ALAMO GROUP INC
Form 10-Q
August 06, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

ACT OF 1934

For the quarterly period ended JUNE 30, 2010

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 0-21220

ALAMO GROUP INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**74-1621248**
(*State or other jurisdiction of incorporation or organization)*	*(I.R.S. Employer Identification Number)*

1627 East Walnut, Seguin, Texas 78155

(Address of principal executive offices)

830-379-1480

(*Registrant s telephone number, including area code*)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF 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 REQUIREMENT FOR THE PAST 90 DAYS.

YES X NO ___

INDICATE BY CHECK MARK WHETHER REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, OR A NON-ACCELERATED FILER. SEE DEFINITION OF ACCELERATED FILER AND LARGE ACCELERATED FILER IN EXCHANGE ACT RULE 12B-2. LARGE ACCELERATED FILER [ ] ACCELERATED FILER [X] NON-ACCELERATED FILER [ ]

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT). YES [ ] NO [X]

AT AUGUST 2, 2010, 11,804,829 SHARES OF COMMON STOCK, $.10 PAR VALUE, OF THE REGISTRANT WERE OUTSTANDING.

Alamo Group Inc. and Subsidiaries

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Alamo Group Inc. and Subsidiaries

Interim Consolidated Balance Sheets

(Unaudited)

(in thousands, except share amounts)	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,152	$ 17,774
Accounts receivable, net	134,832	111,745
Inventories	108,944	124,322
Deferred income taxes	3,559	3,118
Prepaid expenses	3,799	3,579
Income Tax Receivable	1,195	1,195
Total current assets	272,481	261,733
Property, plant and equipment	138,075	142,076
Less: Accumulated depreciation	(74,848)	(72,215)
	63,227	69,861
Goodwill	32,607	35,207
Intangible Assets	5,763	5,803
Deferred income taxes	4,158	4,158
Other assets	567	1,201
Total assets	$ 378,803	$ 377,963
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	$ 46,892	$ 36,046
Income taxes payable	77	2,688
Accrued liabilities	32,639	32,013
Current maturities of long-term debt	3,250	5,453
Deferred income tax	2,334	3,164
Total current liabilities	85,192	79,364
Long-term debt, net of current maturities	44,496	44,336
Deferred pension liability	7,207	7,640
Other long-term liabilities	2,252	3,665
Deferred income taxes	7,517	7,581

Stockholders equity:		
Common stock, $.10 par value, 20,000,000 shares authorized;		
11,820,429 and 11,789,529 issued and outstanding at June 30, 2010 and December 31, 2009	1,182	1,179
Additional paid-in capital	83,385	82,721
Treasury stock, at cost; 42,600 shares at June 30, 2010 and		
December 31, 2009	(426)	(426)
Retained earnings	154,209	146,756
Accumulated other comprehensive income, net	(6,211)	5,147
Total stockholders equity	232,139	235,377
Total liabilities and stockholders equity	$ 378,803	$ 377,963

See accompanying notes.

Alamo Group Inc. and Subsidiaries

Interim Consolidated Statements of Income

(Unaudited)

(in thousands, except per share amounts)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net sales:				
North American				
Industrial	$ 48,448	$ 46,038	$ 94,588	$ 89,190
Agricultural	44,830	19,274	85,129	43,105
European	41,056	47,931	83,006	91,091
Total net sales	134,334	113,243	262,723	223,386
Cost of sales	105,653	88,914	205,907	177,330
Gross profit	28,681	24,329	56,816	46,056
Selling, general and administrative expense	21,355	18,945	43,023	37,495
Income from operations	7,326	5,384	13,793	8,561
Interest expense	(1,024)	(1,147)	(2,274)	(2,243)
Interest income	305	162	1,117	322
Other income (expense), net	(25)	(49)	(35)	(4)
Income before income taxes	6,582	4,350	12,601	6,636
Provision for income taxes	1,712	1,358	3,738	2,101
Net income	$ 4,870	$ 2,992	$ 8,863	$ 4,535
Net income per common share:				
Basic	$ 0.41	$ 0.30	$ 0.75	$ 0.46
Diluted	$ 0.41	$ 0.30	$ 0.75	$ 0.45
Average common shares				
Basic	11,756	9,977	11,752	9,958
Diluted	11,882	9,986	11,858	9,975
Dividends declared	$ 0.06	$ 0.06	$ 0.12	$ 0.12

See accompanying notes.

Alamo Group Inc. and Subsidiaries

Interim Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Six Months Ended June 30, 2010	2009
Operating Activities		
Net income	$ 8,863	$ 4,535
Adjustment to reconcile net income to net cash provided (used) by operating activities:		
Provision for doubtful accounts	591	193
Depreciation	5,299	4,053
Amortization of intangible	170	39
Amortization of debt issuance	188	
Stock-based compensation expense	341	253
Excess tax benefits from stock-based payment arrangements	(45)	(15)
Provision for deferred income tax benefit	(1,036)	338
Gain on sale of equipment	(24)	(27)
Changes in operating assets and liabilities:		
Accounts receivable	(28,880)	1,794
Inventories	11,719	8,564
Prepaid expenses and other assets	(254)	(99)
Trade accounts payable and accrued liabilities	15,503	(7,628)
Income taxes payable	(2,570)	883
Other long term liabilities	(815)	(440)
Net cash provided by operating activities	9,050	12,443
Investing Activities		
Acquisitions, net of cash acquired	(426)	
Purchase of property, plant and equipment	(2,183)	(1,852)
Proceeds from sale of property, plant and equipment	139	65
Net cash used by investing activities	(2,470)	(1,787)
Financing Activities		
Net change in bank revolving credit facility	1,000	(8,000)
Principal payments / proceeds on long-term debt and capital leases	(2,773)	(1,439)
Proceeds from issuance of long term debt	261	545
Dividends paid	(1,410)	(1,194)

Proceeds from sale of common stock	326	797
Excess tax benefits from stock-based payment arrangements	45	15
Net cash used by financing activities	(2,551)	(9,276)
Effect of exchange rate changes on cash	(1,651)	162
Net change in cash and cash equivalents	2,378	1,542
Cash and cash equivalents at beginning of the period	17,774	4,532
Cash and cash equivalents at end of the period	$ 20,152	$ 6,074
Cash paid during the period for:		
Interest	$ 2,177	$ 2,538
Income taxes	$ 6,213	$ 1,958

See accompanying notes.

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Alamo Group Inc. and Subsidiaries

Notes to Interim Condensed Consolidated Financial Statements - (Unaudited)

June 30, 2010

1. Basis of Financial Statement Presentation

The accompanying unaudited interim consolidated financial statements of Alamo Group Inc. and its subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The balance sheet at December 31, 2009, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2009.

In connection with the preparation of the consolidated financial statements and in accordance with the recently issued Statement of Financial Standards No. (SFAS) 165, Subsequent Events, the Company evaluated subsequent events after the balance sheet date of June 30, 2010 through August 7, 2010 and had nothing to disclose.

2. Acquisitions

On October 22, 2009 (Closing Date), the Company acquired the majority of the assets and assumed certain liabilities of Bush Hog, LLC, a Delaware limited liability company (*Bush Hog*) located in Selma, Alabama. The purchase included substantially all of the ongoing business of *Bush Hog*, including the *Bush Hog* brand name and all related product names and trademarks (the Acquisition). The purchase price consideration was 1.7 million unregistered shares of Alamo Group common stock which represented approximately 14.5% of the outstanding stock of Alamo Group. The closing price on October 22, 2009 was $16.09 per share.

The Acquisition has been accounted for in accordance with ASC Topic 805, *Business Combinations* (ASC Topic 805). Accordingly, the total purchase price has been allocated on a provisional basis to assets acquired and net liabilities assumed in connection with the Acquisition based on their estimated fair values as of the completion of the Acquisition. These allocations reflect various provisional estimates that were available at the time and are subject to change during the purchase price allocation period as valuations are finalized.

The fair value of the net assets acquired was approximately $53.1 million, which exceeds the preliminary estimated purchase price of $25.4 million. Accordingly, the Company recognized the excess of the fair value of the net assets over the purchase price of approximately $27.7 million as a gain on bargain purchase. The gain on bargain purchase of $27.7 million was shown separately within income from operations in the Consolidated Statements of Income in the third quarter of 2009. The recorded amounts are provisional and subject to change. The Company continues to evaluate the purchase price allocation, including the opening fair value of inventory, accounts receivable, property, plant & equipment, accrued liabilities and deferred taxes, which may require the Company to adjust the recorded gain.

The Company believes that it was able to acquire *Bush Hog* for less than the fair value of its assets because of (i) the Company s unique position as a market leader in this industry segment and (ii) the seller s intent to exit its *Bush Hog* operations. *Bush Hog* was an unprofitable venture, and the seller approached the Company in an effort to sell *Bush Hog* and exit the agricultural equipment manufacturing business that no longer fit its strategy. With the seller's intent to exit the agricultural manufacturing business segment and the Company s position as a market leader, the Company was able to agree on a favorable purchase price.

The primary reason for the *Bush Hog* acquisition was to help the Company further the goal of becoming the largest manufacturer of agricultural mowers in the world. This acquisition enabled the Company to expand its market presence, and product offerings.

The following table summarizes the provisional amounts recognized for assets acquired and liabilities assumed as of the Closing Date. A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The Company s judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company s results of operations. Certain estimated values are not yet finalized and are subject to change, which could be significant. The Company will finalize the amounts recognized as information necessary to complete the analyses is obtained. The Company expects to finalize these amounts as soon as possible but no later than one year from the acquisition date. The following are estimated fair value of assets acquired and liabilities assumed as of the Acquisition date (in thousands):

Accounts receivable	$	25,571
Inventory		21,875
Prepaid expenses		395
Property, plant & equipment		12,743
Other liabilities		(9,357)
Net assets acquired		51,227
Intangible asset		
Bush Hog trade name		1,900
Total assets acquired		53,127
Less: Fair value of 1.7 million unregistered shares		25,438
.. Gain on Bargain purchase	$	27,689

In accordance with the closing documents, the Company received a 50% undivided interest in the Accounts Receivable of *Bush Hog*, subject to any net working capital adjustment. The post closing net working capital adjustment was $3.8 million which increased accounts receivable and the gain on bargain purchase. The Company will collect payments on the acquired accounts receivable and remit 50% of the collections to the seller less the $3.8 million. The *Bush Hog* accounts receivable were recorded at 50% of the fair value, plus the working capital adjustment.

As of the acquisition date, the fair value of accounts receivable was $25.6 million. The gross contractual amount receivable was $34.6 million of which $9.0 million was not expected to be collected.

The intangible asset relates to the appraised value of the *Bush Hog* name at closing and has an indefinite life.

Under 805-10, acquisition related costs (i.e., advisory, legal, valuation and other professional fees) are not included as a component of consideration transferred, but are accounted for as expenses in the periods in which the costs are incurred. The Company incurred $828,000 of acquisition related costs. The Company will incur integration expenses during 2010 relating to manufacturing process changes and computer conversion, but it is expected to be immaterial.

In the period between the Closing Date and December 31, 2009, *Bush Hog* generated approximately $10.9 million of net revenue and $1.5 million net loss. The Company has included the operating results of *Bush Hog* in its consolidated financial statements since the Closing Date.

The unaudited pro forma statement of income of the Company assuming this transaction occurred at January 1, 2009 is as follows:

(In thousands, except per share amounts)	Six Months Ended June 30 2010	2009
Net Sales	$ 262,723	$ 276,893
Net Income	$ 8,863	$ 1,151
Diluted Earnings per Share	$ 0.75	$ 0.12

The unaudited pro forma financial information is presented for informational purposes only and is not intended to represent or be indicative of the consolidated results of operations of the Company that would have been reported had the acquisition been completed as of the beginning of the periods presented, and should not be taken as being representative of the future consolidated results of operations of the Company.

3. Accounts Receivable

Accounts Receivable is shown less allowance for doubtful accounts of $2,675,000 and $2,548,000 at June 30, 2010 and December 31, 2009, respectively.

4. Inventories

Inventories valued at LIFO cost represented 61% and 63% of total inventory at June 30, 2010 and December 31, 2009, respectively. The excess of current cost over LIFO valued inventories was $7,839,000 at June 30, 2010 and $9,106,000 at December 31, 2009. The LIFO reserve was reduced by $429,000 in the first quarter of 2010 and $838,000 in the second quarter of 2010, due to the volume reductions in U.S. inventory. Inventory obsolescence reserves were $8,495,000 at June 30, 2010 and $9,060,000 at December 31, 2009. The decrease in reserve for obsolescence was mainly due to inventory dispositions in the Company s U.S. and European operations. Net inventories consist of the following:

(in thousands)	June 30, 2010	December 31, 2009

Finished goods	$	89,971	$	102,681
Work in process		9,709		10,611
Raw materials		9,264		11,030
	$	108,944	$	124,322

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO must necessarily be based on management's estimates.

5. Derivatives and Hedging

Most of the Company s outstanding debt is advanced from a revolving credit facility that accrues interest at a contractual margin over current market interest rates. The Company s financing costs associated with this credit facility can materially change with market increases and decreases of short-term borrowing rates, specifically London Inter Bank Operating Rate (LIBOR). During the second quarter of 2007, the Company entered into two interest rate swap agreements with JPMorgan that hedge future cash flows related to its outstanding debt obligations. One swap had a three-year term and fixed the LIBOR base rate at 4.910% covering $20 million of this debt which expired on March 31, 2010. The other has a four-year term and fixed the LIBOR base rate at 4.935% covering an additional $20 million of these variable rate borrowings and expires on March 31, 2011. On November 5, 2009, JPMorgan transferred the swap transactions to Bank of America. The terms of the hedging instrument remain the same. As of June 30, 2010, the Company had $42 million outstanding under its revolving credit facility and one interest rate swap contract designated as cash flow hedge which is effectively hedging $20 million of these borrowings from changes in underlying LIBOR base rates. The fair market value of this hedge, which is the amount that would have been paid or received by the Company had it prematurely terminated this swap contract at June 30, 2010, was a $648,000 liability. This is included in Accrued liabilities with an offset in Accumulated other comprehensive income, net of taxes. At June 30, 2010, ineffectiveness related to the interest rate swap agreement was not material.

6. Fair Value Measurements

The Company adopted SFAS 157, Fair Value Measurements as of January 1, 2008. FSAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS 157 also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with SFAS 157, fair value measurements are classified under the following hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

Level 3 Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable

When available, the Company uses quoted market prices to determine fair value, and the Company classifies such measurements within Level 1. In some cases where market prices are not available, the Company makes use of observable market based inputs to calculate fair value, in which case the measurements are classified with Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves, currency rates, etc. These measurements are classified within Level 3.

Fair value measurements are classified to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

Derivative financial instruments

The fair value of interest rate swap derivatives is primarily based on third-party pricing service models. These models use discounted cash flows that utilize the appropriate market-based forward swap curves and zero-coupon interest rates. Interest rate swap derivatives are Level 2 measurements and have a fair value of a negative $648,000 as of June

30, 2010.

The fair value of foreign currency forward contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate and is a Level 2 measurement and has a fair value of $1,000 as of June 30, 2010.

7. Common Stock and Dividends

Dividends declared and paid on a per share basis were as follows:

	Six Months Ended June 30,	
	2010	2009
Dividends declared	$ 0.12	$ 0.12
Dividends paid	$ 0.12	$ 0.12

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8. Stock-Based Compensation

The Company has granted options to purchase its common stock to certain employees and directors of the Company and its affiliates under various stock option plans at no less than the fair market value of the underlying stock on the date of grant. These options are granted for a term not exceeding ten years and are forfeited in the event the employee or director terminates his or her employment or relationship with the Company or one of its affiliates other than by retirement, based on certain criteria. These options generally vest over five years. All option plans contain anti-dilutive provisions that permit an adjustment of the number of shares of the Company s common stock represented by each option for any change in capitalization.

The Company s stock-based compensation expense was $341,000 and $253,000 for the quarter ended June 30, 2010 and 2009, respectively.

Qualified Options

Following is a summary of activity in the Incentive Stock Option Plans for the period indicated:

For six months ending June 30, 2010

	Shares	Exercise Price*
Options outstanding at beginning of year	345,480	
Granted	19,000	$24.69
Exercised	(3,800)	$12.95
Cancelled		
Options outstanding at June 30, 2010	360,680	$18.28
Options exercisable at June 30, 2010	212,080	$18.78
Options available for grant at June 30, 2010	195,500	

**Weighted Averages*

Options outstanding and exercisable at June 30, 2010 were as follows:

Qualified Stock Options	**Options Outstanding**		**Options Exercisable**
		Remaining	

Range of Exercise Price	Shares	Contractual Life(yrs)*	Exercise Price*	Shares	Exercise Price*
$11.45 - $17.85	153,680	6.80	$ 12.25	77,680	$ 13.02
$19.79 - $25.18	207,000	6.75	$ 22.77	134,400	$ 22.10
Total	360,680			212,080	

**Weighted Averages*

Non-qualified Options

Following is a summary of activity in the Non-Qualified Stock Option Plans for the period indicated:

For six months ending June 30, 2010

	Shares	Exercise Price*
Options outstanding at beginning of year	186,000	
Granted		
Exercised	(27,100)	$12.03
Cancelled		
Options outstanding at June 30, 2010	158,900	$15.00
Options exercisable at June 30, 2010	81,500	$16.27
Options available for grant at June 30, 2010	364,000	

**Weighted Averages*

Options outstanding and exercisable at June 30, 2010 were as follows:

Non-Qualified Stock Options

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Shares	Remaining Contractual Life(yrs)*	Exercise Price*	Shares	Exercise Price*
$11.45 - $12.10	112,900	7.35	$11.63	48,000	$11.87
$13.96 - $19.79	13,500	4.26	$18.71	13,500	$18.71
$25.02 - $25.18	32,500	6.92	$25.17	20,000	$25.16
Total	158,900			81,500	

**Weighted Averages*

Restricted Stock Units

Following is a summary of activity in the Restricted Stock Units for the periods indicated:

Six Months Ended

For six months ending June 30, 2010

	Shares	Weighted- average remaining contractual term (in years)
Options outstanding at beginning of year	8,000	4.00
Granted	3,000	
Exercised	(2,000)	
Cancelled		
Options outstanding at end of year	9,000	3.33

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9. Earnings Per Share

The following table sets forth the reconciliation from basic to diluted average common shares and the calculations of net income per common share. Net income is the same for basic and diluted per share calculations.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	2010	2009	2010	2009
Net Income	$ 4,870	$ 2,992	$ 8,863	$ 4,535
Average Common Shares:				
Basic (weighted-average outstanding shares)	11,756	9,977	11,752	9,958
Dilutive potential common shares from stock options	126	9	106	17
Diluted (weighted-average outstanding shares)	11,882	9,986	11,858	9,975
Basic earnings per share	$ 0.41	$ 0.30	$ 0.75	$ 0.46
Diluted earnings per share	$ 0.41	$ 0.30	$ 0.75	$ 0.45

10. Segment Reporting

At June 30, 2010 and June 30, 2009 the following unaudited financial information is segmented:

(In thousands)		Three Months Ended June 30, 2010		2009		Six Months Ended June 30, 2010		2009
Net Revenue								
Industrial	$	48,448	$	46,038	$	94,588	$	89,190
Agricultural		44,830		19,274		85,129		43,105
European		41,056		47,931		83,006		91,091
Consolidated		134,334		113,243		262,723		223,386
Income from Operations								
Industrial	$	2,060	$	576	$	3,900	$	(532)
Agricultural		1,939		219		2,924		1,460
European		3,327		4,589		6,969		7,633
Consolidated		7,326		5,384		13,793		8,561
Goodwill								
Industrial	$	13,363	$	26,895	$	13,363	$	26,895
Agricultural								
European		19,244		21,801		19,244		21,801
Consolidated		32,607		48,696		32,607		48,696
Total Identifiable Assets								
Industrial	$	124,544	$	160,887	$	124,544	$	160,887
Agricultural		130,025		80,779		130,025		80,779
European		124,234		137,207		124,234		137,207
Consolidated		378,803		378,873		378,803		378,873

11. Off Balance Sheet Arrangements

The Company does not have any obligation under any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the Company is party, that has or is reasonably likely to have a material effect on the Company s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

12. Comprehensive Income

The components of Comprehensive Income, net of related tax are as follows:

	Three Months Ended	**Six Months Ended**
	June 30,	**June 30,**
(in thousands)	**2010**	