

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

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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)

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

See accompanying notes.

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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)

(in thousands)	Nine Months Ended	
	September 30, 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