ALAMO GROUP INC
Form 10-Q
November 07, 2008

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 SEPTEMBER 30, 2008

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 NOVEMBER 1, 2008, 9,921,929 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

(in thousands, except share amounts)	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,447	$ 4,459
Accounts receivable, net	128,323	109,260
Inventories	132,989	118,285
Deferred income taxes	1,946	2,131
Prepaid expenses	3,556	2,834
Total current assets	272,261	236,969
Property, plant and equipment	128,434	124,665
Less: Accumulated depreciation	(63,905)	(61,513)
	64,529	63,152
Goodwill	55,507	43,946
Intangible assets	4,003	4,081
Assets held for sale	291	291
Other assets	1,692	2,191
Total assets	$ 398,283	$ 350,630
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade accounts payable	64,876	39,248
Income taxes payable	2,296	2,289
Accrued liabilities	29,744	22,673
Current maturities of long-term debt	3,377	3,368
Total current liabilities	100,293	67,578
Long-term debt, net of current maturities	91,500	78,527
Deferred pension liability	371	1,040
Other long-term liabilities	3,934	4,100

Deferred income taxes	657	687
Stockholders equity:		
Common stock, $.10 par value, 20,000,000 shares authorized;		
9,957,229 and 9,839,429 issued and outstanding at September 30, 2008 and December 31, 2007, respectively	996	984
Additional paid-in capital	55,115	53,610
Treasury stock, at cost; 42,600 shares at September 30, 2008 and December 31, 2007	(426)	(426)
Retained earnings	134,509	123,426
Accumulated other comprehensive income	11,334	21,104
Total stockholders equity	201,528	198,698
Total liabilities and stockholders equity	$ 398,283	$ 350,630

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, 2008	2007	Nine Months Ended September 30, 2008	2007
Net sales:				
North American				
Industrial	$64,803	$60,862	$199,866	$186,510
Agricultural	29,555	31,210	94,826	90,521
European	54,349	33,884	139,956	101,058
Total net sales	148,707	125,956	434,648	378,089
Cost of sales	119,097	99,574	349,553	303,796
Gross profit	29,610	26,382	85,095	74,293
Selling, general and administrative expense	21,795	18,716	62,518	55,929
Income from operations	7,815	7,666	22,577	18,364
Interest expense	(2,024)	(2,025)	(5,748)	(6,415)
Interest income	691	414	1,630	1,047
Other income (expense), net	222	235	881	469
Income before income taxes	6,704	6,290	19,340	13,465
Provision for income taxes	2,251	2,074	6,490	4,381
Net income	$4,453	$4,216	$12,850	$9,084
Net income per common share:				
Basic	$.45	$0.43	$1.31	$0.93
Diluted	$.45	$0.42	$1.29	$0.91
Average common shares				

Basic	9,870	9,790	9,822	9,775
Diluted	9,970	9,972	9,949	9,961
Dividends declared	$0.06	$0.06	$0.18	$0.18

See accompanying notes.

Alamo Group Inc. and Subsidiaries

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
(in thousands, except per share amounts)	**2008**	**2007**
Operating Activities		
Net income	$12,850	$9,084
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	318	492
Depreciation	6,990	6,644
Amortization	78	80
Stock-based compensation expense	443	477
Excess tax benefits from stock-based payment arrangements	(45)	(62)
Provision (benefit) for deferred income tax benefit	218	(113)
Gain on sale of property, plant and equipment	(99)	(167)
Changes in operating assets and liabilities:		
Accounts receivable	(14,719)	369
Inventories	(4,238)	(6,275)
Prepaid expenses and other assets	(1,206)	(42)
Trade accounts payable and accrued liabilities	17,068	6,126
Income taxes payable	1,173	2,423
Other long-term liabilities	(833)	(489)
Net cash provided by operating activities	17,998	18,547
Investing Activities		
Acquisitions, net of cash acquired	(22,055)	(3,464)
Purchase of property, plant and equipment	(5,052)	(6,733)
Proceeds from sale of property, plant and equipment	209	269
Net cash used by investing activities	(26,898)	(9,928)
Financing Activities		

Net change in bank revolving credit facility	11,000	12,500
Principal payments on long-term debt and capital leases	(2,038)	(2,053)
Proceeds from issuance of long-term debt	1,986	45
Dividends paid	(1,766)	(1,759)
Proceeds from sale of common stock	1,073	466
Excess tax benefits from stock-based payment arrangements	45	62
Net cash provided by financing activities	10,300	9,261
Effect of exchange rate changes on cash	(412)	733
Net change in cash and cash equivalents	988	18,613
Cash and cash equivalents at beginning of the period	4,459	2,169
Cash and cash equivalents at end of the period	$5,447	$ 20,782
Cash paid during the period for:		
Interest	$5,732	$6,880
Income taxes	$2,866	$ 1,198

See accompanying notes.

Alamo Group Inc. and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements - (Unaudited)
September 30, 2008

1. Basis of Financial Statement Presentation

The accompanying unaudited interim condensed 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, 2008. The balance sheet at December 31, 2007, 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, 2007.

1. **Acquisitions**

The acquisitions described below were accounted for as business combinations in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations . Accordingly, the purchase price as been allocated to the underlying assets and liabilities based on estimated fair values at the date of acquisition. The operating results of the acquired companies are included with the Company s results of operations since their respective acquisition dates.

On May 30, 2008 the Company purchased Rivard Developpement (*Rivard*), a leading French manufacturer of vacuum trucks, high pressure cleaning systems and trenchers. The purchase price was approximately €15 million (approximately U.S. $23 million) plus the assumption of certain liabilities. We have preliminarily allocated the purchase price to the acquired assets and liabilities assumed and recorded goodwill of approximately €9 million (approximately U.S. $15 million) related to this acquisition. Finalization of the purchase price allocation is expected in the fourth quarter of 2008. The majority of the purchase price was funded utilizing the Company s cash reserves in Europe, with the balance from bank credit facilities. *Rivard s* sales in 2007 were €40 million, (approximately U.S. $62 million) and the company has 275 full-time employees. *Rivard* is located in Daumeray, France and was founded in 1952.

On March 6, 2007 the Company purchased outstanding stock of Henke Manufacturing Corporation (*Henke*), a manufacturer of specialty snow removal attachments. *Henke* s products are mounted on both heavy industrial equipment and medium to heavy duty trucks. The primary end users are governmental agencies, related contractors and other industrial users. The purchase price was $4.8 million which included assumed debt of approximately $0.6 million and goodwill of zero. The acquisition was accounted for under the purchase method and the results of operations have been included in the Company s Statement of Income from March 2007. *Henke*, which is located in Leavenworth, Kansas, had sales of over $8 million in their last fiscal year ended June 30, 2006.

The unaudited pro forma statement of income of the Company assuming these transactions occurred at January 1, 2007 is as follows:

	Nine Months Ended September 30,	
(In thousands, except per share amounts)	**2008**	**2007**
Net Sales	$ 460,481	$ 426,104
Net Income	$ 14,502	$ 11,222
Diluted Earnings per Share	$ 1.46	$ 1.13

3. Accounts Receivable

Accounts Receivable is shown net of the allowance for doubtful accounts of $1,809,000 and $1,922,000 at September 30, 2008 and December 31, 2007, respectively.

4. Inventories

Inventories valued at LIFO cost represented 56% and 58% of total inventory at September 30, 2008 and December 31, 2007, respectively. The excess of current costs over LIFO valued inventories was $9,062,000 at September 30, 2008 and December 31, 2007. Inventory obsolescence reserves were $8,222,000 at September 30, 2008 and $8,526,000 at December 31, 2007. Net inventories consist of the following:

(in thousands)	**September 30, 2008**	**December 31, 2007**
Finished goods	$ 99,342	$ 96,464
Work in process	17,889	14,755
Raw materials	15,758	7,066
	$ 132,989	$ 118,285

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.

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 one of its current lenders that hedge future cash flows related to its outstanding debt obligations. As of September 30, 2008, the Company had $86.0 million outstanding under its revolving credit facility and two interest rate swap contracts designated as cash flow hedges which are effectively hedging $40 million of these borrowings from changes in underlying LIBOR base rates. One swap has a three year term and fixes the LIBOR base rate at 4.910% covering $20 million of this debt. 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. The fair market value of these hedges, which is the amount that would have been paid or received by the Company had it prematurely terminated these swap contracts at September 30, 2008, was a $1,143,000 liability. This is included in Other long-term liabilities with an offset in Accumulated other comprehensive income, net of taxes. At September 30, 2008, ineffectiveness related to the interest rate swap agreements 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 i