ALAMO GROUP INC
Form 10-Q
May 06, 2016

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 MARCH 31, 2016

OR

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

FOR THE
TRANSITION PERIOD FROM ____ TO ____
Commission file number 0-21220

ALAMO GROUP INC.
(Exact name of registrant as specified in its charter)

DELAWARE	74-1621248
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1627 East Walnut, Seguin, Texas 78155
(Address of principal executive offices)

830-379-1480
(Registrant's telephone number, including area code)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENT FOR THE PAST 90 DAYS.
YES X NO ___

INDICATE BY CHECK MARK WHETHER REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, OR A NON-ACCELERATED FILER. SEE DEFINITION OF "ACCELERATED FILER AND LARGE ACCELERATED FILER" IN EXCHANGE ACT RULE 12B-2. LARGE ACCELERATED FILER [ ] ACCELERATED FILER [X] NON-ACCELERATED FILER [ ]

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT). YES [ ] NO [X]

AT APRIL 29, 2016, 11,439,177 SHARES OF COMMON STOCK, $.10 PAR VALUE, OF THE REGISTRANT WERE OUTSTANDING.

Alamo Group Inc. and Subsidiaries

INDEX

2

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

(in thousands, except share amounts)	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$49,654	$26,922
Accounts receivable, net	195,692	178,305
Inventories, net	156,572	150,758
Prepaid expenses	5,134	5,410
Income tax receivable	1,360	1,491
Total current assets	408,412	362,886
Rental equipment, net	33,994	37,564
Property, plant and equipment	180,158	178,044
Less: Accumulated depreciation	(109,854)	(107,094)
	70,304	70,950
Goodwill	76,397	75,509
Intangible assets, net	52,472	52,950
Deferred income taxes	1,897	1,475
Other assets	2,876	2,169
Total assets	$646,352	$603,503
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$54,903	$45,486
Income taxes payable	1,076	1,320
Accrued liabilities	30,360	38,141
Current maturities of long-term debt and capital lease obligations	75	77
Total current liabilities	86,414	85,024
Long-term debt and capital lease obligations, net of current maturities	173,004	144,006
Deferred pension liability	4,063	4,499
Other long-term liabilities	5,879	5,782
Deferred income taxes	4,562	3,723
Stockholders' equity:		
Common stock, $.10 par value, 20,000,000 shares authorized; 11,410,765 and 11,392,236 outstanding at March 31, 2016 and December 31, 2015, respectively	1,141	1,139
Additional paid-in-capital	97,378	96,778
Treasury stock, at cost; 42,600 shares at March 31, 2016 and December 31, 2015	(426)	(426)
Retained earnings	306,691	299,057
Accumulated other comprehensive loss, net	(32,354)	(36,079)
Total stockholders' equity	372,430	360,469

Total liabilities and stockholders’ equity	$646,352	$603,503

See accompanying notes.

3

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

(in thousands, except per share amounts)	Three Months Ended March 31, 2016	2015
Net sales:		
Industrial	$123,278	$116,912
Agricultural	48,662	48,457
European	39,031	42,429
Total net sales	210,971	207,798
Cost of sales	160,694	162,261
Gross profit	50,277	45,537
Selling, general and administrative expenses	33,988	33,409
Income from operations	16,289	12,128
Interest expense	(1,406)	(1,623)
Interest income	62	52
Other (expense) income, net	(622)	860
Income before income taxes	14,323	11,417
Provision for income taxes	5,664	4,058
Net Income	$8,659	$7,359
Net income per common share:		
Basic	$0.76	$0.65
Diluted	$0.75	$0.64
Average common shares:		
Basic	11,389	11,280
Diluted	11,507	11,436
Dividends declared	$0.09	$0.08

See accompanying notes.

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

	Three Months Ended March 31,	
(in thousands)	2016	2015
Net Income	$8,659	$7,359
Other comprehensive income (loss) (before tax effect):		
Foreign currency translation adjustment	3,559	(13,652)
Post Retirement adjustments:		
Net gains arising during the period	166	205
Other comprehensive income (loss)	3,725	(13,447)
Comprehensive Income (Loss)	$12,384	$(6,088)

See accompanying notes.

Alamo Group Inc. and Subsidiaries
Interim Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stock-holders' Equity
Balance at December 31, 2015	11,350	$ 1,139	$ 96,778	$ (426)	$ 299,057	$ (36,079)	$ 360,469
Net income	—	—	—	—	8,659	—	8,659
Translation adjustment	—	—	—	—	—	3,559	3,559
Net actuarial gain arising during period	—	—	—	—	—	166	166
Stock-based compensation	—	—	285	—	—	—	285
Exercise of stock options	18	2	315	—	—	—	317
Dividends paid ($.09 per share)	—	—	—	—	(1,025)	—	(1,025)
Balance at March 31, 2016	11,368	$ 1,141	$ 97,378	$ (426)	$ 306,691	$ (32,354)	$ 372,430

See accompanying notes.

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

(in thousands)	Three Months Ended March 31, 2016	2015
Operating Activities		
Net income	$8,659	$7,359
Adjustment to reconcile net income to net cash used in operating activities:		
Provision for doubtful accounts	69	126
Depreciation	4,579	2,815
Amortization of intangibles	772	781
Amortization of debt issuance costs	53	53
Stock-based compensation expense	285	176
Excess tax benefits from stock-based payment arrangements	(38)	(10)
Provision for deferred income tax benefit	292	(1,166)
Gain on sale of property, plant and equipment	(165)	(14)
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	(16,383)	(22,550)
Inventories	(4,337)	(8,531)
Rental equipment	1,916	(3,148)
Prepaid expenses and other assets	(1,241)	(1,895)
Trade accounts payable and accrued liabilities	655	9,911
Income taxes payable	(47)	3,414
Other long-term liabilities	(154)	(229)
Net cash used in operating activities	(5,085)	(12,908)
Investing Activities		
Acquisitions, net of cash acquired	(188)	(3,465)
Purchase of property, plant and equipment	(1,761)	(1,886)
Proceeds from sale of property, plant and equipment	354	21
Net cash used in investing activities	(1,595)	(5,330)
Financing Activities		
Borrowings on bank revolving credit facility	44,000	33,000
Repayments on bank revolving credit facility	(15,000)	(15,000)
Principal payments on long-term debt and capital leases	(6)	274
Dividends paid	(1,025)	(903)
Proceeds from sale of common stock	317	275
Excess tax benefits from stock-based payment arrangements	38	10
Net cash provided by financing activities	28,324	17,656
Effect of exchange rate changes on cash and cash equivalents	1,088	(2,290)
Net change in cash and cash equivalents	22,732	(2,872)
Cash and cash equivalents at beginning of the period	26,922	39,533
Cash and cash equivalents at end of the period	$49,654	$36,661
Cash paid during the period for:		

Interest	$1,419	$1,554
Income taxes	5,735	2,897

See accompanying notes.

Alamo Group Inc. and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements - (Unaudited)
March 31, 2016

1. Basis of Financial Statement Presentation

The accompanying unaudited interim condensed consolidated financial statements of Alamo Group Inc. and its subsidiaries (the “Company”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The balance sheet at December 31, 2015 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, 2015.

In May 2014, the Financial Accounting Standards Board ("FASB") FASB issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” (Topic 606), which supersedes the revenue recognition requirements in ASC Topic 605, “Revenue Recognition,” and most industry-specific guidance. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The amendments in the ASU must be applied using either the retrospective or cumulative effect transition method and are effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. In April 2015, the FASB voted to propose a delay in the effective date of this ASU for reporting periods beginning after December 15, 2017, with early adoption permitted as of the original effective date. As a result, the proposed new effective date for the Company will be January 1, 2018. This update could impact the timing and amounts of revenue recognized. We are evaluating the effects, if any, that adoption of this guidance will have on our consolidated financial statements and have not yet selected a transition approach to implement the standard.

In April 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” as part of its simplification initiative. ASU 2015-03 changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. In August 2015, the FASB issued ASU No. 2015-15, "Interest - Imputation of Interest," which clarifies ASU 2015-03 based on comments made by the SEC stating that debt issuance costs related to line-of-credit arrangements may continue to be presented as an asset and amortized ratably over the term of the line-of-credit regardless of whether there are any outstanding borrowings under such arrangement. These provisions are to be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company adopted this amendment in the first quarter of 2016 which did not materially affect our financial position or results of our operations, as our debt issuance costs primarily relate to our line-of-credit.

In July 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-11, “Simplifying the Measurement of Inventory,” as part of its simplification initiative. ASU 2015-11 amends existing guidance for measuring inventories.

This amendment will require the Company to measure inventories recorded using the first-in, first-out method at the lower of cost and net realizable value. This amendment does not change the methodology for measuring inventories recorded using the last-in, first-out method. This amendment will be effective prospectively for the Company on January 1, 2017, with early adoption permitted. We are evaluating the effect this guidance will have on our consolidated financial statements and have not yet selected a transition approach to implement the standard.

In February 2016, the FASB issued ASU No. 2016-02, “Leases.” This update requires that a lessee recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Similar to current guidance, the update continues to differentiate between finance leases and operating leases, however this distinction now primarily relates to differences in the manner of expense recognition over time and in the classification of lease payments in the statement of cash flows. The updated guidance leaves the accounting for leases by lessors largely unchanged from existing GAAP. Early application is permitted. Entities are required to use a modified retrospective adoption, with certain relief provisions, for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements when adopted. The guidance will become effective for us on January 1, 2019. The impacts that adoption of the ASU is expected to have on our consolidated financial statements and related disclosures are being evaluated. Additionally, we have not determined the effect of the ASU on our internal control over financial reporting or other changes in business practices and processes.

2. Accounting Policies

There have been no changes or additions to our significant accounting policies described in Note 1 to the Consolidated Financial Statements in the Company’s 2015 10-K.

3. Acquisitions and Investments

On March 9, 2015, the Company acquired Herder Implementos e Maquinas Agricolas Ltda. ("Herder") on a debt free basis for a total consideration of $3.7 million subject to certain post-closing adjustments. This acquisition was accounted for in accordance with ASC Topic 805. The primary reason for the Herder acquisition was to establish a presence in South America which is a major global agricultural market; therefore, Herder is being reported as part of the Company's Agricultural Division. The revenue and earnings of Herder from the date of acquisition were not material to the Company’s consolidated results of operations. In addition, assuming the acquisition had occurred as of January 1, 2015, the results of operations of Herder would not have had a material pro forma effect on the Company’s revenues, earnings or earnings per share for the periods ended March 31, 2016 and 2015.

4. Accounts Receivable

Accounts receivable is shown net of the allowance for doubtful accounts of $3,581,000 and $3,484,000 at March 31, 2016 and December 31, 2015, respectively.

5. Inventories

Inventories valued at LIFO cost represented 45% of total inventory at March 31, 2016 and December 31, 2015, respectively. The excess of current cost over LIFO valued inventories was approximately $8,712,000 at March 31, 2016 and December 31, 2015. An actual valuation of inventory under the LIFO method is 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. Net inventories consist of the following:

(in thousands)	March 31, 2016	December 31, 2015
Finished goods	$133,700	$ 129,995
Work in process	11,149	9,561
Raw materials	11,723	11,202
Total inventory	$156,572	$ 150,758

Inventory obsolescence reserves were $7,996,000 at March 31, 2016 and $9,675,000 at December 31, 2015. The decrease in reserve for obsolescence resulted from the Company's quarterly review in the normal course of business.

6. Rental Equipment

Rental equipment is shown net of accumulated depreciation of $8,940,000 and $8,322,000 at March 31, 2016 and December 31, 2015, respectively. The Company recognized depreciation expense of $1,744,000 and $1,747,000 for the three months ending March 31, 2016 and March 31, 2015, respectively.

7. Fair Value Measurements

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

Additional details on fair value measurements are included in Note 11 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2015.

The carrying values of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses, approximate their fair value because of the short-term nature of these items. The carrying value of our debt approximates the fair value as of March 31, 2016 and December 31, 2015, as the floating rates on our outstanding balances approximate current market rates. This conclusion was made based on Level 2 inputs.

8. Goodwill

The following is the summary of changes to the Company's Goodwill for the three months ended March 31, 2016:

(in thousands)	
Balance at December 31, 2015	$75,509
Goodwill acquired	—
Translation adjustments	888
Balance at March 31, 2016	$76,397

9. Definite and Indefinite Lived Intangible Assets

The following is a summary of the Company's definite and indefinite-lived intangible assets net of the accumulated amortization:

(in thousands)	Estimated Useful Lives	March 31, 2016	December 31, 2015
Definite:			
Trade names and trademarks	25 years	$21,955	$ 21,878
Customer and dealer relationships	14 years	28,947	28,715
Patents and drawings	12 years	1,918	1,893
Total at cost		52,820	52,486
Less accumulated amortization		(5,848)	(5,036)
Total net		46,972	47,450
Indefinite:			
Trade names and trademarks		5,500	5,500
Total Intangible Assets		$52,472	$ 52,950

The Company recognized amortization expense of $772,000 and $781,000 for the three months ending March 31, 2016 and 2015, respectively.

10. Debt

The Company maintains an unsecured revolving credit facility with certain lenders under its Amended and Restated Revolving Credit Agreement ("the Agreement"). The aggregate commitments from lenders under this Agreement are $250,000,000 and, subject to certain conditions, the Company has the option to request an increase in aggregate commitments of up to an additional $50,000,000. The Agreement requires the Company to maintain various financial covenants including a minimum earnings before interest and tax to interest expense ratio, a maximum leverage ratio and a minimum asset coverage ratio. The Agreement also contains various covenants relating to limitations on indebtedness, limitations on investments and acquisitions, limitations on sale of properties and limitations on liens and capital expenditures. The Agreement also contains other customary covenants, representations and events of defaults. The expiration date of the Agreement is May 12, 2019. As of March 31, 2016, $173,000,000 was outstanding under the Agreement. As of March 31, 2016, $1,582,000 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 $75,418,000 in available borrowings. As of March 31, 2016, the Company was in compliance with the covenants under the Agreement.

(in thousands)	March 31, 2016	December 31, 2015
Current Maturities:		
Capital lease obligations	$ 12	$ 17
Other notes payable		