

ALAMO GROUP INC  
Form 10-Q  
May 08, 2014

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, 2014

OR

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

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

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

74-1621248  
(I.R.S. Employer  
Identification Number)

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

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

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

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

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

AT APRIL 30, 2014, 12,134,983 SHARES OF COMMON STOCK, \$.10 PAR VALUE, OF THE REGISTRANT WERE OUTSTANDING.

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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)	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$42,253	\$63,960
Accounts receivable, net	183,361	151,396
Inventories	123,932	109,104
Deferred income taxes	5,880	5,741
Prepaid expenses	7,158	5,129
Income tax receivable	1,623	1,623
Total current assets	364,207	336,953
Property, plant and equipment	160,926	158,376
Less: Accumulated depreciation	(99,374 )	(96,472 )
	61,552	61,904
Goodwill	31,980	32,073
Intangible assets	5,500	5,500
Deferred income taxes	461	457
Other assets	1,743	1,589
Total assets	\$465,443	\$438,476
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$66,335	\$45,593
Income taxes payable	1,947	1,126
Accrued liabilities	32,473	33,482
Current maturities of long-term debt and capital lease obligations	1,139	420
Total current liabilities	101,894	80,621
Long-term debt and capital lease obligations, net of current maturities	—	8
Deferred pension liability	2,138	2,538
Other long-term liabilities	3,540	3,494
Deferred income taxes	1,304	1,350
Stockholders' equity:		
Common stock, \$.10 par value, 20,000,000 shares authorized; 12,125,009 and 12,113,109 issued and outstanding at March 31, 2014 and December 31, 2013, respectively	1,213	1,211
Additional paid-in-capital	91,989	91,439
Treasury stock, at cost; 42,600 shares at March 31, 2014 and December 31, 2013	(426 )	(426 )
Retained earnings	261,595	255,203
Accumulated other comprehensive income, net	2,196	3,038
Total stockholders' equity	356,567	350,465

Total liabilities and stockholders' equity	\$465,443	\$438,476
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See accompanying notes.

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

(in thousands, except per share amounts)	Three Months Ended	
	March 31, 2014	2013
Net sales:		
North American		
Industrial	\$77,314	\$69,334
Agricultural	49,845	49,636
European	44,091	39,459
Total net sales	171,250	158,429
Cost of sales	133,120	123,517
Gross profit	38,130	34,912
Selling, general and administrative expenses	27,499	25,173
Income from operations	10,631	9,739
Interest expense	(239 )	(242 )
Interest income	61	44
Other income (expense), net	474	289
Income before income taxes	10,927	9,830
Provision for income taxes	3,689	2,880
Net Income	\$7,238	\$6,950
Net income per common share:		
Basic	\$0.60	\$0.58
Diluted	\$0.59	\$0.57
Average common shares:		
Basic	12,084	12,006
Diluted	12,270	12,158
Dividends declared	\$0.07	\$0.07

See accompanying notes.

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

(in thousands, except per share amounts)	Three Months Ended March 31,	
	2014	2013
Net Income	\$7,238	\$6,950
Other comprehensive income (loss):		
Foreign currency translation adjustment	(926 )	(5,793 )
Post Retirement adjustments:		
Net gains (losses) arising during the period	84	189
Other comprehensive income (loss)	(842 )	(5,604 )
Comprehensive Income	\$6,396	\$1,346

See accompanying notes.

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

(in thousands)	Three Months Ended	
	March 31, 2014	2013
<b>Operating Activities</b>		
Net income	\$7,238	\$6,950
Adjustment to reconcile net income to net cash used in operating activities:		
Provision for doubtful accounts	(27 )	(86 )
Depreciation	2,314	2,154
Amortization of debt issuance	32	32
Stock-based compensation expense	301	192
Excess tax benefits from stock-based payment arrangements	(74 )	(20 )
Provision for deferred income tax (benefit) expense	(131 )	93
Loss on sale of property, plant and equipment	(22 )	(128 )
Changes in operating assets and liabilities:		
Accounts receivable	(32,185 )	(31,377 )
Inventories	(14,853 )	(11,123 )
Prepaid expenses and other assets	(2,312 )	(313 )
Trade accounts payable and accrued liabilities	19,767	14,634
Income taxes payable	832	(983 )
Other long-term liabilities	(268 )	(318 )
Net cash used in operating activities	(19,388 )	(20,293 )
<b>Investing Activities</b>		
Acquisitions, net of cash acquired	—	—
Purchase of property, plant and equipment	(2,218 )	(3,116 )
Proceeds from sale of property, plant and equipment	48	277
Net cash used in investing activities	(2,170 )	(2,839 )
<b>Financing Activities</b>		
Net change in bank revolving credit facility	—	10,000
Principal payments on long-term debt and capital leases	(76 )	(73 )
Proceeds from issuance of debt	762	—
Dividends paid	(846 )	(840 )
Proceeds from sale of common stock	250	565
Excess tax benefits from stock-based payment arrangements	74	20
Net cash provided by financing activities	164	9,672
Effect of exchange rate changes on cash	(313 )	(1,340 )
Net change in cash and cash equivalents	(21,707 )	(14,800 )
Cash and cash equivalents at beginning of the period	63,960	48,291
Cash and cash equivalents at end of the period	\$42,253	\$33,491
<b>Cash paid during the period for:</b>		
Interest	\$256	\$186



Income taxes	3,541	3,848
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See accompanying notes.

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Alamo Group Inc. and Subsidiaries  
Notes to Interim Condensed Consolidated Financial Statements - (Unaudited)  
March 31, 2014

## 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, 2014. The balance sheet at December 31, 2013, 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, 2013.

In July 2013, the provisions of Accounting Standards Codification Topic 740, "Income Taxes," were amended to provide specific guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The amendment requires entities to present an unrecognized tax benefit as a reduction to the deferred tax asset generated by the net operating loss carryforward, similar tax loss, or tax credit carryforward, if such items are available to be used to offset the unrecognized tax benefit. These provisions were effective for interim and annual reporting periods beginning after December 15, 2013. The Company adopted this guidance for the year ended December 31, 2013 and the guidance did not have a material impact on our financial statements.

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 the calendar year 2013 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 and continue to develop processes to assess the impacts and will file the required document by the May 2014 deadline.

## 2. Accounts Receivable

Accounts receivable is shown net of the allowance for doubtful accounts of \$2,678,000 and \$2,738,000 at March 31, 2014 and December 31, 2013, respectively.

### 3. Inventories

Inventories valued at LIFO cost represented 56% and 55% of total inventory at March 31, 2014 and December 31, 2013, respectively. The excess of current cost over LIFO valued inventories was \$9,483,000 at March 31, 2014 and December 31, 2013. Inventory obsolescence reserves were \$8,495,000 at March 31, 2014 and \$8,596,000 at December 31, 2013. The decrease in reserve for obsolescence resulted from the Company's quarterly review in the normal course of business. Net inventories consist of the following:

(in thousands)	March 31, 2014	December 31, 2013
Finished goods	\$97,904	\$84,548
Work in process	11,354	9,906
Raw materials	14,674	14,650
	\$123,932	\$109,104

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO must necessarily be based, to some extent, on management's estimates at each quarter end.

### 4. 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

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 within 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. The Company does not currently have any assets or liabilities recorded at fair value on a recurring basis.

## 5. Common Stock and Dividends

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

	Three Months Ended March 31,	
	2014	2013
Dividends declared	\$0.07	\$0.07
Dividends paid	\$0.07	\$0.07

## 6. Stock-Based Compensation

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

The Company's stock-based compensation expense was \$301,000 and \$192,000 for the three months ended March 31, 2014 and 2013, respectively.

## Qualified Options

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

For three months ending March 31, 2014

	Shares
Outstanding at beginning of year	292,350
Granted	—
Exercised	(5,300 )
Canceled	(2,400 )
Outstanding at March 31, 2014	284,650
Exercisable at March 31, 2014	149,650
Available for grant at March 31, 2014	68,500

## Non-qualified Options

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

For three months ending March 31, 2014

	Shares
Outstanding at beginning of year	114,700
Granted	—
Exercised	(6,600 )
Canceled	—
Outstanding at March 31, 2014	108,100
Exercisable at March 31, 2014	51,300
Available for grant at March 31, 2014	293,526

## Restricted Stock

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

For three months ending March 31, 2014

	Shares
Outstanding at beginning of year	10,724
Granted	—
Vested	—
Forfeited or Canceled	—
Outstanding at March 31, 2014	10,724

## 7. Earnings Per Share

The following table sets forth the reconciliation from basic to diluted average common shares and the calculations of net income per common share. Net income for basic and diluted calculations do not differ.

(In thousands, except per share)	Three Months Ended	
	March 31,	
	2014	2013
Net Income	\$7,238	\$6,950
Average Common Shares:		
Basic (weighted-average outstanding shares)	12,084	12,006
Dilutive potential common shares from stock options	186	152
Diluted (weighted-average outstanding shares)	12,270	12,158
Basic earnings per share	\$0.60	\$0.58
Diluted earnings per share	\$0.59	\$0.57

## 8. Segment Reporting

At March 31, 2014 the following includes a summary of the unaudited financial information by reporting segment:

(in thousands)	Three Months Ended	
	March 31, 2014	2013
Net Revenue		
Industrial	\$77,314	\$69,334
Agricultural	49,845	49,636
European	44,091	39,459
Consolidated	\$171,250	\$158,429
Operating Income		
Industrial	\$6,300	\$5,197
Agricultural	2,415	2,636
European	1,916	1,906
Consolidated	\$10,631	\$9,739
Goodwill		
Industrial	\$13,042	\$13,328
Agricultural	—	—
European	18,938	17,542
Consolidated	\$31,980	\$30,870
Total Identifiable Assets		
Industrial	\$171,722	\$149,005
Agricultural	151,253	134,790
European	142,468	143,445
Consolidated	\$465,443	\$427,240

## 9. 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.

## 10. Contingent Matters

Like other manufacturers, the Company is subject to a broad range of federal, state, local and foreign laws and requirements, including those concerning air emissions, discharges into waterways, and the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste materials, as well as the remediation of contamination associated with releases of hazardous substances at the Company's facilities and offsite disposal locations, workplace safety and equal employment opportunities. These laws and regulations are constantly changing, and it is impossible to predict with accuracy the effect that changes to such laws and regulations may have on the Company in the future. Like other industrial concerns, the Company's manufacturing operations entail the risk of

noncompliance, and there can be no assurance that the Company will not incur material costs or other liabilities as a result thereof.

The Company knows that its Indianola, Iowa property is contaminated with chromium which most likely resulted from chrome plating operations which were discontinued before the Company purchased the property. Chlorinated volatile organic compounds have also been detected in water samples on the property, though the source is unknown at this time. The Company voluntarily worked with an environmental consultant and the state of Iowa with respect to these issues and believes it completed its remediation program in June 2006. The work was accomplished within the Company's environmental liability reserve balance. We requested a "no further action" classification from the state. We received a conditional "no further action" letter in January of 2009. When we demonstrate stable or improving conditions below residential standards for a certain period of time by monitoring existing wells, we will request an unconditional "no further action" letter.

The Company knows that Bush Hog's main manufacturing property in Selma, Alabama was contaminated with chlorinated volatile organic compounds which most likely resulted from painting and cleaning operations during the 1960s and 1970s. The contaminated areas were primarily in the location of underground storage tanks and underneath the former waste storage area. Under the Asset Purchase Agreement, Bush Hog's prior owner agreed to and has removed the underground storage tanks at its cost and has remediated the identified contamination in accordance with the regulations of the Alabama Department of Environmental Management. An environmental consulting firm was retained by the prior owner to administer the cleanup and monitor the site on an ongoing basis until the remediation program is complete and approved by the applicable authorities.

In December of 2012, a federal district court jury in Louisiana found that Gradall was unjustly enriched in the amount of \$1,000,000 plus interest when it sold several telescopic fire apparatuses after properly terminating what the jury determined to be an enforceable contract with the plaintiff, a fire truck manufacturer. Gradall has appealed the decision and has reserved the full amount.

Alamo Group Inc. and Bush Hog, Inc. were added as defendants in 2013 to ongoing litigation by Deere & Company as plaintiff against Bush Hog, LLC (now Duroc, LLC) and Great Plains Manufacturing Incorporated, in which Deere alleged infringement of a mower-related patent. The jury concluded in December 2013 that not only did the defendants not infringe the patent but that the patent was invalid as well. The Company expensed \$2,100,000 in legal fees related to this lawsuit in 2013. Deere & Company has filed notice of appeal.

Certain assets of the Company contain asbestos that may have to be remediated over time. The Company believes that any subsequent change in the liability associated with the asbestos removal will not have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company is subject to various other federal, state, and local laws affecting its business, as well as a variety of regulations relating to such matters as working conditions, equal employment opportunities, and product safety. A variety of state laws regulate the Company's contractual relationships with its dealers, some of which impose restrictive standards on the relationship between the Company and its dealers, including events of default, grounds for termination, non-renewal of dealer contracts, and equipment repurchase requirements. The Company believes it is currently in material compliance with all such applicable laws and regulations.

## 11. Retirement Benefit Plans

### Defined Benefit Plan

In connection with the February 3, 2006 purchase of all the net assets of the Gradall excavator business, Alamo Group Inc. assumed sponsorship of two Gradall non-contributory defined benefit pension plans, both of which were frozen with respect to both future benefit accruals and future new entrants.



The Gradall Company Hourly Employees' Pension Plan covers approximately 328 former employees and 132 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 240 former employees and 87 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 following tables present the components of net periodic benefit cost (gains are denoted with parentheses and losses are not):

(in thousands)	Three Months Ended March 31, 2014		
	Hourly Employees' Pension Plan	Employees' Retirement Plan	Total
Service cost	\$2	\$1	\$3
Interest cost	105	213	318
Expected return on plan assets	(159 )	(295 )	(454 )
Amortization of prior service cost	—	—	—
Amortization of net (gain)/loss	18	15	33
Net periodic benefit cost	\$(34 )	\$(66 )	\$(100 )

(in thousands)	Three Months Ended March 31, 2013		
	Hourly Employees' Pension Plan	Employees' Retirement Plan	Total
Service cost	\$3	\$1	\$4
Interest cost	93	190	283
Expected return on plan assets	(137 )	(255 )	(392 )
Amortization of prior service cost	—	—	—
Amortization of net (gain)/loss	71	105	176
Net periodic benefit cost	\$30	\$41	\$71

The Company had net pension income of \$100,000 for the three months ended March 31, 2014 and net pension expense of \$71,000 for the three months ended March 31, 2013. The Company is required to contribute \$1,199,000 to the pension plans for 2014, of which \$267,000 has been paid through March 31, 2014.

#### Supplemental Retirement Plan

The Board of Directors of the Company adopted the Alamo Group Inc. Supplemental Executive Retirement Plan (the "SERP"), effective as of January 3, 2011. The SERP will benefit certain key management or other highly compensated employees of the Company and/or certain subsidiaries who are selected by the Compensation Committee and approved by the Board to participate.

The SERP is intended to provide a benefit from the Company upon retirement, death or disability, or a change in control of the Company. Accordingly, the SERP obligates the Company to pay to a participant a Retirement Benefit (as defined in the SERP) upon the occurrence of certain payment events to the extent a participant has a vested right thereto. A participant's right to his or her Retirement Benefit becomes vested in the Company's contributions upon ten years of Credited Service (as defined in the SERP) or a change in control of the Company. The Retirement Benefit is based on 20% of the final three year average salary of each participant on or after his or her normal retirement age (65 years of age). In the event of the participant's death or a change in control, the participant's vested retirement benefit will be paid in a lump sum to the participant or his or her estate, as applicable, within 90 days after the participant's death or a change in control, as applicable. In the event the participant is entitled to a benefit from the SERP due to disability, retirement or other termination of employment, the benefit will be paid in monthly installments over a period of fifteen years.

The Company records amounts relating to the SERP based on calculations that incorporate various actuarial and other assumptions, including discount rates, rate of compensation increases, retirement dates and life expectancies. The net periodic costs are recognized as employees render the services necessary to earn the SERP benefits.

The net period expense for the three months ended March 31, 2014 and 2013 was \$140,000 and \$136,000, respectively.

## 12. Income Taxes

We are subject to U.S. federal income tax and various state, local, and international income taxes in numerous jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenue and expenses in different jurisdictions and the timing of recognizing revenue and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable tax laws in the jurisdictions in which we file.

We currently file income tax returns in the U.S., Canada, UK, France and Australia in which we have entities, and are periodically audited by federal, state, and international tax authorities. These audits can involve complex matters that may require an extended period of time for resolution. There are no income tax examinations currently in process.

Although the outcome of future tax audits is uncertain, in management's opinion, adequate provisions for income taxes have been made. If actual outcomes differ materially from these estimates, they could have a material impact on our financial condition and results of operations. Differences between actual results and assumptions, or changes in assumptions in future periods are recorded in the period they become known. To the extent additional information becomes available prior to resolution; such accruals are adjusted to reflect probable outcomes. Our effective tax rate is impacted by earnings being realized in countries which have lower statutory rates.

On January 2, 2013, the American Taxpayer Relief Act of 2012 (Act) was enacted. The Act provides tax relief for businesses by reinstating certain tax benefits retroactively to January 1, 2012. There are several provisions of the Act that impact the Company, most notably the extension of the Research and Development credit. Income tax accounting rules require tax law changes to be recognized in the period of enactment; as such, the associated tax benefits of the Act was recognized in the amount of \$350,000 and was reflected in the Company's provision for income taxes in the first quarter of 2013. Research and Development tax credits have not yet been approved by the U.S. federal government for 2014.

## 13. Subsequent Events

### Recent Developments

On February 24, 2014, the Company entered into an agreement to acquire the operating units of Specialized Industries, LP. This includes the businesses of Super Products LLC, Wausau-Everest LP and Howard P. Fairfield LLC (the "Pending Acquisition"). Super Products is a manufacturer of vacuum trucks and related equipment, parts and service, which is complementary to Alamo's VacAll operation. Wausau-Everest is a manufacturer of snow removal equipment which is complementary to Alamo's Tenco and Henke operations. Howard P. Fairfield is a dealer/distribution operation primarily in the New England area. Total consideration for the purchase is approximately \$186 million, subject to certain adjustments. The purchase is anticipated to close during the second quarter of 2014 and the regulatory review process has now been satisfactorily completed. Effective May 12, 2014, the Company amended its revolving credit facility and increased its line of credit from \$100 million to \$250 million to accommodate the Pending Acquisition and meet the ongoing needs of the combined entities.

### Acquisition of Kellands

On April 2, 2014 the Company announced its European subsidiary Alamo Group Europe Ltd acquired Kellands Agricultural Ltd. and its subsidiary Multidrive Tractors Ltd. based near Cheltenham, Gloucestershire in England. The Kellands Group manufactures and markets self-propelled sprayers and a range of multi-purpose load carrying tractor

vehicles. The company had sales of approximately US \$11 million in 2013.

The acquisition will be accounted for as a business combination, whereby the Company will measure the identifiable assets acquired and liabilities assumed based on the acquisition date fair value. The Company is required to recognize and measure any related goodwill acquired in the business combination or a gain from a bargain purchase. The Company has not yet determined the fair values of the assets acquired and liabilities assumed.

The Company closed in April 2014, the contract to sell the SMC plant for \$900,000. We expect to record a gain of approximately \$840,000 on the sale of the facility.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following tables set forth, for the periods indicated, certain financial data:

As a Percent of Net Sales	Three Months Ended March 31,			
	2014		2013	
North American				
Industrial	45.2	%	43.8	%
Agricultural	29.1	%	31.3	%
European	25.7	%	24.9	%
Total sales, net	100.0	%	100.0	%

Cost Trends and Profit Margin, as Percentages of Net Sales	Three Months Ended March 31,			
	2014		2013	
Gross margin	22.3	%	22.0	%
Income from operations	6.2	%	6.1	%
Income before income taxes	6.4	%	6.2	%
Net income	4.2	%	4.4	%

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.

For the first three months of 2014, the Company's net income was up 4.2% compared to the same time in 2013. Alamo's Industrial Division saw a 11.5% increase in sales versus 2013, mainly from improved sales in sweepers, mowing equipment, excavators, and snow equipment products. In the Company's Agricultural Division, sales were essentially flat during the first three months of 2014 as demand for the Company's products was soft due to the severe winter weather conditions that affected both our markets and operations. European sales for the first three months of 2014 were up 11.7% compared to 2013. Both agricultural and governmental markets in Europe showed some signs of improvement despite the weak economic conditions. Consolidated gross margins as well as gross margin percent in 2014 improved from increased unit volume which led to favorable production efficiencies. This was offset somewhat by an increase in lower margin tractor sales during the first quarter. The Company's backlog improved 5.6% to \$117,938,000 during the first three months of 2014 versus \$110,637,000 during the same period in 2013 which should benefit sales through the rest of the year. The increase in the backlog came from the Company's Industrial and European Divisions.

The Company believes that its markets for 2014 will be steady but they could be negatively affected by a variety of factors such as a continued weakness in the overall economy, sovereign debt issues, credit availability, increased

levels of government regulations; changes in farm incomes due to commodity prices or governmental aid programs; adverse situations that could affect our customers such as animal disease epidemics, weather conditions such as droughts, floods, snowstorms, etc.; budget constraints or revenue shortfalls in governmental entities and changes in our customers' buying habits due to lack of confidence in the economic outlook.

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## Results of Operations

### Three Months Ended March 31, 2014 vs. Three Months Ended March 31, 2013

Net sales for the first quarter of 2014 were \$171,250,000, an increase of \$12,821,000, or 8.1% compared to \$158,429,000 for the first quarter of 2013. The increase was mainly from improved equipment sales and tractors in the Company's Industrial and European Divisions. In the Industrial Division, sweepers, mowing equipment, excavators and snow removal products were the main product lines to show sales improvement. Sales of mowing equipment in the Agricultural Division were soft during the quarter due to the prolonged winter weather conditions and indications of a weakening of the overall agricultural market. European sales for the first quarter of 2014 were up as demand for our products in this Division showed improvement; however, challenging market conditions and continued uncertainty in the overall European economy continue to affect this Division.

Net North American Industrial sales increased during the first quarter by \$7,980,000 or 11.5% to \$77,314,000 for 2014 compared to \$69,334,000 during the same period in 2013. The increase came primarily from higher sales of sweeper and excavator units, as well as mowing and snow removal equipment. Sales of vacuum trucks were slightly up compared to the first quarter of 2013.

Net North American Agricultural sales were \$49,845,000 in 2014 compared to \$49,636,000 for the same period in 2013, an increase of \$209,000 or 0.4%. The flat performance reflected the adverse winter weather conditions and indications of a softer demand for equipment in the overall agricultural market.

Net European Sales for the first quarter of 2014 were \$44,091,000, an increase of \$4,632,000 or 11.7% compared to \$39,459,000 during the first quarter of 2013. The increase was primarily due to improved sales in both the UK and France as European markets showed some signs of improvement after an extended decline over the last several years.

Gross profit for the first quarter of 2014 was \$38,130,000 (22.3% of net sales) compared to \$34,912,000 (22.0% of net sales) during the same period in 2013, an increase of \$3,218,000. The increase in both margin dollars and margin percent were mainly due to increased sales volume which led to favorable production efficiencies. However, an increase in sales of lower margin tractors negatively affected the gross profit percent during the first quarter of 2014.

Selling, general and administrative expenses ("SG&A") were \$27,499,000 (16.1% of net sales) during the first quarter of 2014 compared to \$25,173,000 (15.9% of net sales) during the same period of 2013, an increase of \$2,326,000. The increase in SG&A expenses in 2014 was primarily due to \$475,000 of acquisition expenses, \$399,000 of increased trade show and advertising expenses, \$200,000 of recruiting and relocation expenses, increased fees in various litigation matters in the amount of \$152,000 and higher stock option expenses of \$110,000. Also in 2014, the Company had increased costs related to IT projects and additional new hires in marketing.

Interest expense was \$239,000 for the first quarter of 2014 compared to \$242,000 during the same period in 2013, a decrease of \$3,000. The decrease in 2014 came from reduced borrowings in 2014 compared to 2013.

Other income (expense), net was \$474,000 of income for the first quarter of 2014 compared to \$289,000 of income during the same period in 2013. The income in 2014 and 2013 were mainly the result of foreign exchange rate changes.

Provision for income taxes was \$3,689,000 (33.8%) in the first quarter of 2014 compared to \$2,880,000 (29.3%) during the same period in 2013. Due to the delay in signing the American Taxpayer Relief Act of 2012 which extended the research and development tax credits, the Company was unable to recognize a \$350,000 tax benefit in



2012 but instead recognized it during the first quarter of 2013. Research and Development tax credits have not yet been approved by the U.S. federal government for 2014.

The Company's net income after tax was \$7,238,000 or \$0.59 per share on a diluted basis for the first quarter of 2014 compared to \$6,950,000 or \$0.57 per share on a diluted basis for the first quarter of 2013. The increase of \$288,000 resulted from the factors described above.

## Recent Developments

On February 24, 2014, the Company entered into an agreement to acquire the operating units of Specialized Industries, LP. This includes the businesses of Super Products LLC, Wausau-Everest LP and Howard P. Fairfield LLC (the "Pending Acquisition"). Super Products is a manufacturer of vacuum trucks and related equipment, parts and service, which is complementary to Alamo's VacAll operation. Wausau-Everest is a manufacturer of snow removal equipment which is complementary to Alamo's Tenco and Henke operations. Howard P. Fairfield is a dealer/distribution operation primarily in the New England area. Total consideration for the purchase is approximately \$186 million, subject to certain adjustments. The purchase is anticipated to close during the second quarter of 2014 and the regulatory review process has now been satisfactorily completed.

## 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. Preseason sales help level the Company's production during the off season.

As of March 31, 2014, the Company had working capital of \$262,313,000 which represents an increase of \$5,981,000 from working capital of \$256,332,000 of December 31, 2013. The increase in working capital was primarily from seasonally higher levels of accounts receivable from increased sales.

Capital expenditures were \$2,218,000 for the first three months of 2014, compared to \$3,116,000 during the first three months of 2013. 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 2013 or through the first quarter of 2014. 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 \$164,000 and \$9,672,000 during the three month period ending March 31, 2014 and March 31, 2013, respectively. The Company had zero borrowings from its revolving credit facility at March 31, 2014 versus \$10,000,000 borrowed at March 31, 2013. This change was due to increased cash it held at March 31, 2014.

The Company had \$20,913,000 in cash and cash equivalents held by its foreign subsidiaries as of March 31, 2014. The majority of these funds are at our UK and Canadian facilities and would not be available for use in the United States without incurring US federal and state tax consequences. The Company plans to use these funds for capital expenditures or acquisitions outside the United States.

The Company maintains a revolving credit facility with certain lenders under its Amended and Restated Revolving Credit Agreement. The aggregate commitments from lenders under such revolving credit facility is \$100,000,000 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 revolving credit agreement requires us to maintain various financial covenants including a minimum EBIT to interest expense ratio, a minimum 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 revolving credit agreement also contains other customary covenants, representations and events of defaults. As of March 31, 2014, the Company was in compliance with the covenants under the revolving credit facility. The termination date of the revolving credit facility is March 28, 2016. As of March 31, 2014, no amounts were outstanding under the revolving credit facility. On March 31, 2014, \$722,000 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 \$99,278,000 in available borrowings.

Effective May 12, 2014, the Company amended its revolving credit facility and increased its line of credit from \$100 million to \$250 million to accommodate the Pending Acquisition and meet the ongoing needs of the combined entities.

Management believes the bank credit facilities and the Company's ability to internally generate funds from operations should be sufficient to meet the Company's cash requirements for the foreseeable future. However, the challenges affecting the banking industry and credit markets in general could potentially cause changes to credit availability, which creates a level of uncertainty.

#### Critical Accounting Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

#### Critical Accounting Policies

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of the Consolidated Financial Statements. For further information on the critical accounting policies, see Note 1 of our Notes to Consolidated Financial Statements.

#### Allowance for Doubtful Accounts

The Company evaluates its ability to collect accounts receivable based on a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. For all other customers, it recognizes reserves for bad debt based on historical experience of bad debts as a percent of revenues for each business unit, adjusted for relative improvements or deteriorations in the agings and changes in current economic conditions.

The Company evaluates all aged receivables that are over 60 days old and reserves specifically on a 90-day basis. The Company's U.S. operations have Uniform Commercial Code ("UCC") filings on practically all wholegoods each dealer purchases. This allows the Company in times of a difficult economy when the customer is unable to pay or has filed for bankruptcy (usually Chapter 11), to repossess the customer's inventory. This also allows Alamo Group to maintain a reserve over its cost which usually represents the margin on the original sales price.

The bad debt reserve balance was \$2,678,000 at March 31, 2014 and \$2,738,000 at December 31, 2013.

#### Sales Discounts

At March 31, 2014 the Company had \$20,814,000 in reserves for sales discounts compared to \$16,724,000 at December 31, 2013 on products shipped to our customers under various promotional programs. The increase was

primarily due to additional discounts reserved on the Company's agricultural products during the pre-season, which runs from August to December of each year and orders are shipped through the second quarter of 2014. 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 \$8,495,000 at March 31, 2014 and \$8,596,000 at December 31, 2013 in reserve to cover obsolete and slow moving inventory. The decrease in reserve for obsolescence resulted from the Company's review during its normal course of business. The obsolete and slow moving policy states that the reserve is to be calculated on a basis of: 1) no inventory usage over a three year period and inventory with quantity on hand is deemed obsolete and reserved at 100 percent and 2) slow moving inventory with little usage requires a 100 percent reserve on items that have a quantity greater than a three year supply. There are exceptions to the obsolete and slow moving classifications if approved by an officer of the Company based on specific identification of an item or items that are deemed to be either included or excluded from this classification. In cases where there is no historical data, management makes a judgment based on a specific review of the inventory in question to determine what reserves, if any, are appropriate. New products or parts are generally excluded from the reserve policy until a three year history has been established.

The reserve is reviewed and if necessary, adjustments made, on a quarterly basis. The Company relies on historical information to support its reserve. Once the inventory is written down, the Company does not adjust the reserve balance until the inventory is sold.

### Warranty

The Company's warranty policy is generally to provide its customers warranty for up to one year on all equipment and 90 days for parts.

Warranty reserve, as a percent of sales, is calculated by taking the current twelve months of expenses and prorating that based on twelve months of sales with a six month lag period. The Company's historical experience is that an end-user takes approximately 90 days to six months from the receipt of the unit to file a warranty claim. A warranty reserve is established for each different marketing group. Reserve balances are evaluated on a quarterly basis and adjustments are made when required.

The current liability warranty reserve balance was \$4,982,000 at March 31, 2014 and \$4,994,000 at December 31, 2013.

### Product Liability

At March 31, 2014 the Company had accrued \$328,000 in reserves for product liability cases compared to \$259,000 at December 31, 2013. The Company accrues primarily on a case by case basis and adjusts the balance quarterly.

The S.I.R. (Self Insurance Retention) for all U.S. products is \$100,000 per claim. The Company also carries product liability coverage in Europe, Canada and Australia which contain substantially lower S.I.R.'s or deductibles.

### Goodwill

We test goodwill for impairment annually, at the reporting unit level, and whenever events or circumstances make it likely that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell all or a portion of a reporting unit. We perform our annual goodwill impairment test as of October 1 and monitor for interim triggering events on an ongoing basis. Goodwill is reviewed for impairment utilizing a qualitative assessment or a two-step process. We have an option to make a qualitative assessment of a reporting unit's goodwill for impairment. If we choose to perform a qualitative assessment and determine the fair value more likely than not exceeds the carrying value, no further evaluation is necessary. For reporting units where we perform the

two-step process, the first step requires us to compare the fair value of each reporting unit, which we primarily determine using an income approach based on the present value of discounted cash flows, to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired. If the carrying value is higher than the fair value, there is an indication that an impairment may exist and the second step is required. In step two, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit's goodwill, the difference is recognized as an impairment loss.

The Company estimates the fair value of its reporting units using a discounted cash flow analysis. This analysis requires the Company to make significant assumptions and estimates about the extent and timing of future cash flows, discount rates and growth rates. The cash flows are estimated over a significant future period of time, which makes those estimates and assumptions subject to an even higher degree of uncertainty. The Company also utilizes market valuation models and other financial ratios, which require the Company to make certain assumptions and estimates regarding the applicability of those models to its assets and businesses. As of March 31, 2014, the Company had \$31,980,000 of goodwill, which represents 7% of total assets.

The Company recognized no goodwill impairment in 2013. The Company recognized goodwill impairment at one of its French operations, Faucheux of \$656,000 in 2012 and at two of its French operations, SMA and Rousseau of \$1,898,000 in 2011. The primary reason for the goodwill impairment in 2012 and 2011 was the general economic downturn that continues to affect the Company's European operations. This caused the Company to revise its expectations about future revenue, which is a significant factor in the discounted cash flow analysis used to estimate the fair value of the Company's reporting units. During the 2013 impairment analysis review, we performed a sensitivity analysis for goodwill impairment with respect to each of our reporting units and determined that a hypothetical 15% decline in the fair value of each reporting unit as of December 31, 2013 would not result in an impairment of goodwill for any of the reporting units. During the 2012 impairment analysis review, it was noted that even though the Schwarze and Rivard reporting units' fair value was above carrying value, it was not materially different. On March 31, 2014, there was approximately \$6.9 million and \$12.3 million of goodwill related to the Schwarze and Rivard reporting units respectively. These reporting units would be most likely affected by changes in the Company's assumptions and estimates. The calculation of fair value could increase or decrease depending on changes in the inputs and assumptions used, such as changes in the reporting unit's future growth rates, discount rates, etc.

Management believes that the estimated valuations it arrived at are reasonable and consistent with what other marketplace participants would use in valuing the Company's components. However, management cannot give any assurance that these market values will not change in the future. For example, if discount rates demanded by the market increase, this could lead to reduced valuations under the income approach. If the Company's projections are not achieved in the future, this could lead management to reassess their assumptions and lead to reduced valuations under the income approach. If the market price of the Company's stock decreases, this could cause the Company to reassess the reasonableness of the implied control premium, which might cause management to assume a higher discount rate under the income approach which could lead to reduced valuations. If future similar transactions exhibit lower multiples than those observed in the past, this could lead to reduced valuations under the similar transactions approach. And finally, if there is a general decline in the stock market and particularly in those companies selected as comparable to the Company's components, this could lead to reduced valuations under the public company market multiple approach. The Company's annual impairment test is performed during the fourth quarter of each fiscal year. Given the current market conditions and continued economic uncertainty, the fair value of the Company's components could deteriorate which could result in the need to record impairment charges in future periods. The Company also monitors potential triggering events including changes in the business climate in which it operates, attrition of key personnel, volatility in the capital markets, the Company's market capitalization compared to its book value, the Company's recent operating performance, and the Company's financial projections. The occurrence of one or more triggering events could require additional impairment testing, which could result in future impairment charges. In particular, since the Schwarze and Rivard, reporting units' carrying value are not materially different from fair value, any changes to the Company's assumptions could lead to an indicated impairment in step one, requiring the Company to proceed to step two and potentially record an impairment charge.

Forward-Looking Information



Part I of this Quarterly Report on Form 10Q and the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part II of this Quarterly Report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, forward-looking statements may be made orally or in press releases, conferences, reports or otherwise, in the future by or on behalf of the Company.

Statements that are not historical are forward-looking. When used by or on behalf of the Company, the words “estimate,” “believe,” “intend” and similar expressions generally identify forward-looking statements made by or on behalf of the Company.

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses operating in a global market, as well as matters specific to the Company and the markets it serves. Particular risks and uncertainties facing the Company include changes in market conditions; increased competition; decreases in the prices of agricultural commodities, which could affect our customers' income levels; budget constraints or income shortfalls which could affect the purchases of our type of equipment by governmental customers; credit availability for both the Company and its customers, adverse weather conditions such as droughts, floods, snowstorms, etc. which can affect buying patterns of the Company's customers and related contractors; the price and availability of critical raw materials, particularly steel and steel products; energy cost; increased cost of new governmental regulations which effect corporations; the potential effects on the buying habits of our customers due to animal disease outbreaks such as mad cow and other epidemics; the Company's ability to 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; 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 U.S., U.K., France, Canada and Australia. The Company sells its products primarily in the functional currency within the markets where the products are produced, but certain sales from the Company's U.K. and Canadian operations are denominated in other foreign currencies. As a result, the Company's financials, specifically the value of its foreign assets, could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the other markets in which the subsidiaries of the Company distribute their products.

To mitigate the short-term affect of changes in currency exchange rates on the Company's functional currency-based sales, the Company's U.K. subsidiaries regularly enter into foreign exchange forward contracts to hedge approximately 90% of its future net foreign currency collections over a period of six months. As of March 31, 2014, the Company had \$3,178,000 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 \$477,000. 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. Forward currency contracts are used to hedge against the earnings effects of such fluctuations. The result of a uniform 10% strengthening in the value of the dollar relative to the currencies in which the Company's sales are denominated would result in a decrease in gross profit of \$1,328,000 for the three month period ending March 31, 2014. 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 \$1,290,000 for the three month period ended March 31, 2013. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. In addition to the direct effects of changes in exchange rates, which include a changed dollar value of the resulting sales, changes in exchange rates may also affect the volume of sales or the foreign currency sales price as competitors' products become more or less attractive. The Company's sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices. The translation adjustment during the first quarter of 2014 was a loss of \$926,000. On March 31, 2014, the British pound closed at .6001 relative to 1.00 U.S. dollar, and the Euro closed at .7262 relative to 1.00 U.S. dollar. At December 31, 2013 the British pound closed at .6040 relative to 1.00 U.S. dollar and the Euro closed at .7275 relative to 1.00 U.S. dollar. By comparison, on March 31, 2013, the British pound closed at .6578 relative to 1.00 U.S. dollar, and the Euro closed at .7802 relative to 1.00 U.S. dollar. No assurance can be given as to future valuations of the British pound or Euro or how further movements in those or other currencies could affect future earnings or the financial position of the Company.

## Interest Rate Risk

The Company's long-term debt bears interest at variable rates. Accordingly, the Company's net income is affected by changes in interest rates. Assuming the current level of borrowings at variable rates and a two percentage point change in the first quarter 2014 average interest rate under these borrowings, the Company's interest expense would have changed by approximately \$12,500. 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 control over financial reporting

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our 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

May 6, 2014 – Press Release announcing First Quarter 2014 earnings.

(b) Other Information

None

Item 6. Exhibits

(a) Exhibits

2.01	—	Membership Interests and Partnership Interests Purchase Agreement by and between Alamo Group (USA) Inc., as Purchaser, and Specialized Industries LP, as Seller Dated as of February 24, 2014	Filed as Exhibit 10.1 to Form 8-K, February 28, 2014
2.02	—	First Amendment to Membership Interests and Partnership Interests Purchase Agreement by and between Alamo Group (USA) Inc., as Purchaser, and Specialized Industries LP, as Seller Dated March 3, 2014	Filed Herewith
2.03	—	Second Amendment to Membership Interests and Partnership Interests Purchase Agreement by and between Alamo Group (USA) Inc., as Purchaser, and Specialized Industries LP, as Seller Dated April 11, 2014	Filed Herewith
31.1	—	Certification by Ronald A. Robinson under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.2	—	Certification by Dan E. Malone under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.3	—	Certification by Richard J. Wehrle under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.1	—	Certification by Ronald A. Robinson under Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.2	—	Certification by Dan E. Malone under Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.3	—	Certification by Richard J. Wehrle under Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
101.INS	—	XBRL Instance Document	Filed Herewith

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101.SCH	—	XBRL Taxonomy Extension Schema Document	Filed Herewith
101.CAL	—	XBRL Taxonomy Extension Calculation Linkbase Document	Filed Herewith
101.DEF	—	XBRL Taxonomy Extension Definition Linkbase Document	Filed Herewith
101.LAB	—	XBRL Taxonomy Extension Label Linkbase Document	Filed Herewith
101.PRE	—	XBRL Taxonomy Extension Presentation Linkbase Document	Filed Herewith

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Alamo Group Inc. and Subsidiaries

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Alamo Group Inc.  
(Registrant)

/s/ Ronald A. Robinson  
Ronald A. Robinson  
President & Chief Executive Officer

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

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