

ALAMO GROUP INC
Form 10-Q
November 04, 2011

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, 2011

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, 2011, 11,912,229 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, 2011 and December 31, 2010	<u>3</u>
	<u>Interim Condensed Consolidated Statements of Income</u> Three and nine months ended September 30, 2011 and September 30, 2010	<u>4</u>
	<u>Interim Condensed Consolidated Statements of Cash Flows</u> Nine months ended September 30, 2011 and September 30, 2010	<u>5</u>
	<u>Notes to Interim Condensed Consolidated Financial Statements</u>	<u>6</u>
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risks</u>	<u>23</u>
Item 4	<u>Controls and Procedures</u>	<u>24</u>
PART II.	<u>OTHER INFORMATION</u>	<u>24</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	

SIGNATURES

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

(in thousands, except share amounts)	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$25,279	\$30,243
Accounts receivable, net	148,285	127,388
Inventories	116,137	99,304
Deferred income taxes	4,677	3,813
Prepaid expenses	4,415	3,864
Income tax receivable	448	448
Total current assets	299,241	265,060
Property, plant and equipment	143,004	139,674
Less: Accumulated depreciation	(85,297)	(78,490)
	57,707	61,184
Goodwill	33,949	34,073
Intangible assets	5,500	5,500
Deferred income taxes	5,081	4,311
Other assets	725	855
Total assets	\$402,203	\$370,983
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$47,029	\$45,152
Income taxes payable	3,139	1,567
Accrued liabilities	29,377	29,813
Current maturities of long-term debt	915	2,319
Deferred income tax	338	338
Total current liabilities	80,798	79,189
Long-term debt, net of current maturities	30,777	23,106
Deferred pension liability	5,727	7,151
Other long-term liabilities	3,862	2,109
Deferred income taxes	6,505	6,168
Stockholders' equity:		
Common stock, \$.10 par value, 20,000,000 shares authorized; 11,900,729 and 11,872,479 issued and outstanding at September 30, 2011 and December 31, 2010, respectively	1,190	1,187
Additional paid-in-capital	85,401	84,377
Treasury stock, at cost; 42,600 shares at September 30, 2011 and December 31, 2010	(426)	(426)
Retained earnings	189,094	166,589
Accumulated other comprehensive income, net	(725)	1,533

Edgar Filing: ALAMO GROUP INC - Form 10-Q

Total stockholders' equity	274,534	253,260
Total liabilities and stockholders' equity	\$402,203	\$370,983

See accompanying notes.

3

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

(in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales:				
North American				
Industrial	\$56,965	\$48,033	\$165,319	\$144,702
Agricultural	55,301	51,571	160,510	140,295
European	42,791	37,069	130,767	120,898
Total net sales	155,057	136,673	456,596	405,895
Cost of sales	117,834	104,283	350,081	316,689
Gross profit	37,223	32,390	106,515	89,206
Selling, general and administrative expenses	22,762	21,273	69,007	64,296
Income from operations	14,461	11,117	37,508	24,910
Interest expense	(506)	(888)	(1,715)	(3,162)
Interest income	32	418	156	1,535
Other income (expense), net	817	112	595	77
Income before income taxes	14,804	10,759	36,544	23,360
Provision for income taxes	4,748	2,609	11,907	6,347
Net Income	\$10,056	\$8,150	\$24,637	\$17,013
Net income per common share:				
Basic	\$0.85	\$0.69	\$2.08	\$1.45
Diluted	\$0.84	\$0.68	\$2.06	\$1.43
Average common shares:				
Basic	11,857	11,803	11,845	11,769
Diluted	11,947	11,906	11,964	11,874
Dividends declared	\$0.06	\$0.06	\$0.18	\$0.18

See accompanying notes.

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

(in thousands)	Nine Months Ended September 30,	
	2011	2010
Operating Activities		
Net income	\$24,637	\$17,013
Adjustment to reconcile net income to net cash used by operating activities:		
Provision for doubtful accounts	685	792
Depreciation	7,985	7,944
Amortization of intangibles	—	254
Amortization of debt issuance	157	281
Stock-based compensation expense	768	474
Excess tax benefits from stock-based payment arrangements	(156)	(46)
Provision for deferred income tax (benefit) expense	(1,333)	(1,166)
Loss on sale of property, plant & equipment	(130)	(946)
Changes in operating assets and liabilities:		
Accounts receivable	(22,099)	(17,660)
Inventories	(17,446)	19,506
Prepaid expenses and other assets	(1,616)	(203)
Trade accounts payable and accrued liabilities	1,553	12,535
Income taxes payable	1,708	(2,327)
Other long-term liabilities	472	(2,105)
Net cash provided by (used in) operating activities	(4,815)	34,346
Investing Activities		
Acquisitions, net of cash acquired	—	(428)
Purchase of property, plant and equipment	(4,705)	(3,579)
Proceeds from sale of property, plant and equipment	195	1,861
Net cash used in investing activities	(4,510)	(2,146)
Financing Activities		
Net change in bank revolving credit facility	8,000	(20,000)
Principal payments on long-term debt and capital leases	(1,802)	(4,147)
Proceeds from issuance of long-term debt	—	196
Dividends paid	(2,132)	(2,117)
Proceeds from sale of common stock	258	717
Excess tax benefits from stock-based payment arrangements	156	46
Net cash provided by (used in) financing activities	4,480	(25,305)
Effect of exchange rate changes on cash	(119)	(287)
Net change in cash and cash equivalents	(4,964)	6,608
Cash and cash equivalents at beginning of the period	30,243	17,774
Cash and cash equivalents at end of the period	\$25,279	\$24,382
Cash paid during the period for:		
Interest	\$1,728	\$3,042

Income taxes	11,056	6,878
--------------	--------	-------

See accompanying notes.

5

Alamo Group Inc. and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements - (Unaudited)
September 30, 2011

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, 2011. The balance sheet at December 31, 2010, 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, 2010.

The accompanying statement of income reflects the correction of a misclassification of freight revenue for the prior period. Freight billed to customers was previously recorded as a reduction of cost of sales and has been reclassified to increase sales and cost of sales in accordance with ASC 605-45-45-20. The reclassification resulted in an increase in net sales and cost of sales of \$4.5 million for the three months ended September 30, 2011, and \$4.4 million for the three months ended September 30, 2010, with no impact on reported net income. For the nine months ended September 30, the reclassification resulted in an increase in net sales and cost of sales of \$12.3 million for 2011, and \$10.9 million for 2010, with no impact on reported net income. Revenue and cost of sales for the years ended December 31, 2010 and 2009 will be increased by approximately \$14.0 million and \$7.4 million, respectively, in future filings.

2. Accounts Receivable

Accounts Receivable is shown net of the allowance for doubtful accounts of \$3,308,000 and \$2,852,000 at September 30, 2011 and December 31, 2010, respectively.

3. Inventories

Inventories valued at LIFO cost represented 63% of total inventory at September 30, 2011 and December 31, 2010. The excess of current cost over LIFO valued inventories was \$7,654,000 at September 30, 2011 and December 31, 2010. Inventory obsolescence reserves were \$8,048,000 at September 30, 2011 and \$7,506,000 at December 31, 2010. 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, 2011	December 31, 2010
Finished goods	\$93,712	\$80,102
Work in process	11,647	9,857
Raw materials	10,778	9,345
	\$116,137	\$99,304

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. 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 Interbank Offered Rate ("LIBOR"). During the second quarter of 2007, the Company entered into two interest rate swap agreements with JPMorgan that hedge future cash flows related to its outstanding debt obligations. One swap had a three-year term and fixed the LIBOR base rate at 4.910% covering \$20 million of this debt and expired on March 31, 2010. The other had a four-year term and fixed the LIBOR base rate at 4.935% covering an additional \$20 million of these variable rate borrowings and expired on March 31, 2011. At September 30, 2011 there was zero liability related to the expired interest rate swaps.

5. 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.

6. 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,	
	2011	2010	2011	2010
Dividends declared	\$0.06	\$0.06	\$0.18	\$0.18

Dividends paid	0.06	0.06	0.18	0.18
----------------	------	------	------	------

7. 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

7

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 \$204,000 and \$133,000 for the three months ended September 30, 2011 and 2010 respectively and \$768,000 and \$474,000 for the nine months ended September 30, 2011 and 2010 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, 2011

	Shares	Exercise Price*
Outstanding at beginning of year	360,130	
Granted	35,000	\$ 26.45
Exercised	(13,650)	\$ 12.11
Cancelled	(2,000)	\$ 24.69
Outstanding at September 30, 2011	379,480	\$ 19.23
Exercisable at September 30, 2011	245,180	\$ 19.25
Available for grant at September 30, 2011	162,500	

*Weighted Averages

Options outstanding and exercisable at September 30, 2011 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	139,480	5.96	\$ 12.25	80,980	\$ 12.84
\$19.79 - \$26.45	240,000	6.35	\$ 23.29	164,200	\$ 22.42
Total	379,480			245,180	

*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, 2011

	Shares	Exercise Price*
Outstanding at beginning of year	102,400	
Granted	30,000	\$ 26.45
Exercised	(14,600)	\$ 11.45
Cancelled	(5,000)	\$ 25.18
Outstanding at September 30, 2011	112,800	\$ 18.62
Exercisable at September 30, 2011	37,400	\$ 19.57
Available for grant at September 30, 2011	320,500	

*Weighted Averages

Options outstanding and exercisable at September 30, 2011 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	54,300	8.00	\$ 11.45	12,900	\$ 11.45
\$13.96 - \$19.79	6,000	4.00	\$ 19.79	6,000	\$ 19.79
\$25.02 - \$26.45	52,500	8.24	\$ 25.90	18,500	\$ 25.16
Total	112,800			37,400	

*Weighted Averages

Restricted Stock

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

For nine months ending September 30, 2011

	Shares	Price	Weighted- average remaining contractual term (in years)
Outstanding at beginning of year	9,000	\$ 15.86	2.33
Granted	13,500	\$ 26.08	—
Vested	(2,750)	\$ 15.06	—
Forfeited or Cancelled	—	\$ —	—
Outstanding at September 30, 2011	19,750	\$ 22.96	3.48

8. 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		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net Income	\$ 10,056	\$ 8,150	\$ 24,637	\$ 17,013
Average Common Shares:				
Basic (weighted-average outstanding shares)	11,857	11,803	11,845	11,769
Dilutive potential common shares from stock options	90	103	119	105
Diluted (weighted-average outstanding shares)	11,947	11,906	11,964	11,874
Basic earnings per share	\$ 0.85	\$ 0.69	\$ 2.08	\$ 1.45
Diluted earnings per share	\$ 0.84	\$ 0.68	\$ 2.06	\$ 1.43

9. Segment Reporting

At September 30, 2011 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,	
	2011	2010	2011	2010
Net Revenue				
Industrial	\$ 56,965	\$ 48,033	\$ 165,319	\$ 144,702
Agricultural	55,301	51,571	160,510	140,295
European	42,791	37,069	130,767	120,898
Consolidated	\$ 155,057	\$ 136,673	\$ 456,596	\$ 405,895
Operating Income				
Industrial	\$ 4,146	\$ 2,459	\$ 12,248	\$ 6,359
Agricultural	6,432	5,211	15,203	8,135
European	3,883	3,447	10,057	10,416
Consolidated	\$ 14,461	\$ 11,117	\$ 37,508	\$ 24,910
Goodwill				
Industrial	\$ 13,132	\$ 13,525	\$ 13,132	\$ 13,525
Agricultural	—	—	—	—
European	20,817	21,073	20,817	21,073
Consolidated	\$ 33,949	\$ 34,598	\$ 33,949	\$ 34,598
Total Identifiable Assets				
Industrial	\$ 127,364	\$ 120,000	\$ 127,364	\$ 120,000
Agricultural	132,784	115,854	132,784	115,854
European	142,055	135,950	142,055	135,950
Consolidated	\$ 402,203	\$ 371,804	\$ 402,203	\$ 371,804

10. 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.

11. Comprehensive Income

During the third quarter of 2011 and 2010, Comprehensive Income (Loss) amounted to \$1,946,000 and \$16,813,000 respectively.

The components of Comprehensive Income are as follows:

Edgar Filing: ALAMO GROUP INC - Form 10-Q

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net Income	\$ 10,056	\$ 8,150	\$ 24,637	\$ 17,013
Cash flow derivative, net of taxes	—	114	144	497
Amortization of actuarial net gain (loss)	72	19	(1,004)	57
Foreign currency translation adjustment	(8,182)	8,530	(1,398)	(3,249)
Comprehensive income (loss)	\$ 1,946	\$ 16,813	\$ 22,379	\$ 14,318

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

(in thousands)	September 30,	December 31,
	2011	2010
Foreign currency translation	\$ 3,064	\$ 4,489
Derivatives, net of taxes	—	(171)
Actuarial gains (losses) related to defined benefit plans	(3,789)	(2,785)
Accumulated other comprehensive income	\$ (725)	\$ 1,533

12. 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, 2011, the Company had an environmental reserve in the amount of \$1,189,000 related to the acquisition of Gradall's facility in New Philadelphia, Ohio. The Company has a nominal reserve concerning a potential asbestos issue that is expected to be remediated over time. The balance of the reserve, \$1,185,000, is mainly 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

12

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 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.

13. 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 338 former employees and 148 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 237 former employees and 97 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 \$22,000 and \$50,000 for the three months ended September 30, 2011 and 2010, respectively. The Company is required to contribute \$1,085,000 to the pension plans for 2011, of which \$844,000 has been paid through September 30, 2011. 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 10 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, 2011 is \$263,665.

The components of net periodic pension expense were as follows:

	2011	
	Three Months Ended September 30,	Nine Months Ended September 30,
Service Cost	\$ 26,926	\$ 80,778
Interest Cost	25,881	77,643
Amortization of Prior Service Cost	65,916	197,748
Net Periodic Benefit Cost	\$ 118,723	\$ 356,169

The Net Periodic Pension Expense is based on the following assumptions determined at January 1, 2011:

Discount Rate	5.28	%
Rate of compensation increases	3	%
Amortization Period	7.45	years

14. 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.

During the third quarter of 2010, the Company completed a research and development credit study (R&D study) related to prior year tax returns. The R&D study resulted in tax credits of approximately \$1,100,000. The Company has recorded an unrecognized tax benefit in the amount of approximately \$190,000.

15. Recent Accounting Pronouncements and Legislative Changes

In May 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 will adopt this standard in the first quarter of 2012 and we do not expect the adoption will have a material impact on our financial statements and disclosures.

In June 2011, the FASB issued a new accounting standard, which eliminates the current option to report other comprehensive income and its components in the statement of stockholders' equity. Instead, an entity will be required to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. The standard is effective for fiscal years beginning after December 15, 2011. We will adopt this standard in the first quarter of 2012.

In September 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 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We will adopt this standard in the first quarter of 2012 and we do not expect the adoption will have a material impact on our financial statements.

16. Subsequent Events

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 CDN \$6 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 with operations in both countries. Tenco's sales for their most recent fiscal year ending March 31, 2011 were approximately CDN \$35 million. 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 will be accounted for as a business combination, whereby the Company will measure the identifiable assets acquired and liabilities assumed based on the acquisition date fair value. The Company is required to recognize and measure any related goodwill acquired in the business combination or a gain from a bargain purchase. Based on management's preliminary assumptions, the fair value of the assets acquired and liabilities assumed is greater than the purchase price resulting in the recording of a gain on bargain purchase. The Company has not yet determined the fair values of the assets acquired and liabilities assumed.

Plant Consolidation

On October 21, 2011 the Company announced that it will close its SMC plant in Sioux Falls, South Dakota and consolidate the operations into the Company's Gibson City, Illinois facility. This transition will begin in the fourth quarter of 2011 and should be complete in early 2012. The consolidation will result in a pre-tax restructuring charge in the fourth quarter of 2011 of approximately \$0.7 million. Additionally, the Company is reviewing options for the sale of the SMC plant and anticipates a gain on the sale of the facility when it occurs. Approximately 77 employees at SMC will be 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,	
	2011	2010	2011	2010
North American				
Industrial	36.7 %	35.2 %	36.2 %	35.6 %
Agricultural	35.7 %	37.7 %	35.2 %	34.6 %
European	27.6 %	27.1 %	28.6 %	29.8 %
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,	
	2011	2010	2011	2010
Gross margin	24.0 %	23.7 %	23.3 %	22.0 %
Income from operations	9.3 %	8.1 %	8.2 %	6.1 %
Income before income taxes	9.5 %	7.9 %	8.0 %	5.8 %
Net income	6.5 %	6.0 %	5.4 %	4.2 %

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 2011, the Company's net income was up due to improved sales in all three of its Divisions along with the benefits from continued cost control initiatives. The agricultural sector has shown consistent improvement over the last few quarters reflecting stronger market conditions. Alamo's Agricultural Division saw a 7% increase in sales versus the third quarter of 2010 from continued favorable commodity prices which should continue to benefit the Division for the rest of 2011. Negatively affecting this Division is the ongoing drought, primarily in Texas and Oklahoma that has slowed preseason sales in its Bush Hog and Rhino product lines. Demand for the Company's governmental products has also shown improvement due in part to the need of our end users to replace equipment that is near the end of its economic life despite continued concerns with governmental budgets. As a result, the Industrial Division sales increased 19% in the third quarter of 2011 mainly due to increases in the excavator, sweeper and mowing equipment product lines. However, budget constraints are expected to continue to be an issue with governmental entities. European sales, in local currency, also showed improvement compared to the third quarter of 2010. Agricultural markets there continue to remain strong, though governmental markets are still being affected by weak conditions caused by the general slow down in the European economy. In general the Company's margin percentage improved from higher proprietary parts sales in the third quarter of 2011 compared to the same period in 2010.

The Company remains concerned that our markets for the balance of 2011 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 customer's buying habits due to lack of confidence in the economic outlook.

Results of Operations

Three Months Ended September 30, 2011 vs. Three Months Ended September 30, 2010

Net sales for the third quarter of 2011 were \$155,057,000, an increase of \$18,384,000, or 13.5% compared to \$136,673,000 for the third quarter of 2010. The increase was from improved sales in all three of the Company's segments. Agricultural markets continued to increase while sales in our governmental areas improved due to demand from end users. Also included in these sales is the effect of a reclassification of freight revenue. Freight billed to customers had been previously recorded net of cost of sales and has been reclassified to sales. This change resulted in an increase in net sales of \$4,501,000 in the third quarter of 2011 and \$4,375,000 in the third quarter of 2010, with no impact on reported net income.

Net North American Industrial sales increased during the third quarter by \$8,932,000 or 18.6% to \$56,965,000 for 2011 compared to \$48,033,000 during the same period in 2010. The increase came primarily from higher sales of excavators, sweepers and mowing equipment.

Net North American Agricultural sales were \$55,301,000 in 2011 compared to \$51,571,000 for the same period in 2010, an increase of \$3,730,000 or 7.2%. The increase was due to favorable agricultural market conditions, specifically from net farm income resulting from favorable commodity prices which supported higher sales of mowing equipment for both Bush Hog, Schulte and Rhino product lines.

Net European Sales for the third quarter of 2011 were \$42,791,000, a increase of \$5,722,000 or 15.4% compared to \$37,069,000 during the third quarter of 2010. The increase was primarily from strengthening in its agricultural U.K. operations, however, market conditions continue to be soft in governmental markets due to the economic slowdown throughout Europe.

Gross profit for the third quarter of 2011 was \$37,223,000 (24.0% of net sales) compared to \$32,390,000 (23.7% of net sales) during the same period in 2010, an increase of \$4,833,000. The increase was from improved sales in all three segments and, to a lesser extent, lower manufacturing costs. Increases in the Company's replacement part business also supported higher margins as well as improved margin percentages.

Selling, general and administrative expenses ("SG&A") were \$22,762,000 (14.7% of net sales) during the third quarter of 2011 compared to \$21,273,000 (15.6% of net sales) during the same period of 2010, an increase of \$1,489,000. The increase was mainly from higher sales commissions on increased sales, \$250,000 in legal fees from the acquisition of Tenco and \$119,000 in expense relating to the supplemental retirement plan that was adopted on January 3, 2011.

Interest expense was \$506,000 for the third quarter of 2011 compared to \$888,000 during the same period in 2010, a decrease of \$382,000. The decrease came from lower interest rates in 2011 compared to 2010 despite higher borrowing due to increased working capital requirements.

Other Income was a \$817,000 gain for the third quarter of 2011 compared to a \$112,000 gain in 2010. Other income in 2011 and 2010 were the result of transactional exchange rate changes.

Provision for income taxes was \$4,748,000 (32.1%) in the third quarter of 2011 compared to \$2,609,000 (24.2%) during the same period in 2010. Included in the 2010 tax provision is an \$898,000 tax credit related to prior years' research and development expenses.

The Company's net income after tax was \$10,056,000 or \$0.84 per share on a diluted basis for the third quarter of 2011 compared to \$8,150,000 or \$0.68 per share on a diluted basis for the third quarter of 2010. The increase of \$1,906,000 resulted from the factors described above.

Nine Months Ended September 30, 2011 vs. Nine Months Ended September 30, 2010

Net sales for the first nine months of 2011 were \$456,596,000, an increase of \$50,701,000 or 12.5%

compared to \$405,895,000 for the first nine months of 2010. The increase was mainly from improved unit sales in the North American Agricultural and Industrial segments along with higher sales of replacement parts world wide. Also included in these sales is the effect of a reclassification of freight revenue. Freight billed to customers had been previously recorded net of cost of sales and has been reclassified to sales. This change resulted in an increase in net sales of \$12,301,000 in the first half of 2011 and \$10,874,000 in the first half of 2010, with no impact on reported earnings.

Net North American Industrial sales increased during the first nine months by \$20,617,000 or 14.2% to \$165,319,000 for 2011 compared to \$144,702,000 during the same period in 2010. The increase was mainly due to improved sales in the excavator, sweeper and mowing equipment products. Governmental authorities continued to be affected by budget shortfalls.

Net North American Agricultural sales were \$160,510,000 in 2011 compared to \$140,295,000 for the same period in 2010, an increase of \$20,215,000 or 14.4%. The increase was from improved agricultural market conditions and increased shipments of 2010 pre-season orders. Favorable commodity prices and higher farm income helped to support higher sales of mowing equipment for both Bush Hog, Schulte and Rhino product lines.

Net European sales for the first nine months of 2011 were \$130,767,000, an increase of \$9,869,000 or 8.2% compared to \$120,898,000 during the same period of 2010. The increase in 2011 was mainly from favorable exchange rates compared to last year. Market conditions were impacted by budget constraints in governmental spending which were caused by the slowdown in the European economy.

Gross profit for the first nine months of 2011 was \$106,515,000 (23.3% of net sales) compared to \$89,206,000 (22.0% of net sales) during the same period in 2010, an increase of \$17,309,000. The increase was from improved sales in all of the Company's segments and increases in replacement part sales reflected higher margins as well as improved margin percentages. Gross margin percentages also improved over 2010 as a result of continued improvements from efficiency initiatives which helped to lower manufacturing costs.

Selling, general and administrative expenses ("SG&A") were \$69,007,000 (15.1% of net sales) during the first nine months of 2011 compared to \$64,296,000 (15.8% of net sales) during the same period of 2010, an increase of \$4,711,000. The increase in SG&A for the first nine months of 2011 was mainly from higher sales commissions on increased sales, \$250,000 in legal fees from the acquisition of Tenco and \$356,000 in expense relating to the supplemental retirement plan that was adopted on January 3, 2011.

Interest expense was \$1,715,000 for the first nine months of 2011 compared to \$3,162,000 during the same period in 2010, a decrease of \$1,447,000. The decrease came from lower interest rates in 2011 compared to 2010 despite higher borrowing due to increased working capital requirements.

Other income (expense), net was \$595,000 of income during the first nine months of 2011 compared to \$77,000 of income in the first nine months of 2010. The expense in 2011 and 2010 were from changes in exchange rates.

Provision for income taxes was \$11,907,000 (32.6%) in the first nine months of 2011 compared to \$6,347,000 (27.2%) during the same period in 2010. Included in the 2010 tax provision is an \$898,000 tax credit related to prior years' research and development expenses.

The Company's net income after tax was \$24,637,000 or \$2.06 per share on a diluted basis for the first nine months of 2011 compared to \$17,013,000 or \$1.43 per share on a diluted basis for the first nine months of 2010. The increase of \$7,624,000 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

18

quarters of each year as a result of fall pre-season 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, 2011, the Company had working capital of \$218,443,000 which represents an increase of \$32,572,000 from working capital of \$185,871,000 of December 31, 2010. The increase in working capital was primarily from higher levels of accounts receivable and inventory due to seasonality.

Capital expenditures were \$4,705,000 for the first nine months of 2011, compared to \$3,579,000 during the first nine months of 2010. Capital expenditures for 2011 are expected to be somewhat higher than 2010 levels. 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 2010 or through the third quarter of 2011. 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 \$4,480,000 during the nine month period ending September 30, 2011, compared to net cash used of \$25,305,000 for the same period in 2010. The increase was mainly due to increased borrowings on the Company's credit facility to support higher levels of accounts receivable and inventory.

On August 25, 2004, the Company entered into a five-year \$70 million Amended and Restated Revolving Credit Agreement with its lenders, Bank of America, JPMorgan Chase Bank, and Guaranty Bank. This contractually-committed, unsecured facility allows the Company to borrow and repay amounts drawn at floating or fixed interest rates based upon Prime or LIBOR rates. Proceeds may be used for general corporate purposes or, subject to certain limitations, acquisitions. The loan agreement contains among other things the following financial covenants: Minimum Fixed Charge Coverage Ratios, Minimum Consolidated Tangible Net Worth, Consolidated Funded Debt to EBITDA Ratio and Minimum Asset Coverage Ratio, along with limitations on dividends, other indebtedness, liens, investments and capital expenditures. Since 2004, the Company has periodically amended the credit facility based upon its business requirements.

On November 6, 2009, the Company entered into the Seventh Amendment of the Amended and Restated Revolving Credit Agreement with Bank of America, N.A., Wells Fargo Bank, N.A., BBVA Compass Bank, and Rabobank, as its lenders. The revolving credit line remained at \$125.0 million. The purpose of the amendment was to add Bush Hog as a member of the Obligated Group and pledge a first priority security interest in certain U.S. assets (accounts receivable, inventory, equipment, trademarks and trade names) of the Borrower and each member of the Obligated Group.

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.

Edgar Filing: ALAMO GROUP INC - Form 10-Q

As of September 30, 2011, there was \$29,000,000 borrowed under the revolving credit facility. On September 30, 2011, \$960,000 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 \$70,000,000 in available borrowings.

On October 29, 2010, Lloyd TSB Bank plc renewed its £5.5 million overdraft facility to Alamo Group Europe Limited through October 31, 2011. 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, 2011, 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 800,000 Australian dollars. As of September 30, 2011, 1,334,000 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, 2011, 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 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.

Critical Accounting Policies

Allowance for Doubtful Accounts

The Company evaluates the collectability of its 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 \$3,308,000 at September 30, 2011 and \$2,852,000 at December 31, 2010.

20

The increase was mainly from the Company's U.S. operations and to a lesser extent changes in exchange rates.

Sales Discounts

At September 30, 2011 the Company had \$14,426,000 in reserves for sales discounts compared to \$11,903,000 at December 31, 2010 on products shipped to our customers under various promotional programs. The increase was due primarily to increased sales volume on the Company's agricultural products during the pre-season program, the bulk of which runs during the third and fourth quarters of each year on orders that are generally shipped through the second quarter of 2011. 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 \$8,048,000 at September 30, 2011 and \$7,506,000 at December 31, 2010 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 \$5,570,000 at September 30, 2011 and \$5,554,000 at December 31, 2010.

Product Liability

At September 30, 2011 the Company had accrued \$99,000 in reserves for product liability cases compared to \$374,000 at December 31, 2010. The Company accrues primarily on a case by case basis and adjusts the balance quarterly.

The Company renewed its insurance coverage on September 30, 2011 and the S.I.R. for all U.S. products was \$100,000 per claim. During most of 2010, the self insured retention (S.I.R.) for U.S. product liability coverage for all products, with the exception of Bush Hog, was at \$100,000 per claim. The S.I.R. for the majority of 2010 on all Bush Hog products was at \$250,000 per claim. On September 30, 2010 the Company renewed its insurance

coverage and the S.I.R. for all U.S. products (including Bush Hog) 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 must be tested for impairment at least annually. In the fourth quarter of each year, or when events and circumstances warrant such a review, the Company tests the goodwill of all of its reporting units for impairment. The goodwill impairment test is determined using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill (Step 1). If the fair value of a reporting unit exceeds its carrying value amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step is not necessary. However, if the carrying amount of the reporting unit exceeds its fair value, the second step (Step 2) is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any. Step 2 compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied value of goodwill is less than the carrying amount of goodwill, then a charge is recorded to reduce goodwill to the implied goodwill. The implied goodwill is calculated based on a hypothetical purchase price allocation similar to the requirements for purchase accounting, in that it takes the implied fair value of the reporting unit and allocates such fair value to the fair value of the assets and liabilities of the reporting unit. 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. The Company believes that the assumptions and estimates used to determine the estimated fair values of each of its reporting units are reasonable. However, different assumptions could materially affect the estimated fair value. The Company recognized no goodwill impairment in 2010. The North American Industrial segment had a goodwill impairment of \$14,104,000 in 2009. During the 2010 impairment analysis review, it was noted that even though the Schwarze reporting unit's fair value was above carrying value it was not materially different. At December 31, 2010, there was approximately \$6.8 million of goodwill related to the Schwarze reporting unit. This reporting unit would be most likely affected by changes in the Company's assumptions and estimates. As of September 30, 2011, the Company had \$33,949,000 of goodwill, which represents 8% of total assets. 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.

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

22

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. 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 United States, the United Kingdom, France, Canada and Australia. The Company sells its products primarily within the markets where the products are produced, but certain of the Company's sales from its U.K. operations are denominated in other European 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, 2011, the Company had \$2,889,000 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 \$433,000. 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 \$3,893,000 for the nine month period ending September 30,

2011. 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 \$3,425,000 for the nine month period ended September 30, 2010. 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 2011 was a gain of \$8,182,000. 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. At December 31, 2010 the British pound closed at .6411 relative to 1.00 U.S. dollar and the Euro closed at .7479 relative to 1.00 U.S. dollar. By comparison, on September 30, 2010, the British pound closed at .6365 relative to 1.00 U.S. dollar, and the Euro closed at .7335 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 2011 average interest rate under these borrowings, the Company's interest expense would have changed by approximately \$435,000. 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

October 19, 2011 – Press Release announcing the Acquisition of Tenco Group.

October 21, 2011 – Press Release announcing Plant Consolidation.

November 2, 2011 – Press Release announcing Third Quarter 2011 earnings.

(b) Other Information

None

24

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)