercises, or at the time of vesting for restricted stock. We have granted performance awards as part our overall compensation plans. The vesting of these awards is primarily based upon the attainment of certain performance metrics established under our annual management incentive plan, with the Compensation Committee of the Board of Directors maintaining final discretion over vesting amounts. Stock-based payments to employees, including grants of stock options, restricted stock awards ("RSA") and restricted stock units ("RSU"), are recognized in the financial statements based on their fair value. The fair value of each stock option award on the grant date is estimated using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield, expected stock price volatility, weighted-average risk-free interest rate and weighted average expected term of the options. The volatility assumption used in the Black-Scholes option-pricing model is based on peer group volatility because we do not have a sufficient trading history as a stand-alone public company. Because we do not have sufficient history with respect to stock option activity and post-vesting cancellations, the expected term assumption is based on the simplified method under GAAP, which is based on the vesting period and contractual term for each vesting tranche of awards. The mid-point between the vesting date and the expiration date is used as the expected term under this method. The risk-free interest rate used in the Black-Scholes model is based on the implied yield curve available on U.S. Treasury zero-coupon issues at the date of grant with a remaining term equal to the Company's expected term assumption. The Company has never declared or paid a cash dividend on common shares. Restricted stock units and restricted stock awards are valued based on the intrinsic value of the difference between the exercise price, if any, of the award and the fair market value of our common stock on the grant date. We expense any award with graded-vesting features using a straight-line attribution method.

Restricted Stock Awards

The following table summarizes the Company's RSA and RSU activity for the fiscal year presented:

	2020	
Restricted Stock Activity	**Number of Shares**	**Weighted-Average Grant Date Fair Value**
Balance, beginning of year	184,097	$ 17.30
Granted	216,944	18.93
Vested	(183,962)	17.30
Forfeited	(45,609)	20.02
Balance, end of year	171,470	18.64

The weighted-average grant date fair value of restricted stock awards granted in the fiscal years ended 2019 and 2018 was $17.30 and $18.59, respectively.

Compensation expense for restricted stock awards, recognized in selling, general and administrative expenses on the Consolidated Statements of Operations, was $2.7 million, $2.6 million, and $1.6 million for the fiscal years ended 2020, 2019, and 2018, respectively, with associated tax benefits of $0.7 million, $0.7 million, and $0.4 million, respectively. At October 3, 2020, unrecognized compensation cost related to restricted stock awards totaled $1.1 million and is expected to be recognized over a weighted-average period of one year.

Stock Option Awards

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

	2020	
	Number of Options	Weighted Average Exercise Price per Share ($)
Outstanding options, beginning of year	719,983	$ 14.45
Granted	385,215	18.77
Exercised (1)	(405,064)	12.95
Forfeited	(155,352)	18.48
Outstanding options, end of year (2)	532,298	$ 17.62
Fully vested and exercisable options, end of year (3)	316,859	$ 16.69

(1) Stock options exercised during the fiscal year had an aggregate intrinsic value totaling $4.3 million.

(2) Stock options outstanding at the end of the fiscal year had no intrinsic value.

(3) Fully vested and exercisable options at fiscal year-end had no intrinsic value.

The total aggregate intrinsic value of stock options exercised during the fiscal years ended 2019 and 2018 was $0.1 million and $4.2 million, respectively.

Compensation expense for stock option awards, recognized in selling, general and administrative expenses on the Consolidated Statements of Operations, was $1.4 million, $1.5 million, and $0.9 million for the fiscal years ended 2020, 2019, and 2018, respectively, with associated tax benefits of $0.4 million, $0.4 million, and $0.2 million, respectively. At October 3, 2020, unrecognized compensation cost related to stock option awards totaled $0.7 million and is expected to be recognized over a weighted-average period of one year, two months.

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

	2020	2019	2018
Expected volatility	32.0%	31%	29.2%
Expected dividend yield	0%	0%	0%
Risk-free interest rate	1.61%	2.75%	2.16%
Expected term (in years)	4.5 - 6.0	4.5 - 5.5	5.0 - 5.5
Weighted-average grant-date fair value	$ 6.91	$ 5.58	$ 6.15

16. Benefit Plans

Defined Benefit Pension Plan

The Company has a defined benefit pension plan (the "Defined Benefit Plan") covering U.S. hourly and salaried personnel. On May 13, 2002, the Defined Benefit Plan was amended to freeze new participation as of May 15, 2002, and therefore, any new employees who started on or after May 15, 2002 were not permitted to participate in the Defined Benefit Plan. Effective January 1, 2006, the benefit plan was frozen to all participants. No accrual of future benefits is calculated beyond this date.

The Company contributed $0.5 million and $0.0 million to the Defined Benefit Plan during the fiscal years ended October 3, 2020 and September 28, 2019, respectively. For the fiscal years ended October 3, 2020 and September 28, 2019, benefits paid were $8.2 million and $7.3 million, respectively. The projected benefit obligation ("PBO") for the Defined Benefit Plan was $169.7 million and $163.6 million at October 3, 2020 and September 28, 2019, respectively.

The reconciliation of the beginning and ending balances of the PBO for the Defined Benefit Plan for the fiscal years indicated is presented in the following table:

	Benefit Obligation	
(in thousands)	**2020**	**2019**
Projected benefit obligation balance, beginning of year	$ 163,572	$ 144,484
Interest cost	4,947	6,047
Assumption changes (1)	9,750	21,805
Actuarial gain	(315)	(1,423)
Benefits paid	(8,213)	(7,341)
Projected benefit obligations balance, end of year	$ 169,741	$ 163,572

(1) The assumption changes referenced in the table above result from (i) changes in the utilized discount rate to value Blue Bird's future obligations, and (ii) updates to the mortality table projections used in the calculation of the benefit obligations.

Plan Assets: The summary and reconciliation of the beginning and ending balances of the fair value of the Defined Benefit Plan assets are as follows:

	Plan Assets	
(in thousands)	**2020**	**2019**
Fair value of plan assets, beginning of year	$ 118,048	$ 123,471
Actual return on plan assets	12,147	1,918
Employer contribution	500	—
Benefits paid	(8,213)	(7,341)
Fair value of plan assets, end of year	$ 122,482	$ 118,048

Funded Status: The following table reconciles the benefit obligations, plan assets, funded status and net liability information of the Defined Benefit Plan at the dates indicated. The net pension liability is reflected in long-term liabilities on the Consolidated Balance Sheets.

	Funded Status	
(in thousands)	**October 3, 2020**	**September 28, 2019**
Benefit obligation	$ 169,741	$ 163,572
Fair value of plan assets	122,482	118,048
Funded status	(47,259)	(45,524)
Net pension liability recognized	$ (47,259)	$ (45,524)

Fair Value of Plan Assets: The Company determines the fair value of its financial instruments in accordance with the Fair Value Measurements and Disclosures Topic of the ASC. Fair value represents the price to hypothetically sell an asset or transfer a liability in an orderly manner in the principal market for that asset or liability. This topic provides a hierarchy that gives highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities. This topic requires that financial assets and liabilities are classified into one of the following three categories:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2	Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability
Level 3	Unobservable inputs for the asset or liability

The Company evaluates fair value measurement inputs on an ongoing basis in order to determine if there is a change of sufficient significance to warrant a transfer between levels. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's valuation process.

The Defined Benefit Plan assets are comprised of various investment funds, which are valued based upon their quoted market prices. The invested pension plan assets of the Defined Benefit Plan are all Level 2 assets under ASC 820, *Fair Value Measurements* ("ASC 820"). During the fiscal years ended 2020 and 2019, there were no transfers between levels. There are no sources of significant concentration risk in the invested assets at October 3, 2020, the measurement date.

The following table sets forth, by level within the fair value hierarchy, a summary of the Defined Benefit Plan's investments measured at fair value:

(in thousands)	Level 1	Level 2	Level 3	Total
October 3, 2020				
Assets:				
Equity securities	$ —	$ 60,016	$ —	$ 60,016
Debt securities	—	62,466	—	62,466
Total assets at fair value	$ —	$ 122,482	$ —	$ 122,482
September 28, 2019				
Assets:				
Equity securities	$ —	$ 79,627	$ —	$ 79,627
Debt securities	—	38,421	—	38,421
Total assets at fair value	$ —	$ 118,048	$ —	$ 118,048

The following table represents net periodic benefit cost and changes in plan assets and benefit obligations recognized in other comprehensive income, before tax effect, for the fiscal years presented:

(in thousands)	2020	2019	2018
Interest cost	$ 4,947	$ 6,047	$ 5,428
Expected return on plan assets	(7,384)	(7,619)	(7,105)
Amortization of net loss	1,720	2,758	3,521
Net periodic benefit cost	$ (717)	$ 1,186	$ 1,844
Net loss (gain)	$ 4,671	$ 26,083	$ (3,787)
Amortization of net loss	(1,720)	(2,758)	(3,521)
Total loss (gain) recognized in other comprehensive income	$ 2,951	$ 23,325	$ (7,308)
Total loss (gain) recognized in net periodic pension benefit cost and other comprehensive income	$ 2,234	$ 24,511	$ (5,464)

The estimated net loss for the Defined Benefit Plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $1.9 million. The unrecognized gain or loss is amortized as follows: the total unrecognized gain or loss, less the larger of 10% of the liability or 10% of the assets, is divided by the average future working lifetime of active plan participants.

The following actuarial assumptions were used to determine the benefit obligations at the dates indicated:

Weighted-average assumptions used to determine benefit obligations:	October 3, 2020	September 28, 2019
Discount rate	2.55%	3.10%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost:	October 3, 2020	September 28, 2019
Discount rate	3.10%	4.30%
Expected long-term return on plan assets	6.37%	6.37%
Rate of compensation increase	N/A	N/A

The benchmark for the discount rates is an estimate of the single equivalent discount rate determined by matching the Defined Benefit Plan's future expected cash flows to spot rates from a yield curve comprised of high quality corporate bond rates of various durations.

The Defined Benefit Plan asset allocations at the dates indicated, the measurement date, are as follows:

	October 3, 2020	September 28, 2019
Equity securities	49%	67%
Debt securities	51%	33%
Total securities	100%	100%

There was no Company common stock included in equity securities. Assets of the Defined Benefit Plan are invested primarily in common stock funds. Assets are valued using quoted prices in active markets.

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the PBO. In estimating that rate, appropriate consideration is given to the returns being earned by the plan assets in the fund and rates of return expected to be available for reinvestment and a building block method. The expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long term estimate of future returns on default free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate).

The investment strategy for pension plan assets is to limit risk through asset allocation, diversification, selection and timing. Assets are managed on a total return basis, with dividends and interest reinvested in the account.

The Company expects to contribute $5.8 million to its Defined Benefit Plan in fiscal year 2021 in accordance with required IRS minimums. The following benefit payments are expected to be paid out of the Company's pension assets to the plan participants in the fiscal years indicated:

(in thousands)	Expected Payments
2021	$ 8,026
2022	8,198
2023	8,373
2024	8,562
2025	8,746
2026 - 2030	44,296
Total expected future benefit payments	$ 86,201

Defined Contribution Plan

The Company offers a defined contribution 401(k) plan covering substantially all U.S. employees and a defined contribution plan for Canadian employees. During the fiscal years ended 2020, 2019 and 2018, the Company offered a 50% match on the first 6% of the employee’s contributions. The plans also provide for an additional discretionary match depending on Company performance. Compensation expense related to defined contribution plans totaled $2.2 million, $2.2 million and $1.9 million for the fiscal years ended 2020, 2019, and 2018, respectively.

Health Benefits

The Company provides and is predominantly self-insured for medical, dental, and accident and sickness benefits. A liability related to this obligation is recorded on the Company’s Consolidated Balance Sheets as accrued expenses. Total expense related to this plan recorded for the fiscal years ended 2020, 2019, and 2018, was $14.9 million, $12.1 million, and $14.3 million, respectively.

Employee Compensation Plans

The Management Incentive Plan (the “MIP”) compensates certain key salaried management employees and is derived from "Adjusted EBITDA" (earnings before interest, taxes, depreciation, and amortization, as adjusted) and "free cash flow" metrics. MIP bonus liabilities of $0.0 million and $4.8 million are included in accrued expenses on the Consolidated Balance Sheets at October 3, 2020 and September 28, 2019, respectively.

17. Equity Investment in Affiliate

On October 14, 2009, Blue Bird and Girardin MiniBus JV Inc. entered into a joint venture, Micro Bird Holdings, Inc. ("Micro Bird"), to combine the complementary expertise of the two separate manufacturers. Blue Bird Micro Bird by Girardin Type A buses are produced in Drummondville, Quebec by Micro Bird.

The Company holds a 50% equity interest in Micro Bird, utilizing the equity method of accounting as the Company does not have control to direct the activities that most significantly impact Micro Bird's financial performance based on the shared powers of the venture partners. The carrying amount of the equity method investment is adjusted for the Company's proportionate share of net earnings or losses and any dividends received. At October 3, 2020 and September 28, 2019, the carrying value of the Company's investment was $14.3 million and $11.1 million, respectively. During fiscal years ended 2019 and 2018, Micro Bird paid dividends to all common stockholders, and the Company received $2.3 million, and $1.8 million, respectively, gross of any required withholding taxes. The dividends reduced the carrying value of our investment and are presented as cash inflows in the operating section of our Consolidated Statements of Cash Flows.

In recognizing the Company's 50% portion of Micro Bird net income, the Company recorded $3.2 million, $2.2 million, and $1.3 million in equity in net income of non-consolidated affiliate for the fiscal years ended 2020, 2019, and 2018, respectively.

Micro Bird's summarized balance sheet information at its September 30 year end is as follows:

	Balance Sheet	
(in thousands)	**2020**	**2019**
Current assets	$ 33,094	$ 29,917
Non-current assets	4,243	3,765
Total assets	37,337	33,682
Current liabilities	22,797	24,826
Non-current liabilities	345	349
Total liabilities	23,142	25,175
Net assets	$ 14,195	$ 8,507

Micro Bird's summarized financial results for its three fiscal years ended September 30 are as follows:

	Income Statement		
(in thousands)	**2020**	**2019**	**2018**
Revenues	$ 113,179	$ 154,244	$ 116,866
Gross profit	14,895	15,031	11,806
Operating income	7,404	7,037	4,194
Net income	**5,787**	**5,167**	**2,636**

18. Accumulated Other Comprehensive Loss

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

(in thousands)	Defined Benefit Pension Plan	Total AOCL
Balance, September 30, 2017	$ (43,875)	$ (43,875)
Other comprehensive income, gross	3,787	3,787
Amounts reclassified and included in earnings	3,521	3,521
Total before taxes	7,308	7,308
Income taxes	(1,860)	(1,860)
Balance, September 29, 2018	$ (38,427)	$ (38,427)
Other comprehensive loss, gross	(26,083)	(26,083)
Amounts reclassified and included in earnings	2,758	2,758
Total before taxes	(23,325)	(23,325)
Income taxes	5,598	5,598
Balance, September 28, 2019	$ (56,154)	$ (56,154)
Other comprehensive loss, gross	(4,671)	(4,671)
Amounts reclassified and included in earnings	1,720	1,720
Total before taxes	(2,951)	(2,951)
Income taxes	708	708
Balance, October 3, 2020	$ (58,397)	$ (58,397)

19. Subsequent Events

Third Amendment to the Credit Agreement

On December 4, 2020, the Company executed a third amendment to the Credit Agreement, the First Amended Credit Agreement and the Second Amended Credit Agreement (the "Third Amended Credit Agreement"). The Third Amended Credit Agreement, among other things, provides for certain temporary amendments to the Credit Agreement from the third amendment effective date through and including the first date on which (a)(i) a compliance certificate is timely delivered with respect to a fiscal quarter ending on or after March 31, 2022 demonstrating compliance with certain financial performance covenants for such fiscal quarter (the "Limited Availability Period"), or (ii) the Borrower elects to terminate the Limited Availability Period; and (b) the absence of a default or event of default.

Amendments to the financial performance covenants provide that during the Limited Availability Period, a higher maximum total net leverage ratio is permitted, and requires the Company to maintain liquidity (in the form of undrawn availability under the Revolving Credit Facility and unrestricted cash and cash equivalents) of at least $15.0 million. For the duration between the fiscal quarter ending December 31, 2020 and the fiscal quarter ending September 30, 2021 that falls within the Limited Availability Period, a quarterly minimum consolidated EBITDA covenant applies instead of a maximum Total Net Leverage Ratio.

The pricing grid in the First Amended Credit Agreement, which is based on the ratio of the Company's consolidated net debt to consolidated EBITDA, remains unchanged. However, during the Limited Availability Period, an additional margin of 0.50% applies.

During the Limited Availability Period, the Borrower is required to prepay existing revolving loans and, if undrawn and unreimbursed letters of credit exceed $7.0 million, cash collateralize letters of credit if unrestricted cash and cash equivalents exceed $20.0 million, as determined on a semimonthly basis. Any issuance, amendment, renewal, or extension of credit during the Limited Availability Period may not cause unrestricted cash and cash equivalents to exceed $20.0 million, or cause the aggregate outstanding Revolving Credit Facility principal to exceed $100.0 million. The Third Amended Credit Agreement also implements a cap on permissible investments, restricted payments, certain payments of indebtedness and the fair market value of all assets subject to permitted dispositions during the Limited Availability Period.

For the duration of the Limited Availability Period, there are additional monthly reporting requirements and requirements relating to subordination agreements and intercreditor arrangements for certain other indebtedness and liens subject to administrative agent approval.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934, as amended (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 the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. 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.

In connection with the preparation of this Annual Report on Form 10-K, the Company carried out an evaluation under the supervision of and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, as of October 3, 2020 on the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

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

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

Management assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this Report. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control – Integrated Framework (2013)*. Based on management's assessment and those criteria, management concluded that our internal control over financial reporting was effective as of October 3, 2020.

Our independent registered public accounting firm has issued their report on the effectiveness of our internal control over financial reporting as of October 3, 2020, which appears in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the fourth fiscal quarter ended October 3, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Certain information required by Part III of this Annual Report on Form 10-K is incorporated by reference from the Company's definitive proxy statement (the "Proxy Statement") to be filed pursuant to Regulation 14A for the Company's Annual Meeting of Stockholders to be held in March 2021. The Company will, within 120 days of the end of its fiscal year, file the Proxy Statement with the SEC or supply the information required by this Part III by amendment to this Annual Report on Form 10-K.

Item 10. Directors, Executive Officers and Corporate Governance

The information responsive to this item is incorporated by reference from the sections entitled "Election of Directors," "Information Concerning Management," and "Corporate Governance and Board Matters" contained in the Proxy Statement.

Item 11. Executive Compensation

The information responsive to this item is incorporated by reference from the section entitled "Director and Executive Compensation" contained in the Proxy Statement.

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

The information responsive to this item is incorporated by reference from the section entitled "Security Ownership of Certain Beneficial Owners and Management" contained in the Proxy Statement. See also the section entitled "Securities Authorized for Issuance under Equity Compensation Plans" in Item 5 of this Report.

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

The information responsive to this item is incorporated by reference from the sections entitled "Corporate Governance and Board Matters" and "Certain Relationships and Related Transactions" contained in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information responsive to this item is incorporated by reference from the section entitled "Certain Accounting and Audit Matters" contained in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Index

(1) Financial Statements.

The following financial statements are located in Item 8 of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at October 3, 2020 and September 28, 2019

Consolidated Statements of Operations for the fiscal years ended October 3, 2020, September 28, 2019 and September 29, 2018

Consolidated Statements of Comprehensive Income for the fiscal years ended October 3, 2020, September 28, 2019 and September 29, 2018

Consolidated Statements of Stockholders' Deficit for the fiscal years ended October 3, 2020, September 28, 2019 and September 29, 2018

Consolidated Statements of Cash Flows for the fiscal years ended October 3, 2020, September 28, 2019 and September 29, 2018

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules.

Financial Statement Schedule II - Valuation and Qualifying Accounts

All other schedules are not required under the related instructions or are not applicable.

(b) Exhibits

Exhibit No.	Description
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 on February 26, 2015)
3.2	The registrant’s Bylaws (incorporated by reference to Exhibit 3.3 to the registrant’s registration statement on Form S-1 (File No. 333-192982) filed by the registrant on December 20, 2013).
4.1	Specimen stock certificate for the registrant’s common stock (incorporated by reference to Exhibit 4.1 to the registrant’s Current Report on Form 8-K filed by the registrant on March 2, 2015).
4.2	Credit Agreement dated as of December 12, 2016 by and among Blue Bird Corporation, School Bus Holdings, Inc. and certain of its subsidiaries and affiliates and Bank of Montreal, as Administrative Agent and an Issuing Bank, Fifth Third Bank, as Co-Syndication Agent and an Issuing Bank and Regions Bank, as Co-Syndication Agent, and the other lenders party thereto, together with certain exhibits (incorporated by reference to Exhibit 10.1 to the registrant’s Current Report on Form 8-K filed by the registrant on December 15, 2016).
4.3	First Amendment to Credit Agreement, dated as of September 13, 2018, by and among Blue Bird Corporation, School Bus Holdings, Inc. and certain of its subsidiaries, including Blue Bird Body Company as the borrower, Bank of Montreal, as Administrative Agent and certain other financial institutions party thereto (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed by the registrant on September 13, 2018).
4.4	Second Amendment to Credit Agreement, dated as of May 7, 2020, by and among the Company, School Bus Holdings, Inc. and certain of its subsidiaries, including Blue Bird Body Company as the borrower, Bank of

	Montreal, as Administrative Agent and certain other financial institutions party thereto (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed by the registrant on May 8, 2020).
4.5*	Description of the registrant's securities.
10.1†	Blue Bird Corporation Amended and Restated 2015 Omnibus Equity Incentive Plan (the "Incentive Plan") (incorporated by reference to Appendix A to the registrant's definitive Proxy Statement, as filed on January 27, 2020).
10.2	Registration Rights Agreement, dated as of February 24, 2015, by and among the registrant, The Traxis Group B.V. and the investors named therein (incorporated by reference to Exhibit 10.11 of the registrant's Current Report on Form 8-K filed by the registrant on March 2, 2015).
10.3	Purchase and Sale Agreement dated May 26, 2016 by and among The Traxis Group BV, Blue Bird Corporation and ASP BB Holdings LLC (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed by the registrant on May 27, 2016).
10.4†	Form of grant agreement for incentive stock options granted under the registrant's Incentive Plan (incorporated by reference to Exhibit 10.16 to the registrant's Current Report on Form 8-K filed by the registrant on March 2, 2015).
10.5†	Form of grant agreement for non-qualified stock options granted under the registrant's Incentive Plan (incorporated by reference to Exhibit 10.17 to the registrant's Current Report on Form 8-K filed by the registrant on March 2, 2015).
10.6†	Form of grant agreement for restricted stock granted under the registrant's Incentive Plan (incorporated by reference to Exhibit 10.18 to the registrant's Current Report on Form 8-K filed by the registrant on March 2, 2015).
10.7†	Form of grant agreement for restricted stock units granted under the registrant's Incentive Plan (incorporated by reference to Exhibit 10.19 to the registrant's Current Report on Form 8-K filed by the registrant on March 2, 2015).
10.8†	Revised form of grant agreement for non-qualified stock options granted under the registrant's Incentive Plan (incorporated by reference to Exhibit 10.8 to the registrant's Annual Report on Form 10-K filed by the registrant on December 12, 2019).
10.9†	Revised form of grant agreement for restricted stock units granted under the registrant's Incentive Plan (incorporated by reference to Exhibit 10.9 to the registrant's Annual Report on Form 10-K filed by the registrant on December 12, 2019).
10.10	Form of indemnity agreement between the registrant and each of its directors and executive officers (incorporated by reference to Exhibit 10.23 to the registrant's Current Report on Form 8-K filed by the registrant on March 2, 2015).
10.11†	Employment Agreement, dated as of April 1, 2011, between School Bus Holdings Inc. and Philip Horlock (incorporated by reference to Exhibit 10.24 to the registrant's Current Report on Form 8-K/A filed by the registrant on April 23, 2015).
10.12†	First Amendment to Employment Agreement dated as of April 1, 2011 between School Bus Holdings Inc. and Philip Horlock made as of June 1, 2012 (incorporated by reference to Exhibit 10.25 to the registrant's Current Report on Form 8-K/A filed by the registrant on April 23, 2015).
10.13†	Severance Agreement, dated as of May 10, 2012, between Blue Bird Corporation and Charles (Trey) Jenkins III (incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q filed by the registrant on February 13, 2020).

10.14†	Severance Agreement, dated as of July 1, 2008, between School Bus Holdings Inc. and Paul Yousif (incorporated by reference to Exhibit 10.31 to the registrant's Current Report on Form 8-K/A filed by the registrant on April 23, 2015).
10.15†	Form of Restricted Stock Unit Grant Agreement for directors under the registrant's Incentive Plan (incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q/A filed by the registrant on August 18, 2015).
10.16	Credit Agreement dated as of December 12, 2016 by and among Blue Bird Corporation, School Bus Holdings, Inc. and certain of its subsidiaries and affiliates and Bank of Montreal, as Administrative Agent and an Issuing Bank, Fifth Third Bank, as Co-Syndication Agent and an Issuing Bank and Regions Bank, as Co-Syndication Agent, and the other lenders party thereto, together with certain exhibits (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed by the registrant on December 15, 2016).
10.17†	Offer Letter dated March 29, 2016 and Severance Agreement dated April 18, 2016 between Blue Bird Corporation and Mark Terry (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed by the Company on December 8, 2017).
10.18†	Offer Letter dated October 19, 2015 between Blue Bird Corporation and Tom Roberts (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed by the Company on December 8, 2017).
10.19	First Amendment to Credit Agreement, dated as of September 13, 2018, by and among the Company, School Bus Holdings, Inc. and certain of its subsidiaries, including Blue Bird Body Company as the borrower, Bank of Montreal, as Administrative Agent and certain other financial institutions party thereto (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed by the Company on September 13, 2018).
10.20	Second Amendment to Credit Agreement, dated as of May 7, 2020, by and among Blue Bird Corporation, School Bus Holdings, Inc. and certain of its subsidiaries, including Blue Bird Body Company as the borrower, Bank of Montreal, as Administrative Agent, and certain other financial institutions party thereto (incorporated by reference to Exhibit 10.1 to the registrant's Current Report on Form 8-K filed by the registrant on May 8, 2020).
10.21†	Revised form of grant agreement for non-qualified stock options granted to employees under the registrant's Incentive Plan (incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q filed by the registrant on February 13, 2020).
10.22†	Revised form of grant agreement for restricted stock units granted to employees under the registrant's Incentive Plan (incorporated by reference to Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q filed by the registrant on February 13, 2020).
10.23†	Retirement Agreement, dated as of May 30, 2020, between Blue Bird Corporation and Phillip Tighe (incorporated by reference to Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q filed by the registrant on August 13, 2020).
10.24†	Consulting Agreement, dated as of May 30, 2020, between Blue Bird Corporation and Phillip Tighe (incorporated by reference to Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q filed by the registrant on August 13, 2020).
10.25†	Offer Letter, dated as of April 28, 2020, between Blue Bird Corporation and Jeffery L. Taylor (incorporated by reference to Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q filed by the registrant on August 13, 2020).
10.26†	Severance Agreement, dated as of May 1, 2020, between Blue Bird Corporation and Jeffery L. Taylor (incorporated by reference to Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q filed by the registrant on August 13, 2020).
21.1*	Subsidiaries of the registrant.

23.1*	Consent of BDO USA, LLP.
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’s Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Chief Financial Officer’s Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended October 3, 2020 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Changes in Stockholders' Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to the Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*Filed herewith.
†Management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

Omitted at registrant's option.

SCHEDULE II- VALUATION AND QUALIFYING ACCOUNTS

(in thousands)	Allowance for Doubtful Accounts			
Fiscal Year Ended	**Beginning Balance**	**Charges to Expense/(Income)**	**Doubtful Accounts Written Off, Net**	**Ending Balance**
September 29, 2018	$ 100	$ —	$ —	$ 100
September 28, 2019	100	—	—	100
October 3, 2020	100	—	—	100

(in thousands)	Deferred Tax Valuation Allowance			
Fiscal Year Ended	**Beginning Balance**	**Charges to Expense/(Income)**	**Charges utilized/ Write offs**	**Ending Balance**
September 29, 2018	$ 650	$ 847	$ (65)	$ 1,432
September 28, 2019	1,432	1,203	(159)	2,476
October 3, 2020	2,476	999	(22)	3,453

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Blue Bird Corporation

Date: December 17, 2020

By: */s/ Philip Horlock*
Philip Horlock
President and Chief Executive Officer

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

Person	Capacity	Date
/s/ Philip Horlock Philip Horlock	President, Chief Executive Officer and Director (Principal Executive Officer)	December 17, 2020
/s/ Jeffery Taylor Jeffery Taylor	Chief Financial Officer (Principal Financial and Accounting Officer)	December 17, 2020
/s/ Gurminder S. Bedi Gurminder S. Bedi	Director	December 17, 2020
/s/ Chan Galbato Chan Galbato	Director	December 17, 2020
/s/ Douglas Grimm Douglas Grimm	Director	December 17, 2020
/s/ Kevin Penn Kevin Penn	Director	December 17, 2020
/s/ Alan H. Schumacher Alan H. Schumacher	Director	December 17, 2020
/s/ Kathleen M. Shaw, PH.D. Kathleen M. Shaw, PH.D.	Director	December 17, 2020
/s/ Jared Sperling Jared Sperling	Director	December 17, 2020

The following tables sets forth the reconciliations of net income to Adjusted EBITDA and cash provided by continuing operations to Free Cash Flow and Adjusted Free Cash Flow for fiscal years 2016 through 2020:

	Fiscal Year				
(in thousands of dollars)	**2020**	**2019**	**2018**	**2017**	**2016**
Net income	$ 12,185	$ 24,300	$ 30,820	$ 28,801	$ 6,900
Adjustments:					
Discontinued operations (income) loss	-	-	(81)	(65)	512
Interest expense, net[1]	12,616	13,279	6,591	7,111	16,279
Income tax expense (benefit)	1,519	7,573	(2,620)	11,856	5,804
Depreciation, amortization, and disposals[2]	15,096	11,102	9,214	8,205	8,176
Loss on debt extinguishment	-	-	-	10,142	-
Share-based compensation	4,141	4,273	2,628	1,270	12,717
Product redesign initiatives	4,068	10,540	6,253	1,758	-
Foreign currency hedges	-	109	(109)	-	-
Operational transformation initiatives	3,404	10,594	17,708	-	-
Compensation related adjustments	-	-	-	-	17,128
Business combination expenses	-	-	-	-	3,798
Restructuring Charges	646	-	-	-	-
Costs directly attributed to the COVID-19 pandemic[3]	1,000	-	-	-	-
Other[4]	6	59	(25)	(174)	896
Adjusted EBITDA	54,681	81,829	70,379	68,904	72,210

[1] Includes $0.1 million for both three-month fiscal periods and $0.4 million for both twelve-month fiscal periods, representing interest expense on lease liabilities, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Condensed Consolidated Statements of Operations.

[2] Includes $0.2 million for both three-month fiscal periods and $0.7 million for both twelve-month fiscal periods, representing amortization charges on right-to-use lease assets, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Condensed Consolidated Statements of Operations.

[3] Primarily costs incurred for third party cleaning services and personal protective equipment for our employees in response to the COVID-19 pandemic.

[4] Includes a one-time post retirement adjustment of $896 in FY2016.

	Fiscal Year				
(in thousands of dollars)	**2020**	**2019**	**2018**	**2017**	**2016**
Cash provided by operating activities	$ 3,459	$ 55,706	$ 48,353	$ 47,641	$ 25,105
Cash paid for fixed assets and acquired intangible assets	(18,968)	(35,514)	(32,118)	(9,252)	(9,583)
Free cash flow	$ (15,509)	$ 20,192	$ 16,235	$ 38,389	$ 15,522
Cash paid for operational transformation initiatives	3,404	10,594	17,708	-	-
Cash paid for product redesign initiatives	9,553	4,740	6,253	1,758	-
Cash paid for business combination expenses	-	-	-	3,313	500
Cash paid for special compensation payment	-	-	-	-	17,128
Cash paid for restructuring charges	646	-	-	-	-
Cash paid for costs directly attributed to COVID-19	1,000	-	-	-	-
Adjusted free cash flow	$ (906)	$ 35,526	$ 40,196	$ 43,460	$ 33,150

BLUE BIRD

2020 CORPORATE INFORMATION

Management Team

Phil Horlock
President and Chief Executive Officer

Jeff Taylor
Chief Financial Officer

Tom Roberts
Chief Administrative Officer

Trey Jenkins
Chief Operating Officer

Paul Yousif
General Counsel and Corporate Treasurer

Board of Directors

Kevin Penn—Chairman
Managing Director, American Securities LLC

Gurminder Bedi
Former Vice President, Ford Motor Company

Chan Galbato
Chief Executive Officer, Cerberus Operations & Advisory Company, LLC

Douglas Grimm
Owner and Chief Executive Officer, V-to-X, LLC Consulting/Investment Mobility Sector

Phil Horlock
President and Chief Executive Officer, Blue Bird Corporation

Kathleen M. Shaw, Ph.D.
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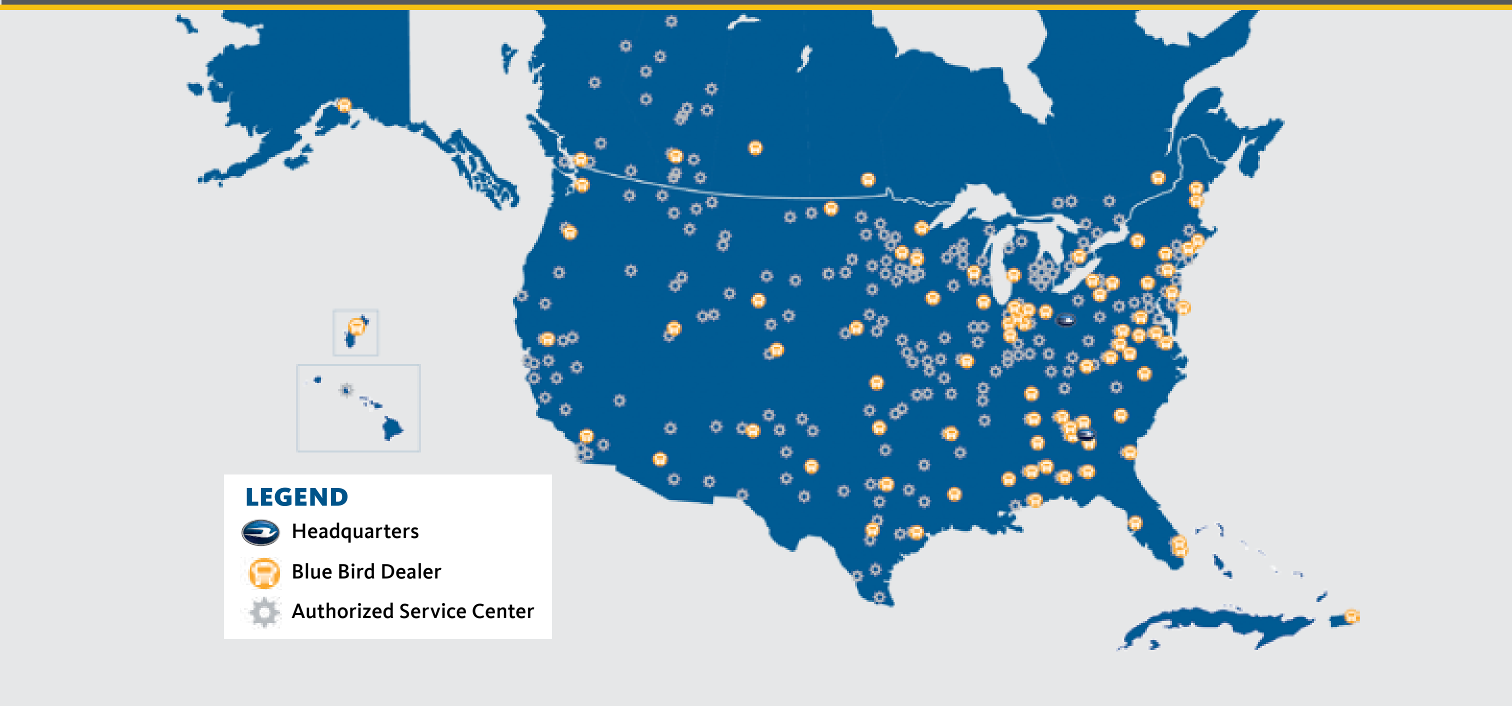
The information contained in this report has been prepared or obtained by the company from its books and records and other sources that the company believes to be reasonably accurate and reliable. However, such information necessarily incorporates significant assumptions and estimates including, but not limited to, forward looking projections and other statements, that involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the company or the industry in which it operates, to differ materially from any future results, performance or achievements implied by such forward-looking statement.

Statements in this report that are forward-looking in nature are based on the company's current beliefs regarding a large number of factors affecting the company's business. Actual results may differ materially from expected results. There can be no assurance that (i) the company has correctly identified or assessed all of the factors affecting its business or the extent of their likely impact, (ii) the publicly available information on which the company's analysis is based is complete or accurate, (iii) the company's analysis is correct, or (iv) the company's strategy, which is based in part on this analysis, will be successful.

OUR DEALER NETWORK



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