

ALAMO GROUP INC  
 Form 10-Q  
 May 09, 2008

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 March 31, 2008

OR

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

For the			
transition period from ____ to ____			
Commission file number 0-21220			
<b>ALAMO GROUP INC.</b>			
(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  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

AT APRIL 29, 2008, 9,796,829 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>	3
	March 31, 2008 and December 31, 2007 (Audited)	
	<u>Interim Condensed Consolidated Statements of Income</u>	4
	Three months ended March 31, 2008 and March 31, 2007	
	<u>Interim Condensed Consolidated Statements of Cash Flows</u>	5
	Three months ended March 31, 2008 and March 31, 2007	
	<u>Notes to Interim Condensed Consolidated Financial Statements</u>	6
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15

Item 3	<u>Quantitative and Qualitative Disclosures About Market Risks</u>	22
Item 4	<u>Controls and Procedures</u>	23

PART II.

OTHER INFORMATION

Item 1.	None
Item 2.	None
Item 3.	None
Item 4.	None
Item 5.	Other Information
Item 6	Exhibits

SIGNATURES

## FINANCIAL INFORMATION

## Alamo Group Inc. and Subsidiaries

## Interim Consolidated Balance Sheets

(in thousands, except share amounts)	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 22,653	\$ 4,459
Accounts receivable, net	138,564	109,260
Inventories	121,788	118,285
Deferred income taxes	2,054	2,131
Prepaid expenses	3,105	2,834
Total current assets	288,164	236,969
Property, plant and equipment	128,201	124,665
Less: Accumulated depreciation	(64,572)	(61,513)
	63,629	63,152
Goodwill	43,947	43,946
Intangible Assets	4,055	4,081
Assets held for sale	291	291
Other assets	1,249	2,191
Total assets	\$ 401,335	\$ 350,630
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 48,619	\$ 39,248
Income taxes payable	1,666	2,289
Accrued liabilities	23,653	22,673
Current maturities of long-term debt	4,632	3,368
Total current liabilities	78,570	67,578
Long-term debt, net of current maturities	114,017	78,527
Deferred Pension Liability	983	1,040

Edgar Filing: ALAMO GROUP INC - Form 10-Q

Other long-term liabilities	5,424	4,100
Deferred income taxes	431	687
<b>Stockholders' equity:</b>		
Common stock, \$.10 par value, 20,000,000 shares authorized;		
9,839,429 issued and outstanding at March 31, 2008 and		
December 31, 2007	984	984
Additional paid-in capital	53,785	53,610
Treasury stock, at cost; 42,600 shares at March 31, 2008 and		
December 31, 2007	(426)	(426)
Retained earnings	125,671	123,426
Accumulated other comprehensive income, net	21,896	21,104
Total stockholders' equity	201,910	198,698
Total liabilities and stockholders' equity	\$ 401,335	\$ 350,630

See accompanying notes.

## Alamo Group Inc. and Subsidiaries

## Interim Consolidated Statements of Income

(Unaudited)

<b>Three Months Ended</b>		
	<b>March 31,</b>	
(in thousands, except per share amounts)	<b>2008</b>	<b>2007</b>
Net sales:		
North American		
Industrial	\$ 62,612	\$ 58,057
Agricultural	32,503	29,394
European	38,666	32,696
Total net sales	133,781	120,147
Cost of sales	108,800	98,590
Gross profit	24,981	21,557
Selling, general and administrative expense	19,619	18,492
Income from operations	5,362	3,065
Interest expense	(1,835)	(2,183)
Interest income	410	289
Other income (expense), net	251	53
Income before income taxes	4,188	1,224
Provision for income taxes	1,356	391
Net Income	\$ 2,832	\$ 833
Net income per common share:		
Basic	\$ 0.29	\$ 0.09
Diluted	\$ 0.29	\$ 0.08
Average common shares:		
Basic	9,797	9,765
Diluted	9,921	9,947
Dividends declared	\$ 0.06	\$ 0.06

Three Months Ended

See accompanying notes.



## Alamo Group Inc. and Subsidiaries

## Interim Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Three Months Ended	
	March 31,	
	2008	2007
<b>Operating Activities</b>		
Net income	\$ 2,832	\$ 833
Adjustment to reconcile net income to net cash		
used by operating activities:		
Provision for doubtful accounts	25	195
Depreciation	2,269	2,224
Amortization	26	28
Stock-based compensation expense	175	131
Excess tax benefits from stock-based payment arrangements	(23)	(17)
Provision for deferred income tax benefit (expense)	(308)	(16)
Loss on sale of property, plant & equipment	(39)	(32)
Changes in operating assets and liabilities:		
Accounts receivable	(28,058)	(25,680)
Inventories	(2,446)	(8,951)
Prepaid expenses and other assets	690	586
Trade accounts payable and accrued liabilities	8,829	13,867
Income taxes payable	(576)	201
Other long-term liabilities	495	139
Net cash used by operating activities	(16,109)	(16,492)
<b>Investing Activities</b>		
Acquisitions, net of cash acquired		(3,464)
Purchase of property, plant and equipment	(1,705)	(2,097)
Proceeds from sale of property, plant and equipment	61	86
Net cash used by investing activities	(1,644)	(5,475)
<b>Financing Activities</b>		
Net change in bank revolving credit facility	34,000	30,000
Principal payments on long-term debt and capital leases	931	540

Edgar Filing: ALAMO GROUP INC - Form 10-Q

Proceeds from issuance of long-term debt	1,540	
Dividends paid	(588)	(586)
Proceeds from sale of common stock		67
Excess tax benefits from stock-based payment arrangements	23	17
Net cash provided by financing activities	35,906	30,038
<b>Effect of exchange rate changes on cash</b>		
	41	94
Net change in cash and cash equivalents	18,194	8,165
Cash and cash equivalents at beginning of the period	4,459	2,169
Cash and cash equivalents at end of the period	\$ 22,653	\$ 10,334
<b>Cash paid during the period for:</b>		
Interest	\$ 1,971	\$ 1,970
Income taxes	\$ 2,249	\$ 1,075

See accompanying notes.

**Alamo Group Inc. and Subsidiaries**

**Notes to Interim Condensed Consolidated Financial Statements - (Unaudited)**

**March 31, 2008**

**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 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. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The balance sheet at December 31, 2007, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2007.

**2. Acquisitions**

On March 6, 2007, the Company purchased *Henke* Manufacturing Corporation ( *Henke* ), a manufacturer of specialty snow removal attachments. *Henke*'s products are mounted on both heavy industrial equipment and medium to heavy duty trucks. The primary end users are governmental agencies, related contractors and other industrial users. The purchase price was approximately \$4.8 million with assumed debt of approximately \$0.6 million and goodwill of zero and was funded from the Company's revolving credit facility. The acquisition was accounted for under the purchase method and the results of operation have been included in the Company's Statement of Income from March 2007. *Henke*, is located in Leavenworth, Kansas.

**3. Accounts Receivable**

Accounts Receivable is shown net of the allowance for doubtful accounts of \$1,872,000 and \$1,922,000 at March 31, 2008 and December 31, 2007, respectively.

#### 4. Inventories

Inventories valued at LIFO cost represented 57% and 58% of total inventory at March 31, 2008 and December 31, 2007, respectively. The excess of FIFO costs over LIFO valued inventories were \$9,062,000 at March 31, 2008 and December 31, 2007. Inventory obsolescence reserves were \$8,689,000 at March 31, 2008 and \$8,526,000 at December 31, 2007. The increase in reserve for obsolescence was mainly from the Company's Agricultural and European operations. Net inventories consist of the following:

(in thousands)	March 31, 2008	December 31, 2007
Finished goods	\$ 99,593	\$ 96,464
Work in process	13,947	14,755
Raw materials	8,248	7,066
	\$ 121,788	\$ 118,285

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time.

## 5. Derivatives and Hedging

Most of the Company's outstanding debt is advanced from a revolving credit facility that accrues interest at a contractual margin over current market interest rates. The Company's financing costs associated with this credit facility can materially change with market increases and decreases of short-term borrowing rates, specifically London Inter Bank Operating Rate ( LIBOR ). During the second quarter of 2007, the Company entered into two interest rate swap agreements with one of its current lenders that hedge future cash flows related to its outstanding debt obligations. As of March 31, 2008, the Company had \$109.0 million outstanding under its revolving credit facility and two interest rate swap contracts designated as cash flow hedges which are effectively hedging \$40 million of these borrowings from changes in underlying LIBOR base rates. One swap has a three year term and fixes the LIBOR base rate at 4.910% covering \$20 million of this debt. The other has a four year term and fixed the LIBOR base rate at 4.935% covering an additional \$20 million of these variable rate borrowings. The fair market value of these hedges, which is the amount that would have been paid or received by the Company had it prematurely terminated these swap contracts at March 31, 2008, was a \$2,286,000 liability. This is included in Other long-term liabilities with an offset in Accumulated other comprehensive income, net of taxes. At March 31, 2008, there was no ineffectiveness in the interest rate swap agreements.

## 6. Fair Value Measurements

The Company adopted SFAS 157, Fair Value Measurements as of January 1, 2008. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS 157 also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with SFAS 157, fair value measurements are classified under the following hierarchy:

**Level 1** Quoted prices for identical instruments in active markets.

**Level 2** Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers

are observable in active markets.

**Level 3** Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable

When available, the Company uses quoted market prices to determine fair value, and the Company classifies such measurements within Level 1. In some cases where market prices are not available, the Company makes use of observable market based inputs to calculate fair value, in which case the measurements are classified with Level 2. If quoted or observable market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based parameters such as interest rates, yield curves, currency rates, etc. These measurements are classified within Level 3.

Fair value measurements are classified to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

#### **Derivative financial instruments**

The fair value of interest rate swap derivatives is primarily based on third-party pricing service models. These models use discounted cash flows that utilize the appropriate market-based forward swap curves and zero-coupon interest rates. Interest rate swap derivatives are Level 2 measurements and have a fair value of a negative \$2,286,000.

The fair value of foreign currency forward contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate and is a Level 2 measurement and has a fair value of \$1,252,000.

## 7. Common Stock and Dividends

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>
Dividends declared	\$ 0.06	\$ 0.06
Dividends paid	\$ 0.06	\$ 0.06

## 8. Stock-Based Compensation

The Company has granted options to purchase its common stock to employees and directors of the Company and its subsidiaries under three 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, other than by retirement, his or her employment or relationship with the Company or one of its subsidiaries. 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 such as stock splits.

The Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment ( Statement 123(R) ), on January 1, 2006, using the modified-prospective-transition method. The fair value of the options is estimated using a Black-Scholes option-pricing model and amortized to expense over the options' vesting period. Prior to adoption of Statement 123(R), the Company accounted for share based payments under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ), and related Interpretations, as permitted by Statement of Financial Accounting

Standards No. 123, Accounting for Stock-Based Compensation ( Statement 123 ). The Company did not recognize employee compensation cost related to its stock option grants in its Consolidated Statement of Income prior to adoption of Statement 123(R), as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Under the modified-prospective-transition method, compensation cost recognized beginning in 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). Results for prior periods have not been restated.

The Company expensed stock based compensation in the amount of \$175,000 in the first quarter of 2008 and \$131,000 in the first quarter of 2007.

Prior to the adoption of Statement 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Statement 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.



There were no shares granted during the first quarter of 2008. The Company calculated the fair value for the 2007 options using a Black-Scholes option pricing model using weighted average assumptions. For options granted in the first quarter of 2007, they are as follows:

Risk-free interest rate	5.00%
Dividend Yield	0.96%
Volatility Factors	1.33%
Weighted Average Expected Life	5.0 years

*Incentive Options*

On April 28, 1994, the stockholders approved the 1994 Incentive Stock Option Plan ( 1994 ISO Plan ) for key employees. Each option becomes vested and exercisable for up to 20% of the total optioned shares each year after grant. Under the terms of this plan, the exercise price of the shares subject to each option granted would not be less than the fair market value of the common stock at the date the option is granted.

On February 12, 2003, the Board of Directors approved an administrative amendment to the 1994 ISO Plan. The amendment eliminates the mandatory minimum annual purchase requirement and eliminates the one month window to purchase vested options for any new option grants after February 12, 2003. There are 115,080 shares outstanding under this option plan. No further option grants can be made under this plan.

On May 3, 2005, the stockholders of the Company approved the 2005 ISO Plan and the Company reserved 500,000 shares of common stock for these options. During 2005, 2006 and 2007 options to purchase 57,000 shares, 31,000 shares and 74,000 shares respectively had been granted under this plan. No options were granted during the first quarter of 2008. Each option becomes vested and exercisable for up to 20% of the total optioned shares one year following the grant of the option and for an additional 20% of the total optioned shares after each succeeding year until the option is fully exercisable at the end of the fifth year.

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

***For three months ending March 31, 2008***

	Exercise
	Price*
Shares	

Edgar Filing: ALAMO GROUP INC - Form 10-Q

Options outstanding at beginning of year	277,080	
Granted		
Exercised		
Cancelled		
Options outstanding at March 31, 2008	277,080	\$18.26
Options exercisable at March 31, 2008	139,880	\$14.59
Options available for grant at March 31, 2008	338,000	

*\*Weighted Averages*

Options outstanding and exercisable at March 31, 2008 were as follows:

Qualified Stock Options	Options Outstanding			Options Exercisable	
	Shares	Remaining		Shares	Exercise Price*
Contractual		Exercise	Exercise		
Range of Exercise Price	Life(yrs)*	Price*	Price*	Price*	Price*
\$8.9375 - \$12.10	91,000	3.35	\$ 10.84	79,600	\$ 10.66
\$14.38 - \$19.79	81,080	6.57	\$ 19.03	42,880	\$ 18.53
\$22.39 - \$25.18	105,000	8.70	\$ 24.11	17,400	\$ 22.89
Total	277,080			139,880	

*\*Weighted Averages*

*Non-qualified Options*

On July 7, 1999, the Company granted options to purchase 200,000 shares of the Company's Common Stock under the 1999 Non-Qualified Stock Option Plan to Mr. Robinson, CEO and President, at an exercise price of \$8.9375 per share, being the closing price of the Company's Common Stock on the grant date. Each option becomes vested and exercisable for up to 20% of the total optioned shares one year following the grant of the option and for an additional 20% of the total optioned shares after each succeeding year. No options have been exercised.

On May 3, 2001, the stockholders of the Company approved the First Amended and Restated 1999 Non-Qualified Stock Option Plan ( FAR 1999 NQSO Plan ) to add non-employee directors as eligible persons to receive grants of stock options. The Company then granted options to purchase 5,000 shares of the Company's Common Stock to each Messrs. Goldress, Morris, Skaggs, and Thomas, at an exercise price of \$13.96 per share, being the closing price of the Company's Common Stock on the grant date. Each option becomes vested and exercisable for up to 20% of the total optioned shares one year following the grant of the option and for an additional 20% of the total optioned shares after each succeeding year until the option is fully exercisable. During 2002, 2005, 2006 and 2007, 500 shares, 1,000 shares, 5,000 shares and 11,000 shares were exercised, respectively. No options were exercised in 2003 or 2004 or in the first quarter of 2008.

On May 12, 2003, the Company granted additional options under the FAR 1999 NQSO Plan to purchase 5,000 shares of the Company's Common Stock to each Messrs. Goldress, Morris, Skaggs and Thomas, and 50,000 shares to Mr. Robinson at an exercise price of \$12.10 per share, being the closing price of the Company's Common Stock on the grant date. Each option becomes vested and exercisable for up to 20% of the total optioned shares one year following the grant of the option and for an additional 20% of the total optioned shares after each succeeding year until the option is fully exercisable. During 2006 and 2007, 1,000 shares and 11,000 shares were exercised, respectively. No shares were exercised during the first quarter of 2008.

On May 4, 2005, the Company granted additional options under the FAR 1999 NQSO Plan to purchase 5,000 shares of the Company's Common Stock to each Messrs. Goldress, Morris, Skaggs and Thomas, at an exercise price of \$19.79 per share, being the closing price of the Company's Common Stock on the grant date. Each option becomes vested and exercisable for up to 20% of the total optioned shares one year following the grant of the option and for an additional 20% of the total optioned shares after each succeeding year until the option is fully exercisable. During 2006 no options were exercised. During 2007, 5,000 of these shares were exercised. No shares were exercised during the first quarter of 2008.

On August 8, 2006, the Company granted additional options under the FAR 1999 NQSO Plan to purchase 2,500 shares of the Company's Common Stock to Mr. Grzelak, at an exercise price of \$25.02 per share, being the closing price of the Company's Common Stock on the grant date. The option becomes vested and exercisable for up to 20% of the total optioned shares one year following the grant of the option and for an additional 20% of the total optioned shares after each succeeding year until the option is fully exercisable. No options were exercised during 2007 or the first quarter of 2008.

On May 7, 2007, the Company granted additional options under the FAR 1999 NQSO Plan to purchase 5,000 shares of the Company's Common Stock to each Messrs. Douglass, Goldress, Grzelak, Martin, Morris and Skaggs, at an exercise price of \$25.18 per share, being the closing price of the Company's Common Stock on the grant date. Each option becomes vested and exercisable for up to 20% of the total optioned shares one year following the grant of the option and for an additional 20% of the total optioned shares after each succeeding year until the option is fully exercisable. No options were exercised during 2007 or the first quarter of 2008.



Following is a summary of activity in the Non-Qualified Stock Option Plans for the period indicated:

<i>For three months ending March 31, 2008</i>		
	Shares	Exercise Price*
Options outstanding at beginning of year	302,000	
Granted		
Exercised		
Cancelled		
Options outstanding at March 31, 2008	302,000	\$11.71
Options exercisable at March 31, 2008	248,000	\$ 9.66
Options available for grant at March 31, 2008	63,500	

\*Weighted Averages

Options outstanding and exercisable at March 31, 2008 were as follows:

Non-Qualified Stock Options	Options Outstanding			Options Exercisable	
	Shares	Life(yrs)*	Price*	Shares	Price*
		Remaining			
		Contractual	Exercise		Exercise
	Shares	Life(yrs)*	Price*	Shares	Price*
<b>Range of Exercise Price</b>					
\$8.9375 - \$12.10	256,000	1.88	\$ 9.63	243,000	\$ 9.50
\$13.96 - \$19.79	13,500	6.26	\$18.71	4,500	\$16.55
\$25.02 - \$25.18	32,500	8.92	\$25.17	500	\$25.02
Total	302,000			248,000	

\*Weighted Averages

## 9. Earnings Per Share

Edgar Filing: ALAMO GROUP INC - Form 10-Q

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.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
(In thousands, except per share)	<b>2008</b>	<b>2007</b>
Net Income	\$ 2,832	\$ 833
Average Common Shares:		
Basic (weighted-average outstanding shares)	9,797	9,765
Dilutive potential common shares from stock options	124	182
Diluted (weighted-average outstanding shares)	9,921	9,947
Basic earnings per share	\$ 0.29	\$ 0.09
Diluted earnings per share	\$ 0.29	\$ 0.08

**10. Segment Reporting**

At March 31, 2008 the following unaudited financial information is segmented:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
(in thousands)	<b>2008</b>	<b>2007</b>
<b>Net Revenue</b>		
Industrial	\$ 62,612	\$ 58,057
Agricultural	32,503	29,394
European	38,666	32,696
Consolidated	\$ 133,781	\$ 120,147
<b>Operating Income</b>		
Industrial	\$ 1,514	\$ 709
Agricultural	900	62
European	2,948	2,259
Consolidated	\$ 5,362	\$ 3,030
<b>Goodwill</b>		
Industrial	\$ 27,307	\$ 27,167
Agricultural	5,731	5,253
European	10,909	10,305
Consolidated	\$ 43,947	\$ 42,725
<b>Total Identifiable Assets</b>		
Industrial	\$ 181,496	\$ 169,049
Agricultural	92,563	95,753
European	127,276	110,007
Consolidated	\$ 401,335	\$ 374,809

## 11. 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.

## 12. Comprehensive Income

The components of Comprehensive Income are as follows:

(in thousands)	Three Months Ended	
	March 31,	
	2008	2007
Net Income	\$ 2,832	\$ 833
Cash flow derivative, net of taxes	(707)	
Foreign currency translations adjustment	1,519	768
Comprehensive Income	\$ 3,644	\$ 1,601



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

(in thousands)	March 31,	December 31,
	2008	2007
Foreign currency translation	\$ 21,157	\$ 19,674
Derivatives, net of taxes	(1,431)	(760)
Actuarial gains related to defined benefit plans	2,170	2,190
Total Accumulated other comprehensive income	\$ 21,896	\$ 21,104

### 13. Contingent Matters

The Company is subject to various unresolved legal actions that arise in the ordinary course of its business. The most prevalent of such actions relates to product liability, which is generally covered by insurance after various self-insured retention ( SIR ) amounts. While amounts claimed might be substantial and the liability with respect to such litigation cannot be determined at this time, the Company believes that the outcome of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations; however, the ultimate resolution cannot be determined at this time.

The Company is subject to numerous environmental laws and regulations concerning air emissions, discharges into waterways, and the generation, handling, storage, transportation, treatment and disposal of waste materials. The Company's policy is to comply with all applicable environmental, health and safety laws and regulations, and the Company believes it is currently in material compliance with all such applicable laws and regulations. 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 has been voluntarily working 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. The State of Iowa asked for some additional testing information which the Company has provided. The Company expects to receive a qualified no further action letter that will require only that the Company monitors the site in the future. Monitoring will continue until enough data is collected to demonstrate stable or improving conditions, at which time an unconditional no further action letter will be requested.

## Edgar Filing: ALAMO GROUP INC - Form 10-Q

The Company also established an environmental reserve in the amount of \$1,913,000 related to the acquisition of *Gradall*'s facility in Ohio. Three specific remediation projects that were identified prior to the acquisition are in process and estimated to cost \$400,000. The Company has a reserve of \$325,000 concerning a potential asbestos issue at the *Gradall* facility which is being evaluated. The balance of the reserve, \$1,188,000, 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. Certain other assets of the Company contain asbestos that may have to be abated in the future. The estimated timing and the fair market value of removing or disposing of existing asbestos cannot be reasonably estimated at this time, however, the Company believes 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.

#### 14. Pension Benefits

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 310 former employees and 210 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 190 former employees and 150 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 not material for the three months ended March 31, 2008 or 2007. The Company is required to contribute \$780,000 to the pension plans for 2008.

#### 15. Income Taxes

The Company adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48) on January 1, 2007. At January 1, 2007, the Company recognized a liability of approximately \$379,000 for unrecognized tax positions, which includes penalty and interest of \$134,000. During 2007, an unrecognized tax position was resolved in the Company's benefit as a result of an IRS audit and the liability was reduced by \$167,000 and the Company recorded an unrecognized tax position during the year of \$125,000 including penalty and interest of \$16,000. The balance at March 31, 2008 was \$337,000. The impact to the Interim Consolidated Statements of Income was zero in the first quarter of 2008 and income of \$62,000 in the first quarter of 2007.



**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:

<b>Three Months Ended</b>				
<b>March 31,</b>				
<b>As a</b>				
<b>Percent of Net Sales</b>	<b>2008</b>		<b>2007</b>	
North American				
Industrial	46.8	%	48.3	%
Agricultural	24.3	%	24.5	%
European	28.9	%	27.2	%
Total sales, net	100.0	%	100.0	%

<b>Three Months Ended</b>				
<b>March 31,</b>				
<b>Cost Trends and Profit Margin, as</b>				
<b>Percentages of Net Sales</b>	<b>2008</b>		<b>2007</b>	
Gross margin	18.7	%	17.9	%
Income from operations	4.0	%	2.6	%
Income before income taxes	3.1	%	1.0	%
Net income	2.1	%	1.0	%

**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.*

## Edgar Filing: ALAMO GROUP INC - Form 10-Q

In the first quarter of 2008 the Company's net income was up due to continued improvement in the markets the Company sells in along with the benefits from consolidation and efficiency initiatives the Company began in late 2006. The acquisition of Henke also was accretive to our sales and net income during the first quarter. The Industrial Division sales without the Henke acquisition grew 5% during the first quarter of 2008 with the excavator business the main reason for the increase. The Company's sweeper business experienced soft sales during the quarter as the parking lot contractor segment of the industrial business was off due to economic conditions. The Agricultural Division saw a 10% increase in sales versus the first quarter of 2007 as overall market conditions continued to improve due to higher commodity prices even though some segments such as areas in the southeastern U.S. affected by drought and the hobby farm segment in general have been very soft. European sales also improved over the first quarter of 2007 as European markets remained steady along with benefiting from the strengthening of the British pound compared to the Euro.

While our outlook for 2008 remains positive, the Company is concerned that our markets could be negatively affected by a variety of factors such as a downturn in the overall economy, inflation, particularly with raw materials such as steel; higher fuel costs; 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 and floods; and budget constraints or revenue shortfalls in governmental entities to which the Company sells its products.

## Results of Operations

*Three Months Ended March 31, 2008 vs. Three Months Ended March 31, 2007*

Net sales for the first quarter of 2008 were \$133,781,000, an increase of \$13,634,000 or 11.3% compared to \$120,147,000 for the first quarter of 2007. The increase was primarily attributable to improved market conditions in all segments of the Company's business along with the acquisition of *Henke*.

Net North American Industrial sales increased during the first quarter by \$4,555,000 or 7.8% to \$62,612,000 for 2008 compared to \$58,057,000 during the same period in 2007. The increase came primarily from the acquisition of *Henke* and higher sales from excavator equipment. Industrial sales to our governmental customers have continued to remain steady.

Net North American Agricultural sales were \$32,503,000 in 2008 compared to \$29,394,000 for the same period in 2007, an increase of \$3,109,000 or 10.6%. This increase continues to reflect improved conditions in the agricultural market which has benefited from higher commodity prices.

Net European Sales for the first quarter of 2008 were \$38,666,000, an increase of \$5,970,000 or 18.3% compared to \$32,696,000 during the first quarter of 2007. The increase was a result of improved agricultural market conditions along with exchange rate gains.

Gross profit for the first quarter of 2008 was \$24,981,000 (18.7% of net sales) compared to \$21,557,000 (17.9% of net sales) during the same period in 2007, an increase of \$3,424,000. The increase was mainly attributable to the acquisition of *Henke* and improved sales from all of the Company's lines of business. The increase in the gross margin percentage, a result of continued improvements from efficiency initiatives in our Agricultural and *VacAll* product lines, was partially offset by higher fuel and steel prices.

Selling, general and administrative expenses ( SG&A ) were \$19,619,000 (14.7% of net sales) during the first quarter of 2008 compared to \$18,492,000 (15.4% of net sales) during the same period of 2007, an increase of \$1,127,000.

Interest expense was \$1,835,000 for the first quarter of 2008 compared to \$2,183,000 during the same period in 2007, a decrease of \$348,000. The decrease came from lower interest rates during the first quarter of 2008.

Other Income was \$251,000 for the first quarter of 2008 compared to \$53,000 in 2007. Other income in 2008 was a result of exchange rate gains. Other income for the first quarter of 2007 included a gain of \$150,000 relating to the sale of the Company's investment in a small business investment company offset by an exchange rate loss of \$97,000 related to foreign currency rates and contracts covering accounts receivable transactions in the Company's European operations.

Provision for income taxes was \$1,356,000 (32.4%) in the first quarter of 2008 compared to \$391,000 (31.9%) during the same period in 2007. The decrease in the effective tax rate for 2008 and 2007 was from additional R&D tax credits received and a reduced corporate tax rate that affected our Canadian operation.

The Company's net income after tax was \$2,832,000 or \$0.29 per share on a diluted basis for the first quarter of 2008 compared to \$833,000 or \$0.08 per share on a diluted basis for the first quarter of 2007. The increase of \$1,999,000 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 quarters of each year as a result of fall preseason sales programs and out of season sales particularly in our Agricultural Division. These sales help level the Company's production during the off season.

As of March 31, 2008, the Company had working capital of \$209,594,000 which represents an increase of \$40,203,000 from working capital of \$169,391,000 as of December 31, 2007. The increase in working capital was primarily from higher levels of accounts receivable due to seasonality and the acquisition of *Henke*.

Capital expenditures were \$1,705,000 for the first three months of 2008, compared to \$2,097,000 during the first three months of 2007. Capital expenditures for 2008 are expected to be in line with 2007. 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 2007 or the first quarter of 2008. 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 \$35,906,000 during the three month period ending March 31, 2008, compared to \$30,038,000 for the same period in 2007. The financing activities were higher due to increased pre-season sales in 2008.

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.

On February 3, 2006, the Company amended and restated the credit agreement to increase the Company's existing credit facility from \$70 million to \$125 million. Pursuant to the terms of the Amended and Restated Revolving Credit Agreement, the Company has the ability to request an increase in commitments by \$25 million. In addition, the existing credit facility was modified in other respects, including reducing the asset coverage ratio and lowering the interest margins.

## Edgar Filing: ALAMO GROUP INC - Form 10-Q

On March 30, 2006 the Company entered into the Fourth Amendment of the Amended and Restated Revolving Credit Agreement, dated March 30, 2006 (the "Amended and Restated Revolving Credit Agreement"), between the Company and Bank of America, N.A., J.P. Morgan Chase Bank and Guaranty Bank, as its lenders. Pursuant to the terms of the Amended and Restated Revolving Credit Agreement, the Company added Gradall Industries, Inc., formerly Alamo Group (OH) Inc., and N.P. Real Estate Inc. as members of the Obligated Group. The Amendment also allows for capital expenditures not to exceed \$14.0 million for the fiscal year ending 2007 and \$10.0 million in the aggregate during each fiscal year thereafter.

On May 7, 2007, the Company entered into the Fifth Amended and Restated Revolving Credit Agreement with Bank of America, N.A., JPMorgan Chase Bank, Guaranty Bank and Rabobank, as its lenders. The Amended and Restated Revolving Credit Agreement provides for a \$125 million unsecured revolving line of credit for five years with the ability to expand the facility to \$175 million, subject to bank approval. In addition to the extended term of the loan to 2012, other major changes were improvements in the leverage ratio, minimum asset coverage ratio and an increase in annual allowable capital expenditures up to \$17.5 million. The banks agreed to eliminate the fixed charge coverage ratio and minimum net worth requirement along with a reduction in the applicable interest rate margin. The applicable interest margin fluctuates quarterly either up or down based upon the Company's leverage ratio.

As of March 31, 2008, there was \$109,000,000 borrowed under the revolving credit facility. At March 31, 2008, \$850,000 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 \$15,000,000 in available borrowings.

There are smaller additional lines of credit, for the Company's United Kingdom operation in the amount of 1,000,000 British pounds, for our French operations in the amount of 4,550,000 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 March 31, 2008 there were no British pounds borrowed against the United Kingdom line of credit, no Euros were borrowed against the French line of credit, 2,827,000 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. The Company's borrowing levels for working capital are seasonal with the greatest utilization generally occurring in the first quarter and early spring. As of March 31, 2008, the Company is in compliance with the terms and conditions of its credit facilities.

On July 27, 2006, the Company filed a shelf registration statement on Form S-3 with the SEC to register 2,300,000 shares of common stock for offer and sale by the Company from time to time in accordance with the Securities Exchange Act. If and when this shelf registration statement is declared effective by the SEC, the Company believes that it will provide us with the flexibility to raise additional capital.

Management believes that the Company's ability to internally generate funds from operations and secure financing from external sources will be sufficient to meet the Company's cash requirements for the foreseeable future.

## **New Accounting Standards and Disclosures**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, ( SFAS No. 157 ) which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. The adoption of SFAS No. 157 will not have a material impact on the Company's financial position or results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 ( SFAS No. 159 ). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS No. 159 is effective as of an entity's first fiscal year that begins after November 15, 2007. At the effective date, the initial re-measurement of existing, eligible financial instruments will be reported as a cumulative-effect adjustment to the opening balance of retained earnings. Currently, there have been no financial assets or liabilities identified by management of the Company that will apply the provisions of SFAS No. 159 upon its effective date. Management will continue to evaluate future financial assets acquired or liabilities assumed and apply SFAS No. 159 if applicable.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ( SFAS No. 141(R) ). SFAS No. 141(R) replaces SFAS No. 141, Business Combinations ( SFAS No. 141 ). SFAS No. 141(R) establishes principles and requirements for how the acquirer (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141 (R) is applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

## **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.

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 Consolidate Financial Statements.

## **Critical Accounting Policies**

### ***Allowance for Doubtful Accounts***

The Company evaluates the collectibility 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.

## Edgar Filing: ALAMO GROUP INC - Form 10-Q

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 customer 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 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 \$1,872,000 at March 31, 2008 and \$1,922,000 at December 31, 2007.

### *Sales Discounts*

At March 31, 2008 the Company had \$8,793,000 in reserves for sales discounts compared to \$6,338,000 at December 31, 2007 on products shipped to our customers under various promotional programs. The increase was due primarily from additional discounts reserved on the Company's agricultural products during the pre-season, which runs from September to December of each year and orders are shipped through the first quarter of 2008. 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 \$8,689,000 at March 31, 2008 and \$8,526,000 at December 31, 2007 in reserve to cover obsolescence and slow moving inventory. The increase was mainly from the Company's Agricultural and European operations. The obsolescence 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 at 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 a customer takes approximately ninety days to six months from the time the unit is received and put into operation to file any 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 \$5,189,000 at March 31, 2008 and \$4,865,000 at December 31, 2007. The Company has a long-term liability for extended warranty policies sold to customers in the amount of \$249,000 at March 31, 2008 and \$218,000 at December 31, 2007 existed relating to some of our industrial product lines with a life expectancy of 1 to 5 years.

***Product Liability***

At March 31, 2008 the Company had accrued \$175,000 in reserves for product liability cases compared to \$200,000 at December 31, 2007. The Company accrues primarily on a case by case basis and adjusts the balance quarterly.

During most of 2007, the self insured retention (S.I.R.) for U.S. product liability coverage for rotary mowers was \$250,000 while the S.I.R. for all other products was at \$100,000 per claim. On September 30, 2007, the Company renewed its insurance coverage and the S.I.R. for rotary mowers was reduced to \$150,000 and all other products remained at \$100,000 for the last quarter of 2007 and the first three quarters of 2008. The Company also carries product liability coverage in Europe, Canada and Australia which contain substantially lower S.I.R. s or deductibles.



### ***Goodwill***

The Company accounts for goodwill under the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (FAS 142). As required by FAS 142, the Company performs its annual test for goodwill impairment annually and, as of December 31, 2007, determined that no impairment of goodwill was indicated. If impairment indicators exist between the annual testing periods, management will perform an impairment of goodwill test to determine if the fair value of the reporting unit is below the carrying value and, therefore, requires a write-down of goodwill for that reporting unit. The Company determines the fair value of its reporting units based on a discounted cash flow analysis; the discounted cash flow calculation uses various assumptions and estimates regarding future revenue, expenses and cash flow projections over the estimated remaining useful life of the asset. At March 31, 2008, the book value of goodwill was \$43,947,000, and at December 31, 2007, the book value was \$43,946,000.

### ***Forward-Looking Information***

Part I of this Quarterly Report on Form 10-Q 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 at the present include changes in market conditions; increased competition; decreases in the prices of agricultural commodities, which could affect our customer's income levels; budget constraints or income shortfalls which could affect the purchases of our type of equipment by governmental customers; adverse weather conditions such as droughts and floods which can affect buying patterns of the Company's customers and related contractors; the price and availability of critical raw materials, particularly steel; increased cost of new governmental regulations which effect corporations; the potential effects on the buying habits of our customers due to diseases such as mad cow and bird flu; the Company's ability to 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 U.K., 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 hedge by entering into foreign exchange forward contracts to hedge approximately 80% of its future net foreign currency sales transactions over a period of six months. As of March 31, 2008, the Company had \$552,000 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 \$83,000. 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. At March 31, 2008, 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 \$1,033,000 for the period

## Edgar Filing: ALAMO GROUP INC - Form 10-Q

ending March 31, 2008. 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 \$891,000 for the period ended March 31, 2007. 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 are 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 first quarter of 2008 was a gain of \$1,519,000. On March 31, 2008, the British pound closed at .5039 relative to 1.00 U.S. dollar, and the Euro dollar closed at .6334 relative to 1.00 U.S. dollar. At December 31, 2007 the British pound closed at .5033 relative to 1.00 U.S. dollar and the Euro dollar closed at .6850 relative to 1.00 U.S. dollar. By comparison, on March 31, 2007, the British pound closed at .5082 relative to 1.00 U.S. dollar, and the Euro dollar closed at .7486 relative to 1.00 U.S. dollar. No assurance can be given as to future valuation 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 first quarter 2008 average interest rate under these borrowings, the Company's interest expense would have changed by approximately \$545,000. 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.

**Changes in Internal Controls over Financial Reporting.** There have not been any changes in Alamo's internal control over financial reporting (as such term is defined by paragraph (d) of Rule 13-a-15) under the Securities Exchange Act, during the first fiscal quarter that have materially affected, or are reasonably likely to materially affect, Alamo's internal control over financial reporting.

## 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

Alamo Group Inc. First Quarter 2008 Press Release filed May 7, 2008.

(b) Other Information

None

**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





## 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 and CEO

/s/Dan E. Malone  
Dan E. Malone  
Executive Vice President, Chief Financial Officer  
(Principal Financial Officer)

Edgar Filing: ALAMO GROUP INC - Form 10-Q

/s/Richard J. Wehrle  
Richard J. Wehrle  
Vice President & Corporate Controller  
(Principal Accounting Officer)

25

---