

ALAMO GROUP INC
Form 10-Q
November 08, 2012

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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
(State or other jurisdiction of
incorporation or organization)

74-1621248
(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 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 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 NOVEMBER 1, 2012, 11,965,179 SHARES OF COMMON STOCK, \$.10 PAR VALUE, OF THE REGISTRANT WERE OUTSTANDING.

Alamo Group Inc. and Subsidiaries

INDEX

PART I.	FINANCIAL INFORMATION	PAGE
Item 1.	Interim Condensed Consolidated Financial Statements (Unaudited)	
	<u>Interim Condensed Consolidated Balance Sheets</u> September 30, 2012 and December 31, 2011	<u>3</u>
	<u>Interim Condensed Consolidated Statements of Income</u> Three and nine months ended September 30, 2012 and September 30,2011	<u>4</u>
	<u>Interim Condensed Consolidated Statements of Comprehensive Income</u> Three and nine months ended September 30, 2012 and September 30, 2011	<u>5</u>
	<u>Interim Condensed Consolidated Statements of Cash Flows</u> Nine months ended September 30, 2012 and September 30, 2011	<u>6</u>
	<u>Notes to Interim Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17</u>
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risks</u>	<u>24</u>
Item 4	<u>Controls and Procedures</u>	<u>25</u>
PART II.	<u>OTHER INFORMATION</u>	<u>26</u>
Item 1.	None	
Item 2.	None	
Item 3.	None	
Item 4.	None	
Item 5.	Other Information	
Item 6.	Exhibits and Reports on Form 8-K	
	<u>SIGNATURES</u>	<u>27</u>

Edgar Filing: ALAMO GROUP INC - Form 10-Q

Alamo Group Inc. and Subsidiaries
Interim Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share amounts)	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$38,313	\$10,288
Accounts receivable, net	153,834	143,934
Inventories	119,578	114,523
Deferred income taxes	3,423	3,502
Prepaid expenses	4,930	3,157
Income tax receivable	509	937
Total current assets	320,587	276,341
Property, plant and equipment	147,526	148,160
Less: Accumulated depreciation	(89,883)	(86,034)
	57,643	62,126
Goodwill	32,019	31,751
Intangible assets	5,500	5,500
Deferred income taxes	2,471	4,921
Other assets	1,002	1,026
Total assets	\$419,222	\$381,665
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$47,516	\$40,782
Income taxes payable	4,170	2,617
Accrued liabilities	31,962	30,573
Current maturities of long-term debt and capital lease obligations	808	1,190
Deferred income tax	255	643
Total current liabilities	84,711	75,805
Long-term debt and capital lease obligations, net of current maturities	13,270	8,621
Deferred pension liability	9,273	10,792
Other long-term liabilities	4,496	4,319
Deferred income taxes	2,447	4,852
Stockholders' equity:		
Common stock, \$.10 par value, 20,000,000 shares authorized; 11,945,554 and 11,902,729 issued and outstanding at September 30, 2012 and December 31, 2011, respectively	1,195	1,190
Additional paid-in-capital	86,963	85,704
Treasury stock, at cost; 42,600 shares at September 30, 2012 and December 31, 2011	(426)	(426)
Retained earnings	218,997	196,431
Accumulated other comprehensive income, net	(1,704)	(5,623)

Edgar Filing: ALAMO GROUP INC - Form 10-Q

Total stockholders' equity	305,025	277,276
Total liabilities and stockholders' equity	\$419,222	\$381,665

See accompanying notes.

3

Alamo Group Inc. and Subsidiaries
Interim Condensed Consolidated Statements of Income
(Unaudited)

(in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales:				
North American				
Industrial	\$61,972	\$56,965	\$196,841	\$165,319
Agricultural	54,135	55,301	155,487	160,510
European	39,971	42,791	126,670	130,767
Total net sales	156,078	155,057	478,998	456,596
Cost of sales	119,008	117,834	367,529	350,081
Gross profit	37,070	37,223	111,469	106,515
Selling, general and administrative expenses	23,992	22,762	73,073	69,007
Income from operations	13,078	14,461	38,396	37,508
Interest expense	(392)	(506)	(1,360)	(1,715)
Interest income	66	32	179	156
Other income (expense), net	(234)	817	(656)	595
Income before income taxes	12,518	14,804	36,559	36,544
Provision for income taxes	3,943	4,748	11,855	11,907
Net Income	\$8,575	\$10,056	\$24,704	\$24,637
Net income per common share:				
Basic	\$0.72	\$0.85	\$2.08	\$2.08
Diluted	\$0.71	\$0.84	\$2.05	\$2.06
Average common shares:				
Basic	11,903	11,857	11,887	11,845
Diluted	12,056	11,947	12,047	11,964
Dividends declared	\$0.06	\$0.06	\$0.18	\$0.18

See accompanying notes.

Alamo Group Inc. and Subsidiaries
Interim Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income	\$8,575	\$10,056	\$24,704	\$24,637
Other Comprehensive earnings, net of tax:				
Foreign Currency translation adjustments	3,610	(8,182)	3,473	(1,398)
Unrealized gains on derivative instruments:				
Unrealized gains arising during the period	—	—	—	144
Post retirement adjustments:				
Net gains (losses) arising during the period	149	72	446	(1,004)
Other comprehensive earnings	3,759	(8,110)	3,919	(2,258)
Comprehensive Income	\$12,334	\$1,946	\$28,623	\$22,379

Alamo Group Inc. and Subsidiaries
Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
(in thousands)	2012	2011
Operating Activities		
Net income	\$24,704	\$24,637
Adjustment to reconcile net income to net cash used by operating activities:		
Provision for doubtful accounts	209	685
Depreciation	7,698	7,985
Amortization of debt issuance	95	157
Stock-based compensation expense	774	768
Excess tax benefits from stock-based payment arrangements	(99)	(156)
Provision for deferred income tax (benefit) expense	(308)	(1,333)
Loss on sale of property, plant & equipment	264	(130)
Changes in operating assets and liabilities:		
Accounts receivable	(9,056)	(22,099)
Inventories	(4,279)	(17,446)
Prepaid expenses and other assets	(1,225)	(1,616)
Trade accounts payable and accrued liabilities	7,640	1,553
Income taxes payable	1,849	1,708
Other long-term liabilities	(731)	472
Net cash provided by (used in) operating activities	27,535	(4,815)
Investing Activities		
Purchase of property, plant and equipment	(3,540)	(4,705)
Proceeds from sale of property, plant and equipment	523	195
Net cash used in investing activities	(3,017)	(4,510)
Financing Activities		
Net change in bank revolving credit facility	5,000	8,000
Principal payments on long-term debt and capital leases	(731)	(1,802)
Dividends paid	(2,139)	(2,132)
Proceeds from sale of common stock	490	258
Excess tax benefits from stock-based payment arrangements	99	156
Net cash provided by (used in) financing activities	2,719	4,480
Effect of exchange rate changes on cash	788	(119)
Net change in cash and cash equivalents	28,025	(4,964)
Cash and cash equivalents at beginning of the period	10,288	30,243
Cash and cash equivalents at end of the period	\$38,313	\$25,279
Cash paid during the period for:		
Interest	\$1,502	\$1,728
Income taxes	11,183	11,056
See accompanying notes.		

Alamo Group Inc. and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements - (Unaudited)
September 30, 2012

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, 2012. The balance sheet at December 31, 2011, 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, 2011.

In 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income (ASU 2011-05), which eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The amendments in this standard require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Subsequently, in December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income (ASU 2011-12), which indefinitely defers the requirement in ASU 2011-05 to present on the face of the financial statements reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. The Company has provided the required statements of comprehensive income for the three and nine months ended September 30, 2012 and 2011.

In 2011, the FASB issued a revised accounting standard, which is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a “qualitative” assessment to determine whether further impairment testing is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this standard in the fourth quarter of 2011.

In 2011, the Financial Accounting Standards Board (FASB) issued a new accounting standard update, which amends the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for fiscal years beginning after December 15, 2011. We adopted this standard in the first quarter of 2012 and did not have a material impact on our financial statements and disclosures.

2. Accounts Receivable

Accounts Receivable is shown net of the allowance for doubtful accounts of \$3,113,000 and \$3,215,000 at September 30, 2012 and December 31, 2011, respectively.

3. Inventories

Inventories valued at LIFO cost represented 58% and 61% of total inventory at September 30, 2012 and December 31, 2011. The excess of current cost over LIFO valued inventories was \$9,259,000 at September 30, 2012 and \$9,459,000 at December 31, 2011. Inventory obsolescence reserves were \$8,239,000 at September 30, 2012 and \$7,630,000 at December 31, 2011. The increase in reserve for obsolescence was from the Company's quarterly review in the normal course of business. Net inventories consist of the following:

(in thousands)	September 30, 2012	December 31, 2011
Finished goods	\$ 100,282	\$ 90,444
Work in process	10,566	10,570
Raw materials	8,730	13,509
	\$ 119,578	\$ 114,523

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, to some extent, on management's estimates at each quarter end.

4. Fair Value Measurements

The Company adopted ASC Subtopic 820-10, "Fair Value Measurements and Disclosures, as amended" as of January 1, 2008. ASC Subtopic 820-10 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. There is a three-tier 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. 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.

5. Common Stock and Dividends

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Dividends declared	\$0.06	\$0.06	\$0.18	\$0.18
Dividends paid	0.06	0.06	0.18	0.18

6. 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 or death. 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 \$174,000 and \$204,000 for the three months ended September 30, 2012 and 2011 respectively and \$774,000 and \$768,000 for the nine months ended September 30, 2012 and 2011 respectively.

Qualified Options

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

For nine months ending September 30, 2012

	Shares	Exercise Price*
Outstanding at beginning of year	377,480	
Granted	61,000	\$ 32.76
Exercised	(28,650)	\$ 15.31
Cancelled	(8,100)	\$ 17.20
Outstanding at September 30, 2012	401,730	\$ 21.65
Exercisable at September 30, 2012	263,830	\$ 19.85
Available for grant at September 30, 2012	109,600	

*Weighted Averages

Options outstanding and exercisable at September 30, 2012 were as follows:

Qualified Stock Options	Options Outstanding			Options Exercisable	
	Shares	Remaining Contractual Life(yrs)*	Exercise Price*	Shares	Exercise Price*
Range of Exercise Price					
\$11.45 - \$17.85	112,480	5.00	\$ 12.33	77,480	\$ 12.72
\$19.79 - \$32.76	289,250	6.32	\$ 25.27	186,350	\$ 22.81
Total	401,730			263,830	
*Weighted Averages					

Non-qualified Options

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

For nine months ending September 30, 2012

	Shares	Exercise Price*
Outstanding at beginning of year	112,800	
Granted	—	\$ —
Exercised	(11,300)	\$ 9.04
Cancelled	—	\$ —
Outstanding at September 30, 2012	101,500	\$ 19.17
Exercisable at September 30, 2012	49,900	\$ 19.94
Available for grant at September 30, 2012	322,750	
*Weighted Averages		

Options outstanding and exercisable at September 30, 2012 were as follows:

Non-Qualified Stock Options	Options Outstanding			Options Exercisable	
	Shares	Remaining Contractual Life(yrs)*	Exercise Price*	Shares	Exercise Price*
Range of Exercise Price					
\$11.45 - \$12.10	46,000	7.00	\$ 11.45	18,400	\$ 11.45
\$13.96 - \$19.79	3,000	3.00	\$ 19.79	3,000	\$ 19.79
\$25.02 - \$26.45	52,500	7.24	\$ 25.90	28,500	\$ 25.43
Total	101,500			49,900	
*Weighted Averages					

Restricted Stock

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

For nine months ending September 30, 2012

	Shares	Price	Weighted- average remaining contractual term (in years)
Outstanding at beginning of year	19,750	\$22.96	3.48
Granted	—	\$—	—
Vested	(6,125)	\$21.13	—
Forfeited or Cancelled	(2,250)	\$21.45	—
Outstanding at September 30, 2012	11,375	\$24.24	2.65

7. 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 for basic and diluted calculations do not differ.

(In thousands, except per share)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income	\$8,575	\$10,056	\$24,704	\$24,637
Average Common Shares:				
Basic (weighted-average outstanding shares)	11,903	11,857	11,887	11,845
Dilutive potential common shares from stock options	153	90	160	119
Diluted (weighted-average outstanding shares)	12,056	11,947	12,047	11,964
Basic earnings per share	\$0.72	\$0.85	\$2.08	\$2.08
Diluted earnings per share	\$0.71	\$0.84	\$2.05	\$2.06

8. Segment Reporting

At September 30, 2012 the following includes a summary of the unaudited financial information by reporting segment:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Revenue				
Industrial	\$ 61,972	\$ 56,965	\$ 196,841	\$ 165,319
Agricultural	54,135	55,301	155,487	160,510
European	39,971	42,791	126,670	130,767
Consolidated	\$ 156,078	\$ 155,057	\$ 478,998	\$ 456,596
Operating Income				
Industrial	\$ 3,866	\$ 4,146	\$ 14,954	\$ 12,248
Agricultural	5,787	6,432	14,547	15,203
European	3,425	3,883	8,895	10,057
Consolidated	\$ 13,078	\$ 14,461	\$ 38,396	\$ 37,508
Goodwill				
Industrial	\$ 13,453	\$ 13,132	\$ 13,453	\$ 13,132
Agricultural	—	—	—	—
European	18,566	20,817	18,566	20,817
Consolidated	\$ 32,019	\$ 33,949	\$ 32,019	\$ 33,949
Total Identifiable Assets				
Industrial	\$ 155,730	\$ 127,364	\$ 155,730	\$ 127,364
Agricultural	118,773	132,784	118,773	132,784
European	144,719	142,055	144,719	142,055
Consolidated	\$ 419,222	\$ 402,203	\$ 419,222	\$ 402,203

9. 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.

10. Accumulated Other Comprehensive Income

The components of Accumulated Other Comprehensive Income as shown on the Balance Sheet are as follows:

(in thousands)	September 30, 2012	December 31, 2011
Foreign currency translation	\$ 5,147	\$ 1,611
Derivatives, net of taxes	—	63
Actuarial gains (losses) related to defined benefit plans	(6,851)	(7,297)
Accumulated other comprehensive income	\$(1,704)	\$(5,623)

11. Contingent Matters

Like other manufacturers, the Company is subject to a broad range of federal, state, local and foreign laws and requirements, including those concerning air emissions, discharges into waterways, and the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste materials, as well as the remediation of contamination associated with releases of hazardous substances at the Company's facilities and offsite disposal locations, workplace safety and equal employment opportunities. These laws and regulations are constantly changing, and it is impossible to predict with accuracy the effect that changes to such laws and regulations may have on the Company in the future. Like other industrial concerns, the Company's manufacturing operations entail the risk of noncompliance, and there can be no assurance that the Company will not incur material costs or other liabilities as a result thereof.

The Company knows that its Indianola, Iowa property is contaminated with chromium which most likely resulted from chrome plating operations which were discontinued before the Company purchased the property. Chlorinated volatile organic compounds have also been detected in water samples on the property, though the source is unknown at this time. The Company voluntarily worked with an environmental consultant and the state of Iowa with respect to these issues and believes it completed its remediation program in June 2006. The work was accomplished within the Company's environmental liability reserve balance. We requested a "no further action" classification from the state. We received a conditional "no further action" letter in January of 2009. When we demonstrate stable or improving conditions below residential standards for a certain period of time by monitoring existing wells, an unconditional "no further action" letter will be requested.

On September 30, 2012, the Company had an environmental reserve in the amount of \$1,185,000 related to the acquisition of Gradall's facility in New Philadelphia, Ohio. The reserve is for potential ground water contamination/remediation that was identified before the acquisition and believed to have been generated by a third party company located near the Gradall facility.

The Company knows that Bush Hog's main manufacturing property in Selma, Alabama was contaminated with chlorinated volatile organic compounds which most likely resulted from painting and cleaning operations during the 1960s and 1970s. The contaminated areas were primarily in the location of underground storage tanks and underneath the former waste storage area. Under the Asset Purchase Agreement, Bush Hog's prior owner agreed to and has removed the underground storage tanks at its cost and has remediated the identified contamination in accordance with the regulations of the Alabama Department of Environmental Management. An environmental consulting firm was retained by the prior owner and administered the cleanup and will monitor the site on an ongoing basis until the remediation program is complete and approved by the applicable authorities.

Certain other assets of the Company contain asbestos that may have to be remediated over time. The Company believes that any subsequent change in the liability associated with the asbestos removal will not have a material

adverse effect on the Company's consolidated financial position or results of operations.

The Company is subject to various other federal, state, and local laws affecting its business, as well as a variety of regulations relating to such matters as working conditions, equal employment opportunities, and product safety. A

13

variety of state laws regulate the Company's contractual relationships with its dealers, some of which impose restrictive standards on the relationship between the Company and its dealers, including events of default, grounds for termination, non-renewal of dealer contracts, and equipment repurchase requirements. The Company believes it is currently in material compliance with all such applicable laws and regulations.

12. Retirement Benefit Plans

Defined Benefit Plan

In connection with the February 3, 2006 purchase of all the net assets of the Gradall excavator business, Alamo Group Inc. assumed sponsorship of two Gradall non-contributory defined benefit pension plans, both of which were frozen with respect to both future benefit accruals and future new entrants.

The Gradall Company Hourly Employees' Pension Plan covers approximately 328 former employees and 146 current employees who (i) were formerly employed by the former parent of Gradall, (ii) were covered by a collective bargaining agreement and (iii) first participated in the plan before April 6, 1997. An amendment ceasing all future benefit accruals was effective April 6, 1997.

The Gradall Company Employees' Retirement Plan covers approximately 235 former employees and 92 current employees who (i) were formerly employed by the former parent of Gradall, (ii) were not covered by a collective bargaining agreement and (iii) first participated in the plan before December 31, 2004. An amendment ceasing future benefit accruals for certain participants was effective December 31, 2004. A second amendment discontinued all future benefit accruals for all participants effective April 24, 2006.

The Company's pension expense was \$100,000 and \$22,000 for the three months ended September 30, 2012 and 2011, respectively and \$301,000 and \$65,000 for the nine months ended September 30, 2012 and 2011 respectively. The Company is required to contribute \$1,643,000 to the pension plans for 2012, of which \$1,325,000 has been paid through September 30, 2012. During the third quarter of 2011, the Company made a supplemental contribution of \$500,000 to the Gradall Hourly Employees' Pension Plan.

Supplemental Retirement Plan

The Board of Directors of the Company adopted the Alamo Group Inc. Supplemental Executive Retirement Plan (the "SERP"), effective as of January 3, 2011. The SERP will benefit certain key management or other highly compensated employees of the Company and/or certain subsidiaries who are selected by the Compensation Committee and approved by the Board to participate.

The SERP is intended to provide a benefit from the Company upon retirement, death or disability, or a change in control of the Company. Accordingly, the SERP obligates the Company to pay to a participant a Retirement Benefit (as defined in the SERP) upon the occurrence of certain payment events to the extent a participant has a vested right thereto. A participant's right to his or her Retirement Benefit becomes vested in the Company's contributions upon ten years of Credited Service (as defined in the SERP) or a change in control of the Company. The Retirement Benefit is based on 20% of the final three year average salary of each participant on or after his or her normal retirement age (65 years of age). In the event of the participant's death or a change in control, the participant's vested retirement benefit will be paid in a lump sum to the participant or his or her estate, as applicable, within 90 days after the participant's death or a change in control, as applicable. In the event the participant is entitled to a benefit from the SERP due to disability, retirement or other termination of employment, the benefit will be paid in monthly installments over a period of fifteen years.

The Company records amounts relating to the SERP based on calculations that incorporate various actuarial and other assumptions, including discount rates, rate of compensation increases, retirement dates and life expectancies. The net periodic costs are recognized as employees render the services necessary to earn the SERP benefits.

In connection with the initiation of the SERP, the Company recorded an unfunded long-term liability of \$1,964,301, a deferred tax asset of \$746,000 and \$1,218,301 in accumulated other comprehensive income. The \$1,964,301 represents prior service cost which will be amortized over the average remaining service periods of the

employees. The prior service cost is included as a component of net periodic pension cost. The prior service cost expected to be amortized for the year ended December 31, 2012 is \$263,664.

The net period expense for the three months ended September 30, 2012 and 2011 were \$123,000 and \$119,000, respectively and \$369,000 and \$356,000 for the nine months ended September 30, 2012 and 2011 respectively.

13. Income Taxes

We are subject to U.S. federal income tax and various state, local, and international income taxes in numerous jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenue and expenses in different jurisdictions and the timing of recognizing revenue and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable tax laws in the jurisdictions in which we file.

We currently file income tax returns in the U.S., and all foreign jurisdictions in which we have entities, which are periodically under audit by federal, state, and international tax authorities. These audits can involve complex matters that may require an extended period of time for resolution. There are no income tax examinations currently in process. Although the outcome of open tax audits is uncertain, in management's opinion, adequate provisions for income taxes have been made. If actual outcomes differ materially from these estimates, they could have a material impact on our financial condition and results of operations. Differences between actual results and assumptions, or changes in assumptions in future periods are recorded in the period they become known. To the extent additional information becomes available prior to resolution; such accruals are adjusted to reflect probable outcomes. Our effective tax rate is impacted by earnings being realized in countries which have lower statutory rates.

14. Acquisition and Plant Consolidation

Acquisition of Tenco

On October 19, 2011 the Company announced it had acquired substantially all of the assets and business of Tenco Group Inc. and its subsidiaries, ("Tenco"), effective October 18, 2011, for approximately \$5.9 million in cash, plus the assumption of certain specified liabilities and subject to post closing adjustments. Tenco is a Canadian based manufacturer and distributor of snow and ice removal equipment. The purchase includes substantially all of the ongoing business of Tenco, including the Tenco brand name and all related product names and trademarks.

Tenco's principal markets are in Canada and the United States and has operations in both countries. Tenco's Canadian operations had been operating under Receivership Orders from the Quebec Superior Court since July 25, 2011, and the Asset Purchase Agreement was approved by the Court on October 17, 2011.

The acquisition was accounted for as a business combination whereby the Company measured the identifiable assets acquired and liabilities assumed based on the acquisition date fair value. Accordingly, the total purchase price was 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 reflected various provisional estimates that were available at the time and were subject to change during the purchase price allocation period as valuations are finalized. All valuations are now final.

The following table summarizes the fair value of assets acquired and liabilities assumed as of the Closing Date. Since the acquisition, net adjustments of \$0.9 million were made to the fair value of the assets acquired and liabilities assumed with a corresponding adjustment to the bargain purchase gain. 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 its results of operations. The December 31, 2011 financial statement balances and disclosures impacted by these adjustments have been retrospectively adjusted. The adjustments were due to the final valuation of property, plant and equipment, inventory, and other liabilities.

(in thousands)	Initial Valuation	Adjustments	Adjusted Values
Accounts receivable	\$3,182		\$3,182
Inventory	7,375	218	7,593
Prepaid expenses	277		277
Property, plant & equipment	5,277	584	5,861
Other Liabilities	(2,433)69	(2,364)
Net Assets acquired	13,678	871	14,549
Less: Purchase Price	5,933		5,933
Gain on Bargain purchase	\$7,745	\$871	\$8,616

In the third quarter of 2012, Tenco generated approximately \$5.0 million of net revenue and less than \$0.1 million net income. In the first nine months of 2012, Tenco's net revenue was \$20.1 million and net income was \$0.4 million. The Company has included the operating results of Tenco in its consolidated financial statements since the Closing Date.
Plant Consolidation

On October 21, 2011 the Company announced that it would close its SMC plant in Sioux Falls, South Dakota and consolidate the operations into the Company's Gibson City, Illinois facility. This transition began in the fourth quarter of 2011 and was completed in the third quarter of 2012. The consolidation resulted in a pre-tax restructuring charge in the fourth quarter of 2011 of approximately \$0.7 million. Additionally, the Company has listed the SMC plant for sale and anticipates a gain on the sale of the facility if it occurs. Approximately 77 employees at SMC were affected by the consolidation.

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

The following tables set forth, for the periods indicated, certain financial data:

As a Percent of Net Sales	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
North American				
Industrial	39.7 %	36.7 %	41.1 %	36.2 %
Agricultural	34.7 %	35.7 %	32.5 %	35.2 %
European	25.6 %	27.6 %	26.4 %	28.6 %
Total sales, net	100.0 %	100.0 %	100.0 %	100.0 %

Cost Trends and Profit Margin, as Percentages of Net Sales	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Gross margin	23.8 %	24.0 %	23.3 %	23.3 %
Income from operations	8.4 %	9.3 %	8.0 %	8.2 %
Income before income taxes	8.0 %	9.5 %	7.6 %	8.0 %
Net income	5.5 %	6.5 %	5.2 %	5.4 %

Overview

This report contains forward-looking statements that are based on Alamo Group's current expectations. Actual results in future periods may differ materially from those expressed or implied because of a number of risks and uncertainties which are discussed below and in the Forward-Looking Information section.

In the third quarter of 2012, the Company's net income was down due to weakness in the European economy, slower sales of agricultural equipment, lower sales of higher-margin replacement parts, and an unfavorable comparison of foreign exchange losses relative to prior year gains. Agricultural markets continue to reflect a trend of slower market growth that began during the first quarter of 2012 and has continued into the third quarter. While activity of row-crop farms has remained steady, equipment sales to hobby farmers has remained depressed as they remain cautious about the U.S. economy. Also affecting agricultural sales in the quarter were drought conditions throughout the mid-west part of the United States. Alamo's Industrial Division saw a 9% increase in sales versus the third quarter of 2011, mainly from the acquisition of Tenco along with improved sales in mower products and vacuum trucks. However, budget constraints continue to be an issue as sales of excavators and street sweepers to governmental entities were below expectations. European sales were down compared to the third quarter of 2011. Agricultural markets in Europe continue to remain steady, though governmental markets remain challenged by weak conditions caused by the general slowdown in the European economy.

The Company remains concerned that our markets for the remainder of 2012 could be negatively affected by a variety of factors such as a continued weakness in the overall economy, sovereign debt issues, credit availability, increased levels of government regulations; changes in farm incomes due to commodity prices or governmental aid programs; adverse situations that could affect our customers such as animal disease epidemics, weather conditions such as

droughts, floods, snowstorms, etc.; budget constraints or revenue shortfalls in governmental entities and changes in our customers' buying habits due to lack of confidence in the economic outlook.

Results of Operations

Three Months Ended September 30, 2012 vs. Three Months Ended September 30, 2011

Net sales for the third quarter of 2012 were \$156,078,000, an increase of \$1,021,000, or 0.7% compared to \$155,057,000 for the third quarter of 2011. The increase was from the acquisition of Tenco in the amount of \$5,018,000. Agricultural markets continued to experience slower growth during the third quarter of 2012 as farmers were cautious about the U.S. economy. European sales for the third quarter of 2012 also were down especially in France as economic uncertainty and financial turmoil continued to affect the entire region.

Net North American Industrial sales increased during the third quarter by \$5,007,000 or 8.8% to \$61,972,000 for 2012 compared to \$56,965,000 during the same period in 2011. The increase came primarily from the acquisition of Tenco in the amount of \$5,018,000 and higher sales of mowing products and vacuum trucks. Sales of excavators and street sweepers were down compared to the third quarter of 2011 as governmental end users continued to be affected by budgetary constraints.

Net North American Agricultural sales were \$54,135,000 in 2012 compared to \$55,301,000 for the same period in 2011, a decrease of \$1,166,000 or 2.1%. The decrease was from slower market conditions compared to high growth rates experienced the last two years. Drought conditions throughout the mid-west portion of the U.S. also affected sales in this division.

Net European Sales for the third quarter of 2012 were \$39,971,000, a decrease of \$2,820,000 or 6.6% compared to \$42,791,000 during the third quarter of 2011. The decrease was primarily due to the economic slowdown throughout Europe.

Gross profit for the third quarter of 2012 was \$37,070,000 (23.8% of net sales) compared to \$37,223,000 (24.0% of net sales) during the same period in 2011, a decrease of \$153,000. An increase from the acquisition of Tenco in the amount of \$1,012,000 was offset by reduced sales in the Company's European and Agricultural Divisions. The margin percentage was down due to lower sales of higher-margin replacement parts.

Selling, general and administrative expenses ("SG&A") were \$23,992,000 (15.4% of net sales) during the third quarter of 2012 compared to \$22,762,000 (14.7% of net sales) during the same period of 2011, an increase of \$1,230,000. The increase was from the acquisition of Tenco in the amount of \$947,000.

Interest expense was \$392,000 for the third quarter of 2012 compared to \$506,000 during the same period in 2011, a decrease of \$114,000. The decrease in 2012 came from reduced borrowings in 2012 compared to 2011.

Other Income (expense), net was a \$234,000 expense for the third quarter of 2012 compared to a \$817,000 income in 2011. The expense in 2012 and income in 2011 were the result of foreign exchange rate changes.

Provision for income taxes was \$3,943,000 (31.5%) in the third quarter of 2012 compared to \$4,748,000 (32.1%) during the same period in 2011. The lower effective tax rate came from non recurring adjustments to tax reserves due to a reduction in the 2012 U.K. tax rate.

The Company's net income after tax was \$8,575,000 or \$0.71 per share on a diluted basis for the third quarter of 2012 compared to \$10,056,000 or \$0.84 per share on a diluted basis for the third quarter of 2011. The decrease of \$1,481,000 resulted from the factors described above.

Edgar Filing: ALAMO GROUP INC - Form 10-Q

Nine Months Ended September 30, 2012 vs. Nine Months Ended September 30, 2011

Net sales for the first nine months of 2012 were \$478,998,000, an increase of \$22,402,000 or 4.9% compared to \$456,596,000 for the first nine months of 2011. The increase was mainly from the acquisition of Tenco in the amount of \$20,130,000 and improved sales of mowing equipment in the Industrial Division. The Company's Agricultural Division was down as agricultural markets continued to experience slower growth for the first nine months of 2012 as farmers remained cautious about the weak U.S. economy. Sales in the European Division were down in the first nine months of 2012 compared to the same time in 2011 as governmental markets continued to be soft due to the economic slowdown in Europe.

18

Net North American Industrial sales increased during the first nine months by \$31,522,000 or 19.1% to \$196,841,000 for 2012 compared to \$165,319,000 during the same period in 2011. The increase was from the acquisition of Tenco in the amount of \$20,130,000 and improved sales in mowing equipment and vacuum trucks. Sales of excavators and street sweepers were negatively affected by slower markets related to governmental municipalities.

Net North American Agricultural sales were \$155,487,000 in 2012 compared to \$160,510,000 for the same period in 2011, a decrease of \$5,023,000 or 3.1%. The decrease was from slower market conditions and decreased shipments of preseason orders as average dealer inventory for both Bush Hog and Rhino were higher than 2011 levels. Also affecting demand has been the reduction of sales to hobby farmers who have been reluctant to buy due to the uncertain economic conditions. Drought conditions in Oklahoma and Texas have improved but affected the mid-west part of the U.S.

Net European sales for the first nine months of 2012 were \$126,670,000, a decrease of \$4,097,000 or 3.1% compared to \$130,767,000 during the same period of 2011. The decrease in 2012 was from soft market conditions in governmental markets which were caused by the slowdown in the European economy. This Division has had some improvement in its U.K. agricultural sales.

Gross profit for the first nine months of 2012 was \$111,469,000 (23.3% of net sales) compared to \$106,515,000 (23.3% of net sales) during the same period in 2011, an increase of \$4,954,000. The increase was from the acquisition of Tenco in the amount of \$4,111,000, improved sales in the Company's Industrial Division and, to a lesser extent, lower manufacturing costs.

Selling, general and administrative expenses ("SG&A") were \$73,073,000 (15.3% of net sales) during the first nine months of 2012 compared to \$69,007,000 (15.1% of net sales) during the same period of 2011, an increase of \$4,066,000. The increase in SG&A for the first nine months of 2012 was mainly from the acquisition of Tenco in the amount of \$3,351,000.

Interest expense was \$1,360,000 for the first nine months of 2012 compared to \$1,715,000 during the same period in 2011, a decrease of \$355,000. The decrease came from reduced borrowings and lower interest rates in 2012 compared to 2011.

Other income (expense), net was \$656,000 of expense during the first nine months of 2012 compared to \$595,000 of income in the first nine months of 2011. The expense in 2012 and income in 2011 were from changes in foreign exchange rates.

Provision for income taxes was \$11,855,000 (32.4%) in the first nine months of 2012 compared to \$11,907,000 (32.6%) during the same period in 2011.

The Company's net income after tax was \$24,704,000 or \$2.05 per share on a diluted basis for the first nine months of 2012 compared to \$24,637,000 or \$2.06 per share on a diluted basis for the first nine months of 2011. The increase of \$67,000 resulted from the factors described above.

Liquidity and Capital Resources

In addition to normal operating expenses, the Company has ongoing cash requirements which are necessary to operate the Company's business, including inventory purchases and capital expenditures. The Company's inventory and accounts payable levels typically build in the first half of the year and in the fourth quarter in anticipation of the spring

and fall selling seasons. Accounts receivable historically build in the first and fourth quarters of each year as a result of fall preseason sales programs and out of season sales, particularly in our Agricultural Division. Preseason sales help level the Company's production during the off season.

As of September 30, 2012, the Company had working capital of \$235,876,000 which represents an increase of \$35,340,000 from working capital of \$200,536,000 of December 31, 2011. The increase in working capital was primarily from higher levels of accounts receivable and inventory due to seasonality and the acquisition of Tenco.

Capital expenditures were \$3,540,000 for the first nine months of 2012, compared to \$4,705,000 during the first nine months of 2011. The Company expects to fund expenditures from operating cash flows or through its revolving credit facility, described below.

The Company was authorized by its Board of Directors in 1997 to repurchase up to 1,000,000 shares of the Company's common stock to be funded through working capital and credit facility borrowings. There were no shares purchased in 2011 or through the third quarter of 2012. The authorization to repurchase up to 1,000,000 shares remains available less 42,600 shares previously repurchased.

Net cash provided by financing activities was \$2,719,000 during the nine month period ending September 30, 2012, compared to \$4,480,000 for the same period in 2011.

The Company has \$36,909,000 in cash and cash equivalents held by its foreign subsidiaries as of September 30, 2012. The majority of these funds are at our UK and Canadian facilities and would not be available for use in the United States without incurring US federal and state tax consequences. The Company plans to use these funds for capital expenditures or acquisitions outside the United States.

On March 28, 2011, the Company entered into the Eighth Amendment of Amended and Restated Revolving Credit Agreement (the "Eighth Credit Agreement Amendment"), by and among the Company, the lenders party thereto and Bank of America, N.A. as administrative agent. The Eighth Credit Agreement Amendment amends certain provisions of the Company's existing credit facility to, among other things, (i) release the previously pledged security interest in certain assets of the Company and its specified subsidiaries which secured any indebtedness under the existing credit facility, (ii) extend the termination date of the Company's credit facility to March 28, 2016, (iii) reduce the aggregate commitments to \$100,000,000, (iv) provide the Company the option to request an increase in aggregate commitments under the existing credit facility of up to \$50,000,000, subject to the conditions set forth therein (v) lower the applicable leverage ratio, subject to certain exceptions and conditions, (vi) modify the limitation on capital expenditure, (vii) modify the limitation on other indebtedness and (viii) decrease the applicable interest margin for specified advances.

As of September 30, 2012, there was \$12,000,000 borrowed under the revolving credit facility. On September 30, 2012, \$1,400,000 of the revolver capacity was committed to irrevocable standby letters of credit issued in the ordinary course of business as required by vendors' contracts resulting in approximately \$87,000,000 in available borrowings.

On October 24, 2011, Lloyd TSB Bank plc renewed its £5.5 million overdraft facility to Alamo Group Europe Limited through October 31, 2012. The facility is unsecured but guaranteed by the borrowers' U.K. subsidiaries. Interest is payable on amounts owing at 1.40% per annum over the Bank's Base Rate. At September 30, 2012, there were no amounts outstanding under this facility.

There are additional lines of credit: for the Company's French operations in the amount of 6,200,000 Euros; for our Canadian operation in the amount of 3,500,000 Canadian dollars; and for our Australian operation in the amount of 400,000 Australian dollars. As of September 30, 2012, 714,000 Euros were borrowed against the French line of credit; no Canadian dollars were outstanding on the Canadian line of credit; and no Australian dollars were outstanding under its facility. The Canadian and Australian revolving credit facilities are guaranteed by the Company.

As of September 30, 2012, the Company is in compliance with the terms and conditions of its credit facilities.

Management believes the bank credit facilities and the Company's ability to internally generate funds from operations should be sufficient to meet the Company's cash requirements for the foreseeable future. However, the challenges affecting the banking industry and credit markets in general can potentially cause changes to credit availability which

creates a level of uncertainty.

Critical Accounting Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these

20

financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical Accounting Policies

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of the Consolidated Financial Statements. For further information on the critical accounting policies, see Note 1 of our Notes to Consolidated Financial Statements.

Allowance for Doubtful Accounts

The Company evaluates its ability to collect accounts receivable based on a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. For all other customers, it recognizes reserves for bad debt based on historical experience of bad debts as a percent of revenues for each business unit, adjusted for relative improvements or deteriorations in the agings and changes in current economic conditions.

The Company evaluates all aged receivables that are over 60 days old and reserves specifically on a 90-day basis. The Company's U.S. operations have Uniform Commercial Code ("UCC") filings on practically all wholegoods each dealer purchases. This allows the Company in times of a difficult economy when the customer is unable to pay or has filed for bankruptcy (usually Chapter 11), to repossess the customer's inventory. This also allows Alamo Group to maintain a reserve over its cost which usually represents the margin on the original sales price.

The bad debt reserve balance was \$3,113,000 at September 30, 2012 and \$3,215,000 at December 31, 2011.

Sales Discounts

At September 30, 2012 the Company had \$14,890,000 in reserves for sales discounts compared to \$14,567,000 at December 31, 2011 on products shipped to our customers under various promotional programs. The Company reviews the reserve quarterly based on analysis made on each program outstanding at the time.

The Company bases its reserves on historical data relating to discounts taken by the customer under each program. Historically between 85% and 95% of the Company's customers who qualify for each program, actually take the discount that is available.

Inventories – Obsolescence and Slow Moving

The Company had \$8,239,000 at September 30, 2012 and \$7,630,000 at December 31, 2011 in reserve to cover obsolete and slow moving inventory. The increase in reserve for obsolescence was from the Company's quarterly review during its normal course of business. The obsolete and slow moving policy states that the reserve is to be calculated on a basis of: 1) no inventory usage over a three year period and inventory with quantity on hand is deemed obsolete and reserved at 100 percent and 2) slow moving inventory with little usage requires a 100 percent reserve on items that have a quantity greater than a three year supply. There are exceptions to the obsolete and slow moving

classifications if approved by an officer of the Company based on specific identification of an item or items that are deemed to be either included or excluded from this classification. In cases where there is no historical data, management makes a judgment based on a specific review of the inventory in question to

determine what reserves, if any are appropriate. New products or parts are generally excluded from the reserve policy until a three year history has been established.

The reserve is reviewed and if necessary, adjustments made, on a quarterly basis. The Company relies on historical information to support its reserve. Once the inventory is written down, the Company does not adjust the reserve balance until the inventory is sold.

Warranty

The Company's warranty policy is generally to provide its customers warranty for up to one year on all equipment and 90 days for parts.

Warranty reserve, as a percent of sales, is calculated by taking the current twelve months of expenses and prorating that based on twelve months of sales with a six month lag period. The Company's historical experience is that an end-user takes approximately 90 days to six months from the receipt of the unit to file a warranty claim. A warranty reserve is established for each different marketing group. Reserve balances are evaluated on a quarterly basis and adjustments are made when required.

The current liability warranty reserve balance was \$5,148,000 at September 30, 2012 and \$5,083,000 at December 31, 2011.

Product Liability

At September 30, 2012 the Company had accrued \$275,000 in reserves for product liability cases compared to \$131,000 at December 31, 2011. The Company accrues primarily on a case by case basis and adjusts the balance quarterly.

The Company renewed its U.S. insurance coverage on September 30, 2012 and the S.I.R. for all U.S. products was \$100,000 per claim. The Company also carries product liability coverage in Europe, Canada and Australia which contain substantially lower S.I.R.'s or deductibles.

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. We perform our annual goodwill impairment test as of October 1 and monitor for interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing a qualitative assessment or a two-step process. We have an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If we choose to perform a qualitative assessment and determine the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where we perform the two-step process, the first step requires us to compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

The Company estimates the fair value of its reporting units using a discounted cash flow analysis. This analysis requires the Company to make significant assumptions and estimates about the extent and timing of future cash flows, discount rates and growth rates. The cash flows are estimated over a significant future period of time, which makes

those estimates and assumptions subject to an even higher degree of uncertainty. The Company also utilizes market valuation models and other financial ratios, which require the Company to make certain assumptions and estimates regarding the applicability of those models to its assets and businesses. As of September 30, 2012, the Company had \$32,019,000 of goodwill, which represents 8% of total assets.

The Company recognized goodwill impairment at two of its French operations, SMA and Rousseau, in the Company's European division of \$1,898,000 in 2011. The primary reason for the goodwill impairment was the general economic downturn that began to affect the Company in late 2008. This caused the Company to revise its

expectations about future revenue, which is a significant factor in the discounted cash flow analysis used to estimate the fair value of the Company's reporting units. During the 2011 impairment analysis review, it was noted that even though the fair value of the Schwarze, Rivard and Faucheux reporting units were above carrying value it was not materially different. On September 30, 2012, there was approximately \$6.9 million, \$11.5 million and \$0.6 million of goodwill related to the Schwarze, Rivard and Faucheux reporting units respectively. These reporting units would be most likely affected by changes in the Company's assumptions and estimates. The calculation of fair value could increase or decrease depending on changes in the inputs and assumptions used, such as changes in the reporting unit's future growth rates, discount rates, etc.

Management believes that the estimated valuations it arrived at are reasonable and consistent with what other marketplace participants would use in valuing the Company's components. However, management cannot give any assurance that these market values will not change in the future. For example, if discount rates demanded by the market increase, this could lead to reduced valuations under the income approach. If the Company's projections are not achieved in the future, this could lead management to reassess their assumptions and lead to reduced valuations under the income approach. If the market price of the Company's stock decreases, this could cause the Company to reassess the reasonableness of the implied control premium, which might cause management to assume a higher discount rate under the income approach which could lead to reduced valuations. If future similar transactions exhibit lower multiples than those observed in the past, this could lead to reduced valuations under the similar transactions approach. And finally, if there is a general decline in the stock market and particularly in those companies selected as comparable to the Company's components, this could lead to reduced valuations under the public company market multiple approach. The Company's annual impairment test is performed during the fourth quarter of each fiscal year. Given the current market conditions and continued economic uncertainty, the fair value of the Company's components could deteriorate which could result in the need to record impairment charges in future periods. The Company also monitors potential triggering events including changes in the business climate in which it operates, attrition of key personnel, volatility in the capital markets, the Company's market capitalization compared to its book value, the Company's recent operating performance, and the Company's financial projections. The occurrence of one or more triggering events could require additional impairment testing, which could result in future impairment charges. In particular, since the carrying value of the Schwarze, Rivard and Faucheux, reporting units are not materially different from fair value, any changes to the Company's assumptions could lead to an indicated impairment in step one, requiring the Company to proceed to step two and potentially record an impairment charge.

Forward-Looking Information

Part I of this Quarterly Report on Form 10Q and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II of this Quarterly Report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, forward-looking statements may be made orally or in press releases, conferences, reports or otherwise, in the future by or on behalf of the Company.

Statements that are not historical are forward-looking. When used by or on behalf of the Company, the words "estimate," "believe," "intend" and similar expressions generally identify forward-looking statements made by or on behalf of the Company.

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses operating in a global market, as well as matters specific to the Company and the markets it serves. Particular risks and uncertainties facing the Company include changes in market conditions; increased competition; decreases in the prices of agricultural commodities, which could affect our customers' income levels; budget constraints or income shortfalls which could affect the purchases of our type of equipment by governmental customers; credit availability for both the Company and its customers, adverse weather conditions such as droughts, floods, snowstorms, etc. which can affect buying patterns of the Company's customers and related contractors; the price and availability of critical raw materials, particularly steel and steel products; energy cost; increased cost of new governmental regulations which effect corporations; the potential effects on the buying habits of our customers due to animal disease outbreaks such as mad cow and other epidemics; the Company's ability to develop and manufacture

new and existing products profitably; market acceptance of new and existing products; the Company's ability to maintain good relations with its employees; and the ability to hire and retain quality employees.

23

In addition, the Company is subject to risks and uncertainties facing the industry in general, including changes in business and political conditions and the economy in general in both domestic and international markets; weather conditions affecting demand; slower growth in the Company's markets; financial market changes including increases in interest rates and fluctuations in foreign exchange rates; actions of competitors; the inability of the Company's suppliers, customers, creditors, public utility providers and financial service organizations to deliver or provide their products or services to the Company; seasonal factors in the Company's industry; unforeseen litigation; government actions including budget levels, regulations and legislation, primarily relating to the environment, commerce, infrastructure spending, health and safety; and availability of materials.

The Company wishes to caution readers not to place undue reliance on any forward-looking statements and to recognize that the statements are not predictions of actual future results. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, as well as others not now anticipated. The foregoing statements are not exclusive and further information concerning the Company and its businesses, including factors that could potentially materially affect the Company's financial results, may emerge from time to time. It is not possible for management to predict all risk factors or to assess the impact of such risk factors on the Company's businesses.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

The Company is exposed to various markets risks. Market risks are the potential losses arising from adverse changes in market prices and rates. The Company does not enter into derivative or other financial instruments for trading or speculative purposes.

Foreign Currency Risk

International Sales

A portion of the Company's operations consists of manufacturing and sales activities in international jurisdictions. The Company primarily manufactures its products in the U.S., U.K., France, Canada and Australia. The Company sells its products primarily in the functional currency within the markets where the products are produced, but certain sales from the Company's U.K. and Canadian operations are denominated in other foreign currencies. As a result, the Company's financials, specifically the value of its foreign assets, could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the other markets in which the subsidiaries of the Company distribute their products.

To mitigate the short-term affect of changes in currency exchange rates on the Company's functional currency-based sales, the Company's U.K. subsidiaries regularly enter into foreign exchange forward contracts to hedge approximately 80% of its future net foreign currency collections over a period of six months. As of September 30, 2012, the Company had \$4,401,000 outstanding in forward exchange contracts related to accounts receivables. A 15% fluctuation in exchange rates for these currencies would change the fair value by approximately \$660,000. However, since these contracts hedge foreign currency denominated transactions, any change in the fair value of the contracts should be offset by changes in the underlying value of the transaction being hedged.

Exposure to Exchange Rates

The Company's earnings are affected by fluctuations in the value of the U.S. dollar as compared to foreign currencies, predominately in European countries, as a result of the sales of its products in international markets. Foreign currency options and forward contracts are used to hedge against the earnings effects of such fluctuations. The result of a uniform 10% strengthening in the value of the dollar relative to the currencies in which the Company's sales are denominated would result in a decrease in gross profit of \$4,208,000 for the nine month period ending September 30, 2012. Comparatively, the result of a uniform 10% strengthening in the value of the dollar relative to the currencies in which the Company's sales are denominated would have resulted in a decrease in gross profit of approximately

\$3,893,000 for the nine month period ended September 30, 2011. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. In addition to the direct effects of changes in exchange rates, which include a changed dollar value of the resulting sales, changes in exchange rates may also affect the volume of sales or the foreign currency sales price as competitors' products become more or less attractive. The Company's sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices. The translation

adjustment during the third quarter of 2012 was a gain of \$3,610,000. On September 30, 2012, the British pound closed at .6187 relative to 1.00 U.S. dollar, and the Euro closed at .7777 relative to 1.00 U.S. dollar. At December 31, 2011 the British pound closed at .6434 relative to 1.00 U.S. dollar and the Euro closed at .7716 relative to 1.00 U.S. dollar. By comparison, on September 30, 2011, the British pound closed at .6416 relative to 1.00 U.S. dollar, and the Euro closed at .7470 relative to 1.00 U.S. dollar. No assurance can be given as to future valuations of the British pound or Euro or how further movements in those or other currencies could affect future earnings or the financial position of the Company.

Interest Rate Risk

The Company's long-term debt bears interest at variable rates. Accordingly, the Company's net income is affected by changes in interest rates. Assuming the current level of borrowings at variable rates and a two percentage point change in the third quarter 2012 average interest rate under these borrowings, the Company's interest expense would have changed by approximately \$180,000. In the event of an adverse change in interest rates, management could take actions to mitigate its exposure. However, due to the uncertainty of the actions that would be taken and their possible effects this analysis assumes no such actions. Further this analysis does not consider the effects of the change in the level of overall economic activity that could exist in such an environment.

Item 4. Controls and Procedures

Disclosure Controls and Procedures.

An evaluation was carried out under the supervision and with the participation of Alamo's management, including our President and Chief Executive Officer, Executive Vice President and Chief Financial Officer (Principal Financial Officer) and Vice-President and Corporate Controller, (Principal Accounting Officer), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13A-15(e) under the Securities Exchange Act of 1933). Based upon the evaluation, the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer (Principal Financial Officer) and Vice-President, Corporate Controller, (Principal Accounting Officer) concluded that the Company's design and operation of these disclosure controls and procedures were effective at the end of the period covered by this report.

PART II. OTHER INFORMATION

Item 1. - None

Item 2 - None

Item 3 - None

Item 4 - None

Item 5. Other Information

(a) Reports on Form 8-K

November 6, 2012 – Press Release announcing Third Quarter 2012 earnings.

(b) Other Information

None

Item 6. Exhibits

(a) Exhibits

31.1	—	Certification by Ronald A. Robinson under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.2	—	Certification by Dan E. Malone under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.3	—	Certification by Richard J. Wehrle under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.1	—	Certification by Ronald A. Robinson under Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.2	—	Certification by Dan E. Malone under Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.3	—	Certification by Richard J. Wehrle under Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
101.INS	—	XBRL Instance Document	Filed Herewith
101.SCH	—	XBRL Taxonomy Extension Schema Document	Filed Herewith
101.CAL	—	XBRL Taxonomy Extension Calculation Linkbase Document	Filed Herewith
101.LAB	—	XBRL Taxonomy Extension Label Linkbase Document	Filed Herewith
101.PRE	—	XBRL Taxonomy Extension Presentation Linkbase Document	Filed Herewith
101.DEF	—	XBRL Taxonomy Extension Definition Linkbase Document	Filed Herewith

Alamo Group Inc. and Subsidiaries

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Alamo Group Inc.
(Registrant)

/s/ Ronald A. Robinson
Ronald A. Robinson
President & Chief Executive Officer

/s/ Dan E. Malone
Dan E. Malone
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

/s/ Richard J. Wehrle
Richard J. Wehrle
Vice President & Corporate Controller
(Principal Accounting Officer)