ALAMO GROUP INC
Form 10-Q
November 09, 2009

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, 2009

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 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, 2009, 11,746,929 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, 2009 (Unaudited)**	**December 31, 2008 (Audited)**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,474	$ 4,532
Accounts receivable, net	104,156	124,197
Inventories	113,194	132,248
Deferred income taxes	2,513	2,671
Prepaid expenses	3,164	2,377
Total current assets	236,501	266,025
Property, plant and equipment	130,138	125,952
Less: Accumulated depreciation	(70,265)	(64,168)
	59,873	61,784
Goodwill	49,449	48,107
Intangible assets	3,923	3,982
Deferred income taxes	2,463	2,463
Assets held for sale	426	291
Other assets	1,303	1,702
Total assets	$ 353,938	$ 384,354

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:

Trade accounts payable	38,646	54,598
Income taxes payable	3,305	841
Accrued liabilities	28,895	26,059
Current maturities of long-term debt	5,423	4,186
Total current liabilities	76,269	85,684
Long-term debt, net of current maturities	62,928	99,884
Deferred pension liability	8,614	8,682
Other long-term liabilities	4,144	5,139
Deferred income taxes	1,101	653
Stockholders equity:		
Common stock, $.10 par value, 20,000,000 shares authorized;		
10,089,529 and 9,964,529 issued and outstanding at September 30, 2009 and December 31, 2008, respectively	1,009	996
Additional paid-in capital	57,217	55,683
Treasury stock, at cost; 42,600 shares at September 30, 2009 and December 31, 2008	(426)	(426)
Retained earnings	139,386	132,064
Accumulated other comprehensive income	3,696	(4,005)
Total stockholders equity	200,882	184,312
Total liabilities and stockholders equity	$ 353,938	$ 384,354

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, 2009		Three Months Ended September 30, 2008		Nine Months Ended September 30, 2009		Nine Months Ended September 30, 2008
-							
Net sales:							
North American							
Industrial	$ 45,547		$ 64,803		$ 134,737		$ 199,866
Agricultural	20,158		29,555		63,263		94,826
European	44,613		54,349		135,704		139,956
Total net sales	110,318		148,707		333,704		434,648
Cost of sales	84,669		119,097		261,999		349,553
Gross profit	25,649		29,610		71,705		85,095
Selling, general and administrative expense	17,983		21,795		55,478		62,518
Income from operations	7,666		7,815		16,227		22,577
Interest expense	(1,005)		(2,024)		(3,248)		(5,748)
Interest income	15		691		337		1,630
Other income (expense), net	134		222		130		881
Income before income taxes	6,810		6,704		13,446		19,340
Provision for income taxes	2,227		2,251		4,328		6,490
Net income	$ 4,583		$ 4,453		$ 9,118		$ 12,850
Net income per common share:							
Basic	$ .46		$ .45		$ .91		$ 1.31
Diluted	$ .46		$ .45		$ .91		$ 1.29
Average common shares							
Basic	10,047		9,870		9,988		9,822
Diluted	10,086		9,970		10,012		9,949
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)

(in thousands, except per share amounts)	**Nine Months Ended September 30, 2009**	**2008**
Operating Activities		
Net income	$9,118	$12,850
Adjustment to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	392	318
Depreciation	6,050	6,990
Amortization	59	78
Stock-based compensation expense	429	443
Excess tax benefits from stock-based payment arrangements	(43)	(45)
Provision (benefit) for deferred income tax benefit	529	218
Gain on sale of property, plant and equipment	(22)	(99)
Changes in operating assets and liabilities:		
Accounts receivable	22,869	(14,719)
Inventories	22,019	(4,238)
Prepaid expenses and other assets	136	(1,206)
Trade accounts payable and accrued liabilities	(15,232)	17,068
Income taxes payable	2,211	1,173
Other long-term liabilities	(784)	(833)
Net cash provided by operating activities	47,731	17,998
Investing Activities		
Acquisitions, net of cash acquired		(22,055)
Purchase of property, plant and equipment	(2,661)	(5,052)
Proceeds from sale of property, plant and equipment	95	209
Net cash used by investing activities	(2,566)	(26,898)
Financing Activities		
Net change in bank revolving credit facility	(36,000)	11,000
Principal payments on long-term debt and capital leases	(1,670)	(2,038)
Proceeds from issuance of long-term debt	1,497	1,986
Dividends paid	(1,796)	(1,766)

Proceeds from sale of common stock	1,117	1,073
Excess tax benefits from stock-based payment arrangements	43	45
Net cash provided by financing activities	(36,809)	10,300
Effect of exchange rate changes on cash	586	(412)
Net change in cash and cash equivalents	8,942	988
Cash and cash equivalents at beginning of the period	4,532	4,459
Cash and cash equivalents at end of the period	$13,474	$5,447
Cash paid during the period for:		
Interest	$3,659	$5,732
Income taxes	$1,906	$2,866

See accompanying notes.

Alamo Group Inc. and Subsidiaries

Notes to Interim Condensed Consolidated Financial Statements - (Unaudited)

September 30, 2009

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, 2009. The balance sheet at December 31, 2008, 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, 2008.

In connection with the preparation of the consolidated financial statements and in accordance with FASB ASC Topic 855, Subsequent Events, formerly Statement of Financial Standards No. (SFAS) 165, Subsequent Events, the Company evaluated subsequent events after the balance sheet date of September 30, 2009 through November 7, 2009 and has disclosed a subsequent event in footnote 17.

2. Acquisitions

On May 30, 2008 the Company purchased Rivard Developpement (*Rivard*), a leading French manufacturer of vacuum trucks, high pressure cleaning systems and trenchers, which was accounted for as a business combination. The purchase price was €15 million (approximately U.S. $23 million) plus the assumption of certain liabilities. We have allocated the purchase price to the acquired assets and liabilities assumed and recorded goodwill of €9 million (approximately U.S. $13 million) related to this acquisition. 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.

The unaudited pro forma statement of income of the Company assuming these transactions occurred at January 1, 2008 is as follows:

(In thousands, except per share amounts)	**Nine Months Ended September 30, 2009**	**2008**
Net Sales	$ 333,704	$ 460,481
Net Income	$ 9,118	$ 14,502
Diluted Earnings per Share	$ 0.91	$ 1.46

3. Accounts Receivable

Accounts Receivable is shown less allowance for doubtful accounts of $2,506,000 and $2,430,000 at September 30, 2009 and December 31, 2008, respectively.

4. Inventories

Inventories valued at LIFO cost represented 52% and 57% of total inventory at September 30, 2009 and December 31, 2008, respectively. The excess of current costs over LIFO valued inventories was $12,791,000 at September 30, 2009 and December 31, 2008. Inventory obsolescence reserves were $8,829,000 at September 30, 2009 and $8,978,000 at December 31, 2008. Net inventories consist of the following:

	September 30,		December 31,	
(in thousands)	2009		2008	
Finished goods	$	89,881	$	104,819
Work in process		11,997		16,247
Raw materials		11,316		11,182
	$	113,194	$	132,248

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, 2009, the Company had $59.0 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, 2009, was a $1,671,000 liability. This is included in Other long-term liabilities with an offset in Accumulated other comprehensive income, net of taxes. At September 30, 2009, ineffectiveness related to the interest rate swap agreements was not material.

6. Fair Value Measurements

The Company adopted ASC Subtopic 820-10, (formerly SFAS 157), Fair Value Measurements and Disclosures, as amended 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. 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.

Derivative financial instruments

The fair value of interest rate swap derivatives is primarily based on third-party pricing service models. These models use discounted cash flows that utilize the appropriate market-based forward swap curves and zero-coupon interest rates. Interest rate swap derivatives are Level 2 measurements and have a fair value of a negative $1,671,000 as of September 30, 2009.

The fair value of foreign currency forward contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate and is a Level 2 measurement and has a fair value of $72,000 loss as of September 30, 2009.

7. Common Stock and Dividends

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

		Nine Months Ended September 30, 2009		2008
Dividends declared	$	0.18	$	0.18
Dividends paid	$	0.18	$	0.18

8. Stock-Based Compensation

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

The Company s stock-based compensation expense was $429,000 and $443,000 for the nine months ended September 30, 2009 and 2008, respectively.

There were no shares granted during the third quarter of 2009 and 39,000 shares granted in the third quarter of 2008. The Company calculated the fair value for the 2009 and 2008 options using a Black-Scholes option pricing model using weighted average assumptions. For options granted in the second quarter of 2009 and 2008, they are as follows:

	2009	2008
Risk-free interest rate	2.67%	3.13%
Dividend Yield	1.20%	1.20%
Volatility Factors	42.8%	43.6%
Weighted Average Expected Life	7.5 years	9.0 years

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Qualified Options

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

For nine months ending September 30, 2009

	Shares	Exercise Price*
Options outstanding at beginning of year	253,980	
Granted	99,000	$11.45
Exercised		
Cancelled	(5,000)	$22.66
Options outstanding at September 30, 2009	347,980	$17.85
Options exercisable at September 30, 2009	157,580	$18.74
Options available for grant at September 30, 2009	208,000	

**Weighted Averages*

Options outstanding and exercisable at September 30, 2009 were as follows:

Qualified Stock Options	**Options Outstanding**			**Options Exercisable**	
Range of Exercise Price	Shares	Remaining Contractual Life(yrs)*	Exercise Price*	Shares	Exercise Price*
$11.45 - $17.85	158,980	7.78	$ 12.25	59,980	$ 13.58
$19.79 - $25.18	189,000	7.42	$ 22.56	97,600	$ 21.90
Total	347,980			157,580	

**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, 2009

	Shares	Exercise Price*
Options outstanding at beginning of year	226,000	
Granted	93,000	
Exercised	(125,000)	$8.9375
Cancelled		
Options outstanding at September 30, 2009	194,000	$ 14.44
Options exercisable at September 30, 2009	79,000	$ 15.17
Options available for grant at September 30, 2009	367,000	

**Weighted Averages*

Options outstanding and exercisable at September 30, 2009 were as follows:

Non-Qualified Stock Options	**Options Outstanding**			**Options Exercisable**	
Range of Exercise Price	Shares	Remaining Contractual Life(yrs)*	Exercise Price*	Shares	Exercise Price*
$11.45 - $12.10	148,000	7.45	$11.69	55,000	$12.10
$13.96 - $19.79	13,500	5.26	$18.71	10,500	$18.40
$25.02 - $25.18	32,500	7.92	$25.17	13,500	$25.16
Total	194,000			79,000	

**Weighted Averages*

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9. Earnings Per Share

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

(In thousands, except per share amounts)	Three Months Ended September 30, 2009	2008	Nine Months Ended September 30, 2009	2008
Net Income	$ 4,583	$ 4,453	$ 9,118	$ 12,850
Average Common Shares:				
Basic (weighted-average outstanding shares)	10,047	9,870	9,988	9,822
Dilutive potential common shares from stock options and warrants	39	100	24	127
Diluted (weighted-average outstanding shares)	10,086	9,970	10,012	9,949
Basic earnings per share	$ 0.46	$ 0.45	$ 0.91	$ 1.31
Diluted earnings per share	$ 0.46	$ 0.45	$ 0.91	$ 1.29

10. Segment Reporting

At September 30, 2009 and September 30, 2008 the following unaudited financial information is segmented:

(in thousands)	Three Months Ended September 30,	Nine Months Ended September 30,