ALAMO GROUP INC
Form 10-Q
August 07, 2015

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 JUNE 30, 2015

OR

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

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

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

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

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

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

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

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

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

AT JULY 31, 2015, 11,422,368 SHARES OF COMMON STOCK, $.10 PAR VALUE, OF THE REGISTRANT WERE OUTSTANDING.

Alamo Group Inc. and Subsidiaries

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

(in thousands, except share amounts)	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$34,522	$39,533
Accounts receivable, net	194,942	175,008
Inventories	175,440	166,088
Deferred income taxes	7,304	4,712
Prepaid expenses	4,688	4,415
Income tax receivable	556	3,546
Total current assets	417,452	393,302
Rental equipment, net	44,437	33,631
Property, plant and equipment	173,592	171,667
Less: Accumulated depreciation	(104,201)	(100,497)
	69,391	71,170
Goodwill	77,389	75,691
Intangible assets, net	55,010	56,984
Deferred income taxes	117	642
Other assets	1,441	1,466
Total assets	$665,237	$632,886
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$60,806	$47,741
Income taxes payable	338	52
Accrued liabilities	36,060	41,002
Current maturities of long-term debt and capital lease obligations	528	551
Deferred income tax	322	21
Total current liabilities	98,054	89,367
Long-term debt and capital lease obligations, net of current maturities	203,014	190,024
Deferred pension liability	4,788	5,714
Other long-term liabilities	5,940	5,656
Deferred income taxes	5,544	4,455
Stockholders' equity:		
Common stock, $.10 par value, 20,000,000 shares authorized; 11,388,881 and 11,306,650 outstanding at June 30, 2015 and December 31, 2014, respectively	1,139	1,130
Additional paid-in-capital	96,245	93,849
Treasury stock, at cost; 42,600 shares at June 30, 2015 and December 31, 2014	(426)	(426)
Retained earnings	274,737	259,476
Accumulated other comprehensive loss, net	(23,798)	(16,359)

Total stockholders’ equity	347,897	337,670
Total liabilities and stockholders’ equity	$665,237	$632,886

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	2015	2014	2015	2014
Net sales:				
North American				
Industrial	$118,521	$105,476	$235,433	$183,187
Agricultural	52,981	53,635	101,438	104,443
European	44,232	48,640	86,661	92,731
Total net sales	215,734	207,751	423,532	380,361
Cost of sales	165,069	160,465	327,330	294,945
Gross profit	50,665	47,286	96,202	85,416
Selling, general and administrative expenses	34,230	32,490	67,639	59,989
Income from operations	16,435	14,796	28,563	25,427
Interest expense	(1,848)	(1,044)	(3,471)	(1,283)
Interest income	41	35	93	96
Other income, net	488	153	1,348	627
Income before income taxes	15,116	13,940	26,533	24,867
Provision for income taxes	5,406	4,745	9,464	8,434
Net Income	$9,710	$9,195	$17,069	$16,433
Net income per common share:				
Basic	$0.86	$0.76	$1.51	$1.36
Diluted	$0.84	$0.75	$1.49	$1.34
Average common shares:				
Basic	11,352	12,097	11,316	12,090
Diluted	11,498	12,276	11,467	12,273
Dividends declared	$0.08	$0.07	$0.16	$0.14

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2015	2014	2015	2014
Net Income	$9,710	$9,195	$17,069	$16,433
Other comprehensive income (loss):				
Foreign currency translation adjustment	5,830	3,531	(7,822)	2,605
Post Retirement adjustments:				
Net gains arising during the period	178	85	383	169
Other comprehensive income (loss)	6,008	3,616	(7,439)	2,774
Comprehensive Income	$15,718	$12,811	$9,630	$19,207

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, 2014	11,264	$1,130	$93,849	$(426)	$259,476	$(16,359)	$337,670
Net income	—	—	—	—	17,069	—	17,069
Translation adjustment	—	—	—	—	—	(7,822)	(7,822)
Net actuarial gain arising during period, net of taxes	—	—	—	—	—	383	383
Stock-based compensation	—	—	466	—	—	—	466
Exercise of stock options	82	9	1,930	—	—	—	1,939
Dividends paid ($.16 per share)	—	—	—	—	(1,808)	—	(1,808)
Balance at June 30, 2015	11,346	$1,139	$96,245	$(426)	$274,737	$(23,798)	$347,897

See accompanying notes.

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

	Six Months Ended June 30,	
(in thousands)	2015	2014
Operating Activities		
Net income	$17,069	$16,433
Adjustment to reconcile net income to net cash used in operating activities:		
Provision for doubtful accounts	500	106
Depreciation	9,361	4,913
Amortization of intangibles	1,563	55
Amortization of debt issuance costs	106	77
Stock-based compensation expense	466	1,660
Excess tax benefits from stock-based payment arrangements	(39)	(426)
Provision for deferred income tax benefit	(858)	(1,332)
Gain on sale of property, plant and equipment	(83)	(895)
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	(22,152)	(32,856)
Inventories	(11,713)	(22,876)
Rental equipment	(14,496)	—
Prepaid expenses and other assets	(1,353)	2,946
Trade accounts payable and accrued liabilities	9,617	16,292
Income taxes payable	3,647	874
Other long-term liabilities	(394)	(96)
Net cash used in operating activities	(8,759)	(15,125)
Investing Activities		
Acquisitions, net of cash acquired	(3,465)	(195,612)
Purchase of property, plant and equipment	(5,101)	(4,319)
Proceeds from sale of property, plant and equipment	99	1,004
Net cash used in investing activities	(8,467)	(198,927)
Financing Activities		
Borrowings on bank revolving credit facility	52,000	200,000
Repayments on bank revolving credit facility	(39,000)	(12,000)
Principal payments on long-term debt and capital leases	(19)	(118)
Proceeds from issuance of debt	—	778
Debt issuance cost	—	(818)
Dividends paid	(1,808)	(1,692)
Proceeds from sale of common stock	1,939	334
Excess tax benefits from stock-based payment arrangements	39	426
Net cash provided by financing activities	13,151	186,910
Effect of exchange rate changes on cash and cash equivalents	(936)	541
Net change in cash and cash equivalents	(5,011)	(26,601)
Cash and cash equivalents at beginning of the period	39,533	63,960
Cash and cash equivalents at end of the period	$34,522	$37,359

Cash paid during the period for:		
Interest	$3,157	$500
Income taxes	8,138	9,201

See accompanying notes.

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Alamo Group Inc. and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements - (Unaudited)
June 30, 2015

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, 2015. The balance sheet at December 31, 2014 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, 2014.

Certain reclassifications have been made to previously reported financial statements to conform to the current presentation. The accompanying statement of income reflects the correction of a misclassification of freight revenue for the periods. Freight allowance given to customers was previously recorded as a reduction of cost of sales and has been reclassified to increase net sales and cost of sales in accordance with ASC 605-45-45-20. The reclassification of net sales and cost of sales for the three and six months ended June 30, 2014 resulted in an increase of approximately $1,398,000 and $2,757,000, respectively, with no impact on reported net income.

The SEC adopted the conflict mineral rules under Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act on August 22, 2012. The rules require public companies to disclose information about their use of specific minerals originating from and financing armed groups in the Democratic Republic of the Congo or adjoining countries. The conflict mineral rules cover minerals frequently used to manufacture a wide array of electronic and industrial products including semiconductor devices. The rules do not ban the use of minerals from conflict sources, but require SEC filings and public disclosure covering each calendar year, though the public disclosure provision is being challenged in court. We have determined that we are subject to the rules and are evaluating our supply chain. We have previously filed all required reporting for calendar years 2013 and 2014, and are currently in the process of updating our supplier inquiries in order to meet the 2015 reporting requirement, which is due by May 31, 2016.

In April 2014, the FASB issued Accounting Standards Update ("ASU") 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposal of Components of an Entity,” which raises the threshold for disposals to qualify as discontinued operations by focusing on whether a disposal represents a strategic shift that has or will have a major effect on an company’s operations and financial results. The guidance allows companies to have significant continuing involvement and continuing cash flows with the disposed component. The guidance was effective on January 1, 2015 and has been adopted. The Company does not believe that this guidance will have a material impact on its consolidated financial statements.

In May 2014, the 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 January 2015, the FASB issued Accounting Standards Update No. 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items” (“ASU 2015-01”). ASU 2015-01 eliminates the concept of extraordinary items from GAAP but retains the presentation and disclosure guidance for items that are unusual in nature or occur infrequently and expands the guidance to include items that are both unusual in nature and infrequently occurring. ASU 2015-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. A reporting entity may apply ASU 2015-01 prospectively. A reporting entity may also apply ASU 2015-01 retrospectively to all periods presented in the financial statements. The adoption of ASU 2015-01 will not have a material effect on our consolidated financial statements.

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. The ASU 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. 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 adoption of ASU 2015-03 will not materially affect our financial position or results of our operations; however our debt issuance costs will be reported in the balance sheet as a direct deduction of longterm debt and capital lease obligations, net of current maturities.

In July 2015, the FASB has issued Accounting Standards Update (ASU) No. 2015-11, “Simplifying the Measurement of Inventory,” as part of its simplification initiative. The ASU 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.

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 annual report on Form 10-K for the year ended December 31, 2014.

3. Acquisitions and Investments

On March 9, 2015, the Company acquired Herder Implementos e Maquinas Agricolas Ltda. ("Herder") on a debt free basis and subject to certain post-closing adjustments with total consideration of approximately $4.0 million subject to adjustments. This acquisition is being accounted for in accordance with ASC Topic 805. Accordingly, the total purchase price has been allocated on a preliminary basis to assets acquired and liabilities assumed based on their estimated fair values as of the completion of the acquisition. These allocations reflect various provisional estimates that were available at the time and are subject to change during the purchase price allocation period as valuations are finalized. The primary reason for the Herder acquisition was to establish a presence in South America which is a major global agricultural market, therefore Herder will be reported as part of the Company's Agricultural Division. The revenue and earnings of Herder from the date of acquisition to June 30, 2015 were not material to the Company’s consolidated results of operations. In addition, assuming the acquisition had occurred as of January 1, 2014, 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 June 30, 2015 and 2014.

Other Acquisitions

On May 13, 2014, the Company acquired all of the operating units of Specialized Industries LP, a portfolio company of ELB Capital Management, LLC. The purchase included the businesses of Super Products LLC, Wausau-Everest LP and Howard P. Fairfield LLC as well as several related entities ("Specialized"), including all brand names and related product names and trademarks (the "Acquisition") pursuant to the terms of the Membership Interests and Partnership Interests Purchase Agreement dated February 24, 2014 (the “Agreement”). The purchase price consideration was approximately $193 million, on a debt-free basis which included certain post-closing adjustments that were made within 90 days from the Acquisition date per the agreement.

As disclosed in Note 10 of this 10-Q, the Company amended its revolving credit facility on May 12, 2014, to finance the acquisition.

During Q2 2015, the Company completed its valuation of the acquired assets and liabilities. In connection with preparing information needed for the associated tax returns, the Company identified an error in the pre-acquisition financial statements of Specialized Industries. In particular, a previously unrecognized deferred tax liability approximating $3.3 million related to intangible assets was identified. This resulted in an adjustment to the preliminary purchase price allocation disclosed in Note 2 of the Notes to Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2014. The Company adjusted the purchase price allocation associated with the Specialized acquisition to record the $3.3 million deferred tax liability with an associated increase in goodwill. Pursuant to ASC 805-10-25-17, this adjustment has been reflected as of the acquisition date, and accordingly, the recorded amounts for deferred income tax liabilities and goodwill in the December 31, 2014 financial statements included herein have been adjusted to reflect the revised amounts. The final amounts assigned to the assets acquired and liabilities assumed in the Specialized acquisition were recognized at their acquisition-date fair values and are as follows (in thousands):

Cash	2,025
Accounts receivable	16,290
Inventory	47,500
Prepaid expenses	3,223
Rental equipment	28,446
Property, plant & equipment	13,214
Intangible assets	53,900
Other assets	675