

ALAMO GROUP INC
Form 10-K
March 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2010

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

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, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

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| | |
|-------------------------|-------------------------|
| Title of each class | Name of each exchange |
| Common Stock, par value | on which registered |
| \$.10 per share | New York Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|--|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock (which consists solely of shares of common stock) held by non-affiliates of the registrant as of June 30, 2010 (based upon the last reported sale price of \$21.70 per share) was approximately \$183,325,701 on such date.

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The number of shares of the registrant's common stock, par value \$.10 per share, outstanding as of February 26, 2011 was 11,831,979 shares.

Documents incorporated by reference: Portions of the registrant's proxy statement relating to the 2011 Annual Meeting of Stockholders to be held on May 5, 2011, have been incorporated by reference herein in response to Part III.

ALAMO GROUP INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-K

TABLE OF CONTENTS

| | Page |
|---|------|
| PART I | |
| Item 1. <u>Business</u> | 3 |
| Item 1A. <u>Risk Factors</u> | 13 |
| Item 1B. <u>Unresolved Staff Comments</u> | 19 |
| Item 2. <u>Properties</u> | 20 |
| Item 3. <u>Legal Proceedings</u> | 21 |
| Item 4. <u>[Removed and Reserved]</u> | 21 |
| PART II | |
| Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 22 |
| Item 6. <u>Selected Financial Data</u> | 24 |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 24 |
| Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 32 |
| Item 8. <u>Financial Statements and Supplementary Data</u> | 33 |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 33 |
| Item 9A. <u>Controls and Procedures</u> | 34 |
| Item 9B. <u>Other Information</u> | 34 |
| PART III | |
| Item 10. <u>Directors, Executive Officers and Corporate Governance</u> | 34 |
| Item 11. <u>Executive Compensation</u> | 34 |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 35 |
| Item 13. <u>Certain Relationships, Related Transactions, and Director Independence</u> | 36 |
| Item 14. <u>Principal Accountant Fees and Services</u> | 36 |
| PART IV | |
| Item 15. <u>Exhibits and Financial Statement Schedules</u> | 36 |
| <u>Index to Consolidated Financial Statements</u> | 37 |

PART I

Item 1. Business

Unless the context otherwise requires, the terms the Company, we, our and us refer to Alamo Group Inc. and its subsidiaries on a consolidated basis.

General

The Company is a leader in the design, manufacture, distribution and service of high quality equipment for right-of-way maintenance and agriculture. The Company's products include tractor-mounted mowing and other vegetation maintenance equipment, street sweepers, excavators, vacuum trucks, snow removal equipment, pothole patchers, zero turn radius mowers, agricultural implements and related aftermarket parts and services. The Company emphasizes high quality, cost-effective products for its customers and strives to develop and market innovative products while constantly monitoring and seeking to contain its manufacturing and overhead costs. The Company has a long-standing strategy of supplementing its internal growth through acquisitions of businesses or product lines that currently complement, command, or have the potential to achieve a meaningful share of their niche markets. The Company has approximately 2,300 employees and operates a total of eighteen plants in North America, Europe and Australia. The Company sells its products primarily through a network of independent dealers and distributors, governmental end-users, related independent contractors, as well as to the agricultural and commercial turf markets. The Company operates primarily in the United States, England, France, Canada and Australia.

The predecessor corporation to Alamo Group Inc. was incorporated in the State of Texas in 1969, as a successor to a business that began selling mowing equipment in 1955, and Alamo Group Inc. was reincorporated in the State of Delaware in 1987.

History

Since its founding in 1969, the Company has focused on satisfying customer needs through geographic market expansion, product development and refinement, and selected acquisitions. The Company's first products were based on rotary cutting technology. Through acquisitions, the Company added flail cutting technology in 1983 and sickle-bar cutting technology in 1984. The Company added to its presence in the industrial and governmental vegetation markets with the acquisition of Tiger Corporation (*Tiger*) in late 1994.

The Company entered the agricultural mowing markets in 1986 with the acquisition of Rhino Products Inc. (*Rhino*), a leading manufacturer in this field. With this acquisition, the Company embarked on a strategy to increase the *Rhino* dealer distribution network during a period of industry contraction. The addition of M&W Gear Company (*M&W*) in early 1995 allowed the Company to enter into the manufacturing and distribution of tillage equipment, which complements the *Rhino* distribution network. *M&W* has been integrated into the agricultural marketing group, utilizing the same sales force to cross sell *Rhino* and *M&W* products.

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In 1991, the Company began its international expansion with the acquisition of McConnel Ltd. (*McConnel*), a United Kingdom (U.K.) manufacturer of vegetation maintenance equipment, principally hydraulic boom-mounted hedge and grass cutters and related parts. Bomford-Turner Ltd. (*Bomford*), also a U.K. company, was acquired in 1993. *Bomford* is a manufacturer of heavy-duty, tractor-mounted grass and hedge mowing equipment. *McConnel* and *Bomford* sell their products to dealers and distributors through their respective sales forces.

In 1994, the Company acquired Signalisation Moderne Autoroutiere S.A. (*SMA*) located in Orleans, France. *SMA* manufactures and sells principally a line of heavy-duty, tractor-mounted grass and hedge mowing equipment and associated replacement parts primarily to departments of the French government. This acquisition, along with the acquisitions of Forges Gorce, a flail blade manufacturer in France, in 1996 and Rousseau Holdings S.A. (*Rousseau*), a leading French manufacturer of hedge and verge mowers, in 2004, when combined with *McConnel* and *Bomford*, has made the Company one of the largest manufacturers in the European market for the kind of equipment sold by the Company.

In 1995, the Company expanded its business in the agricultural market with the acquisition of Herschel Corporation (*Herschel*), a leading manufacturer and distributor of aftermarket farm equipment replacement and wear parts.

In 2000, the Company acquired Schwarze Industries, Inc. (*Schwarze*). *Schwarze* is a manufacturer of a broad range of street sweeping equipment which is sold to governmental agencies and contractors. The Company believes the *Schwarze* sweeper products fit the Company's strategy of identifying product offerings with brand recognition in the industrial markets the Company serves. In 2004, the Company purchased the pothole patcher from Wildcat Manufacturing, Inc. The product line was merged into the *Schwarze* operation and is complementary to its current product offerings.

In 2000, the Company purchased the product line and associated assets of Twose of Tiverton Ltd. (*Twose*) in the U.K. and incorporated its production into the existing facilities at *McConnel* and *Bomford* while maintaining its own sales force and dealer distribution network. *Twose* was a small regional manufacturer of power arm flail mowers and parts, as well as harrows and rollers, which strengthened the Company's market leadership position in the U.K.

In 2000, the Company acquired Schulte Industries Ltd. and its related entities (*Schulte*). *Schulte* is a Canadian manufacturer of mechanical rotary mowers, snow blowers, and rock removal equipment. *Schulte* strengthened the Company's Canadian presence in both marketing and manufacturing. It also expanded the Company's range of large, heavy-duty rotary mowers.

In 2001, the Company acquired all of the assets of SMC Corporation (*SMC*). *SMC* manufactures front-end loaders and backhoes principally for Original Equipment Manufacturer (*OEM*) customers and its own *SMC* brand. This acquisition expanded the product range of our agricultural division by branding a line of loaders for *Rhino*.

In 2002, the Company purchased inventory, fixed assets and certain other assets of Valu-Bilt Tractor Parts (*Valu-Bilt*), a subsidiary of Quality Stores, Inc., located in Des Moines, Iowa. *Valu-Bilt* is a distributor of new, used and rebuilt tractor parts and other agricultural spare and wear parts sold directly to customers through its catalog and the internet and on a wholesale basis to dealers. Subsequent to the purchase, the operations of *Valu-Bilt* in Des Moines, Iowa, were consolidated into the Company's *Herschel* facility in Indianola, Iowa.

In 2002, the Company purchased substantially all of the assets of Faucheux Industries S.A. (*Faucheux*), a leading French manufacturer of front-end loaders and attachments. The Company acquired *Faucheux* out of administration, a form of bankruptcy in France. This acquisition broadened the range of our agricultural implements offered in the French.

In 2005, the Company, through its European subsidiary Alamo Group (EUR) Ltd., acquired 100% of the issued and outstanding stock of Spearhead Machinery Limited (*Spearhead*) and subsequently merged its manufacturing operations into *Bomford*'s facility. *Spearhead* manufactures a range of tractor-mounted vegetation maintenance equipment, including reach mowers, flail mowers and rotary cutters. This acquisition extended our product lines and market coverage in Europe.

In early 2006, the Company purchased substantially all of the assets of the Gradall excavator business (*Gradall*) of JLG Industries, Inc. including their manufacturing plant in New Philadelphia, Ohio. *Gradall* is a leading manufacturer of both wheeled and crawler telescopic excavators in North America. This acquisition enhanced our Industrial Division product offering sold to governmental buyers and related contractors for maintenance along right-of-ways.

In 2006, the Company purchased the vacuum truck and sweeper lines of Clean Earth Environmental Group, LLC and Clean Earth Kentucky, LLC (collectively referred to as *VacAll*). This includes the product lines, inventory and certain other assets that relate to this business. The production of the vacuum truck line was moved to the *Gradall* facility in New Philadelphia, Ohio.

In, 2006, the Company acquired 100% of the ownership interests in Nite-Hawk Sweepers LLC (*Nite-Hawk*), a manufacturer of truck mounted sweeping equipment primarily for the contract sweeping market, which expanded its presence in that market and complements its *Schwarze* sweeper line.

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.

On May 30, 2008, the Company acquired Rivard Developpement S.A.S. (*Rivard*), a leading French manufacturer of vacuum trucks, high pressure cleaning systems and trenchers. The acquisition broadened the Company's product offering to its customers in Europe and other markets we serve.

On October 22, 2009, the Company acquired substantially all the assets of Bush Hog, LLC. (*Bush Hog*), a leading agricultural equipment manufacturer of rotary cutters, finishing mowers, zero turn radius mowers (ZTRs), front-end loaders, backhoes, landscape equipment and a variety of other implements. This acquisition, combined with the Company's existing range of agricultural mowers, created one of the largest manufacturers of agricultural mowers in the world.

Marketing and Marketing Strategy

The Company believes that within the U.S. it is a leading supplier to governmental markets, a major supplier in the U.S. agricultural market, and one of the largest suppliers in the European market for its niche product offerings. The Company's products are sold through the Company's various marketing organizations and extensive worldwide dealer and distributor networks under the *Alamo Industrial*[®], *Terrain King*[®], *Tiger*[™], *Gradall*[®], *VacAll*[™], *SchwarzeNite-Hawk*[™], *Henke*[®], *Bush Hog*[®], *Rhino*[®], *Earthmaster*[®], *M&W*[®], *SMC*[™], *Herschel*[™], *Valu*[®], *BFluerst*[®], *Schulte*[®], *McConnel*[®], *Bomford*[®], *Spearhead*[™], *Twose*[™], *SM*[®], *Borges Gorce*[™], *Faucheux*[™], *Rousseau*[™] and *Rivard*[™] trademarks as well as other trademarks and trade names.

Products and Distribution Channels

North American Industrial Division

Alamo Industrial equipment is principally sold through independent dealers to governmental end-users, related independent contractors and, to a lesser extent, utility and other dealers serving right-of-way maintenance operators and other applications in the U.S. and other countries. Governmental agencies and contractors that perform services for such agencies purchase primarily hydraulically-powered, tractor-mounted mowers, including boom-mounted mowers, other types of cutters and replacement parts for heavy-duty, intensive use applications, including maintenance around highway, airport, recreational and other public areas. A portion of *Alamo Industrial*'s sales includes tractors, which are not manufactured by *Alamo Industrial*.

Tiger equipment includes heavy-duty, tractor- and truck-mounted mowing and vegetation maintenance equipment and replacement parts. *Tiger* sells to state, county and local governmental entities and related contractors, primarily through a network of independent dealers. *Tiger*'s dealer distribution network is independent of *Alamo Industrial*'s dealer distribution network. A portion of *Tiger*'s sales includes tractors, which are not manufactured by *Tiger*.

Schwarze equipment includes air, mechanical broom, and regenerative air sweepers, pothole patchers and replacement parts. *Schwarze* sells its products primarily to governmental agencies and independent contractors, either directly or through its independent dealer network. A portion of *Schwarze*'s sales includes chassis which are not manufactured by *Schwarze*. The Company believes that *Schwarze* complements *Alamo Industrial* because the dealer and/or end-user for both products in many cases are the same.

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Gradall produces a range of models based on high-pressure hydraulic telescoping booms which are sold through dealers primarily to governmental agencies, contractors and to a lesser extent the mining industry, steel mills and other specialty applications in the U.S. and other countries. Many of these products are designed for excavation, grading, shaping and similar tasks involved in land clearing, road building or maintenance. These products are available mounted on various types of undercarriages: wheels for full-speed highway travel, wheels for on/off road use, and crawlers.

VacAll produces catch basin cleaners and roadway debris vacuum systems. These units are powerful and versatile with uses including, but not limited to, removal of wet and dry debris, spill elimination, and cleaning of sludge beds. *VacAll* also offers a line of sewer cleaners. *VacAll* products are primarily sold through dealers to industrial and commercial contractors as well as governmental agencies. A portion of *VacAll*'s sales includes chassis which are not manufactured by the Company.

Nite-Hawk manufactures parking lot sweepers with its unique and innovative hydraulic design. By eliminating the auxiliary engine, *Nite-Hawk* sweepers have proven to be fuel-efficient, environmentally conscious, and cost-effective to operate. *Nite-Hawk* focuses mainly on and sells direct to parking lot contractors. A portion of *Nite-Hawk*'s sales includes chassis which are not manufactured by *Nite-Hawk*.

Henke designs and manufactures snow plows and heavy-duty snow removal equipment, hitches and attachments for trucks, loaders and graders sold primarily through independent truck and industrial dealers. *Henke*'s primary end-users are governmental agencies, related contractors and other industrial users.

North American Agricultural Division

Bush Hog, *Rhino* and *M&W* equipment is generally sold to farmers and ranchers to clear brush, maintain pastures and unused farmland, shred crops and till fields and for haymaking. It is also sold to other customers, such as mowing contractors and construction contractors, for non-agricultural purposes. *Bush Hog* and *Rhino* equipment consists principally of a comprehensive line of tractor-powered equipment, including rotary cutters, finishing mowers, flail mowers, disc mowers, ZTR ride-on mowers, front-end loaders, backhoes, rotary tillers, posthole diggers, scraper blades and replacement parts. This equipment is primarily sold through farm equipment dealers, as well as original equipment manufacturers (OEMs) and other distributors.

SMC equipment includes a broad line of front-end loaders and backhoes that fit many tractors on the market today. The products are sold to OEMs and, as *Bush Hog* and *Rhino* branded equipment.

Herschel/Valu-Bilt aftermarket replacement parts are sold for many types of farm equipment and tractors and certain types of mowing and construction equipment. *Herschel* products include a wide range of cutting parts, plain and hard-faced replacement tillage tools, disc blades and fertilizer application components. *Herschel* replacement tools and parts are sold throughout the United States, Canada and Mexico to five major customer groups: farm equipment dealers; fleet stores; wholesale distributors; OEMs; and construction equipment dealers. *Valu-Bilt* complements the *Herschel* product lines while also expanding the Company's offering of aftermarket agricultural parts and added catalog and internet sales direct to end-users.

Schulte equipment includes heavy-duty mechanical rotary mowers, snow blowers, rock removal equipment and related replacement parts. *Schulte* serves both the agricultural and industrial markets primarily in Canada and the U.S. *Schulte* also sells some of the Company's other product lines in their markets and some of its products through independent distributors throughout the world.

European Division

McConnel equipment principally includes a broad line of hydraulic, boom-mounted hedge and grass cutters, as well as other tractor attachments and implements such as hydraulic backhoes, cultivators, subsoilers, buckets and other digger implements and related replacement parts. *McConnel* equipment is sold primarily in the U.K., Ireland and France and in other parts of Europe and, to a lesser extent, throughout the

world through independent dealers and distributors.

Bomford equipment includes hydraulic, boom-mounted hedge and hedgerow cutters, industrial grass mowers, agricultural seedbed preparation cultivators and related replacement parts. *Bomford* equipment is sold to governmental agencies, contractors and agricultural end-users in the U.K., Ireland and France and, to a lesser extent, other countries in Europe, North America, Australia and the Far East. *Bomford*'s sales network is similar to that of *McConnel* in the U.K. *Rhino* sells some of *Bomford*'s product line in the U.S.

SMA equipment includes hydraulic, boom-mounted hedge and hedgerow cutters and related replacement parts. *SMA*'s principal customers are French local authorities. *SMA*'s product offerings include certain quick-attach boom mowers manufactured by the Company in the U.K. to expand its presence in agricultural dealerships. During the third quarter of 2010, the Company closed and sold its *SMA* facility located in Orleans, France and production was relocated to the Rousseau manufacturing facility near Lyon, France. *Forges Gorce* manufactures flail blades which are sold to some of the Company's subsidiaries as well as to other customers.

Twose equipment includes light-duty power arm mowers, agricultural implements and related replacement parts. *Twose* products are manufactured at the Company's U.K. facilities. These products are sold through *Twose*'s dealer distribution network in the U.K. and through *Faucheux*'s and other independent distributors internationally.

The addition of *Spearhead* expanded the Company's product lines, particularly rotary cutters, and market coverage in Europe and increased utilization of our existing U.K. manufacturing facilities.

Faucheux equipment includes front-end loaders, backhoes, attachments and related parts. Historically, the majority of *Faucheux* sales have been in France, but the Company has expanded market coverage to other countries.

Rousseau sells hydraulic and mechanical boom mowers, primarily in France through its own sales force and dealer distribution network to mainly agricultural and governmental markets. These products have also been introduced into other markets outside of France.

Rivard manufactures vacuum trucks, high pressure cleaning systems and trenchers. *Rivard*'s equipment is primarily sold in France and certain other markets, mainly in Europe and North Africa, to governmental entities and related contractors. It also complements our product offerings in North America.

Replacement Parts

In addition to the sales of *Herschel* replacement parts, the Company derives a significant portion of its revenues from sales of replacement parts for each of its wholegoods lines. Replacement parts represented approximately 23%, 26% and 27% of the Company's total sales for the years ended December 31, 2008, 2009 and 2010, respectively. The percentage increase in 2010 was mainly from a change in sales mix between wholegoods and parts. Proprietary replacement parts generally are more profitable and less cyclical than wholegoods.

While the Company believes that the end-users of its products evaluate their purchases on the basis of price, reputation and product quality, such purchases are also based on a dealer's service, support of and loyalty to the dealer based on previous purchase experiences, as well as other factors such as product and replacement part availability.

Product Development

The Company's ability to provide innovative responses to customer needs, to develop and manufacture new products, and to enhance existing product lines is important to its success. The Company continually conducts

research and development activities in an effort to improve existing products and develop new products. As of December 31, 2010, the Company employed 136 people in its various engineering departments, 60 of whom are degreed engineers and the balance of whom are support staff. Amounts expended on research and development activities were approximately \$5,774,000 in 2010, \$4,762,000 in 2009 and \$5,443,000 in 2008. As a percentage of sales, research and development was approximately 1.1% in 2010 and 1.0% in 2009 and 2008, and is expected to continue at similar levels in 2011.

Seasonality

The Company's sales, both product and spare parts, are generally higher in the second and third quarters of the year, because a substantial number of the Company's products are used for maintenance activities such as vegetation maintenance, highway right-of-way maintenance, construction, and street and parking lot sweeping. Usage of this equipment is lower in harsh weather. The Company utilizes a rolling twelve-month sales forecast provided by the Company's marketing departments and order backlog in order to develop a production plan for its manufacturing facilities. In addition, many of the Company's marketing departments attempt to equalize demand for products throughout the calendar year by offering seasonal sales programs which may provide additional incentives, including discounts and extended payment terms, under these programs.

Competition

The Company's products are sold in highly competitive markets throughout the world. The principal competitive factors are price, quality, availability, service and reputation. The Company competes with several large national and international companies that offer a broad range of equipment and replacement parts, as well as with numerous small, privately-held manufacturers and suppliers of a limited number of products, mainly on a regional basis. Some of the Company's competitors are significantly larger than the Company and have substantially greater financial and other resources at their disposal. The Company believes that it is able to compete successfully in its markets by effectively managing its manufacturing costs, offering high quality products, developing and designing innovative products and, to some extent, avoiding direct competition with significantly larger potential competitors. There can be no assurance that the Company's competitors will not substantially increase the resources devoted to the development and marketing of products competitive with the Company's products or that new competitors with greater resources will not enter the Company's markets.

Unfilled Orders

As of December 31, 2010, the Company had unfilled customer orders of \$97,616,000 compared to \$71,333,000 at December 31, 2009. The 37% increase was primarily due to the positive impact of improved agricultural market conditions on *Bush Hog* and *Rhino* backlogs. The Company continues to be affected by soft market conditions in its Industrial and European divisions due to the downturn in the global economy. Management expects that substantially all of the Company's backlog as of December 31, 2010 will be shipped during fiscal year 2011. The amount of unfilled orders at a particular time is affected by a number of factors, including manufacturing and shipping schedules which, in most instances, are dependent on the Company's seasonal sales programs and the requirements of its customers. Certain of the Company's orders are subject to cancellation at any time before shipment; therefore, a comparison of unfilled orders from period to period is not necessarily meaningful and may not be indicative of future actual shipments. No single customer is responsible for 10% or more of the aggregate revenue of the Company.

Sources of Supply

The principal raw materials used by the Company include steel, other metal components and hydraulic tubing. During 2010, the raw materials needed by the Company were available from a variety of sources in adequate quantities and at prevailing market prices. No one supplier is responsible for supplying more than 10% of the principal raw materials used by the Company.

While the Company manufactures many of the parts for its products, a significant percentage of parts, including most drivelines, gearboxes, industrial engines, and hydraulic components, are purchased from outside suppliers which manufacture to the Company's specifications. In addition, the Company, through its subsidiaries, purchases tractors and truck chassis as a number of the Company's products are mounted and shipped with a tractor or truck chassis. Tractors and truck chassis are generally available, but some delays in receiving tractors or truck chassis can occur throughout the year. U.S. industrial engines over 175 horsepower, which are used in certain of the Company's products, manufactured after January 1, 2011 will be required to meet Tier 4i federal guidelines for emission controls, which will increase the cost of our units and our working capital requirements. Other jurisdictions, particularly in Europe, have already implemented similar requirements. The Company sources its purchased goods from international and domestic suppliers. No single supplier is responsible for supplying more than 10% of the purchased goods used by the Company.

Patents and Trademarks

The Company owns various U.S. and international patents. While the Company considers its patents to be advantageous to its business, it is not dependent on any single patent or group of patents. The Company amortized approximately \$79,000 in patents and trademarks relating to the industrial segment. The Company wrote off \$224,000 in older patents which the Company believes no longer provide a competitive advantage. The net book value of the patents and trademarks was \$5,500,000 and \$5,803,000 as of December 31, 2010 and 2009, respectively.

Products manufactured by the Company are advertised and sold under numerous trademarks. *Alamo Industrial*[®], *Terrain King*[®], *Gradall*[®], *VacAll*[™], *Henke Bush Hog*[®], *Rhino*[®], *Earthmaster*[®], *McConnel*[®], *Bomford*[®], *SMA*[®], *Schwarze*[®], *Nite-Hawk*[™], *Tiger*[™], *Schulz*[®], *Forges Gorce*[™], *Twose*[™], *Faucheux*[™], *Herschel*[™], *Valu-Billard*[®], *Rousseau*[™] and *Spearhead*[™] trademarks are the primary marks for the Company's products. The Company also owns other trademarks which it uses to a lesser extent, such as *M&W*[®], *SMC*[™], *Fueß*[®], *Triumph*[®], *Mott*[®], *Turner*[®], and *Dandl*[®]. Management believes that the Company's trademarks are well known in its markets and are valuable and that their value is increasing with the development of its business. The Company actively protects its trademarks against infringement and believes it has applied for or registered its trademarks in the appropriate jurisdictions.

Environmental and Other Governmental Regulations

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 by monitoring existing wells, an unconditional "no further action" letter will be requested.

On December 31, 2010, the Company had an environmental reserve in the amount of \$1,495,000 related to the acquisition of *Gradall's* facility in New Philadelphia, Ohio. Three specific remediation projects that were identified prior to the acquisition are in process of remediation with a remaining reserve balance of \$30,000. The Company has a reserve of \$277,000 concerning a potential asbestos issue that is expected to be remediated over time. 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.

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 '70s. 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 remedied 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 and is administering the cleanup and will monitor the sites on an ongoing basis until the remediation program is complete and approved by the applicable authorities.

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Certain other assets of the Company contain asbestos that may have to be remediated over time. Management has made its best estimate of the cost to remediate these environmental issues. However, such estimates are difficult to determine, including the timing of such costs. 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.

Employees

As of December 31, 2010, the Company employed approximately 2,300 employees. In the U.S. the Company has collective bargaining agreements at the *Gradall* facility which cover 163 employees and will expire in March 9, 2014 and at the *SMC* facility covering 49 employees which will expire on June 30, 2012. The Company's European operations, *McConnel*, *Bomford*, *SMA*, *Forges Gorce*, *Faucheux*, *Rousseau* and *Rivard*, also have various collective bargaining agreements covering 848 employees. The Company considers its employee relations to be satisfactory.

Financial Information about Segments

See Note 15 of the accompanying consolidated financial statements.

International Operations and Geographic Information

See Note 16 of the accompanying consolidated financial statements.

Available Information

The Company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the operation of the Public Reference Room. The SEC maintains a website that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including the Company) file electronically with the SEC. The SEC's website is <http://www.sec.gov>.

The Company's website is www.alamo-group.com. The Company makes available free of charge through its website, via a link to the SEC's website at www.sec.gov, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The Company also makes available through its website, via a link to the SEC's website, statements of beneficial ownership of the Company's equity securities filed by its directors, officers, 10% or greater shareholders and others required to file under Section 16 of the Exchange Act.

The Company also makes available on its website its most recent annual report on Form 10-K, its quarterly reports on Form 10-Q for the current fiscal year, its most recent proxy statement and its most recent annual report to stockholders, although in some cases these documents are not available on our site as soon as they are available on the SEC's site. You will need to have on your computer the Adobe Acrobat Reader® software to view the documents, which are in PDF format. In addition, the Company posts on its website its Charters for its Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee, as well as its Corporate Governance Policies and its Code of Conduct and Ethics for its directors, officers and employees. You can obtain a written copy of these documents, excluding exhibits, at no cost, by sending your request to the Corporate Secretary, Alamo Group Inc., 1627 E. Walnut Street, Seguin, Texas 78155, which is the principal corporate office of the Company. The telephone number is (830) 379-1480 ext. 1670. The information on the Company's website is not incorporated by reference into this report.

Forward-Looking Information

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Part I of this Annual Report on Form 10-K and the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II of this Annual 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 us or on our behalf, the words will, estimate, believe, intend, could, should, anticipate, project, forecast, plan, may and similar expressions generally identify forward-looking statements made by us or on our behalf. 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 we serve. Certain particular risks and uncertainties that continually face us include the following:

- budget constraints and revenue shortfalls which could affect the purchases of our type of equipment by governmental customers and related contractors in both domestic and international markets;
- market acceptance of new and existing products;
- our ability to maintain good relations with our employees;
- our ability to hire and retain quality employees;

- changes in the prices of agricultural commodities, which could affect our customers' income levels; and
- impairment in the carrying value of goodwill.

In addition, we are subject to risks and uncertainties facing the industry in general, including the following:

- impact of tighter credit markets on the Company, its dealers and end-users;
- changes in business and political conditions and the economy in general in both domestic and international markets;
- increase in unfunded pension plan liability due to financial market deterioration;
- price and availability of critical raw materials, particularly steel and steel products;
- increased competition;
- our ability to develop and manufacture new and existing products profitably;
- adverse weather conditions such as droughts, floods, snowstorms, etc., which can affect the buying patterns of our customers and related contractors;
- increased costs of complying with new regulations;
- the potential effects on the buying habits of our customers due to animal disease outbreaks such as mad cow and other epidemics;
- adverse market conditions and credit constraints which could affect our customers and end-users, such as cutbacks on dealer stocking levels;
- changes in market demand;
- financial market changes including changes in interest rates and fluctuations in foreign exchange rates;
- the inability of our suppliers, customers, creditors, public utility providers and financial service organizations to deliver or provide their products or services to us;
- abnormal seasonal factors in our industry;
- unforeseen litigation;
- changes in domestic and foreign governmental policies and laws, including increased levels of government regulation and changes in agricultural policies;
- government actions, including budget levels, regulations and legislation, relating to the environment, commerce, infrastructure spending, health and safety; and
- amount of farm subsidies and farm payments.

We wish to caution readers not to place undue reliance on any forward-looking statement 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 and under Risk Factors, as well as others not now anticipated. The foregoing statements are not exclusive and further information concerning us and our businesses, including factors that could potentially materially affect our 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.

Executive Officers of the Company

Certain information is set forth below concerning the executive officers of the Company, each of whom has been elected to serve until the 2011 annual meeting of directors or until his successor is duly elected and qualified.

| Name | Age | Position |
|--------------------|-----|---|
| Ronald A. Robinson | 58 | President and Chief Executive Officer |
| Dan E. Malone | 50 | Executive Vice President and Chief Financial Officer |
| Robert H. George | 64 | Vice President, Secretary and Treasurer |
| Richard J. Wehrle | 54 | Vice President and Controller |
| Donald C. Duncan | 59 | Vice President and General Counsel |
| Geoff Davies | 63 | Vice President, Alamo Group Inc. and Managing Director, Alamo Group (EUR) Ltd. |
| Richard D. Pummell | 64 | Vice President, Alamo Group Inc. and Executive Vice President Alamo Group (USA) Inc., Agricultural Division |

Ronald A. Robinson was appointed President, Chief Executive Officer and a director of the Company on July 7, 1999. Mr. Robinson had previously been President of Svedala Industries, Inc., the U.S. subsidiary of Svedala Industries AB of Malmo, Sweden, a leading manufacturer of equipment and systems for the worldwide construction, mineral processing and materials handling industries. Mr. Robinson joined Svedala in 1992 when it acquired Denver Equipment Company of which he was Chairman and Chief Executive Officer.

Dan E. Malone was appointed Executive Vice President, Chief Financial Officer on January 15, 2007. Prior to joining the Company, Mr. Malone held the position of Executive Vice President, Chief Financial Officer & Corporate Secretary at Igloo Products Corporation, from 2002 to January 2007. Mr. Malone was Vice President and Chief Financial Officer of The York Group, Inc. from 2000 to 2002, and held various financial positions from 1987 to 2000 with Cooper Industries, Inc. and its various subsidiaries.

Robert H. George joined the Company in May 1987 as Vice President and Secretary/Treasurer and has served the Company in various executive capacities since that time. Prior to joining the Company, Mr. George was Senior Vice President of Frost National Bank from 1978 to 1987.

Richard J. Wehrle has been Vice President and Controller of the Company since May 2001. Prior to his appointment, Mr. Wehrle served in various accounting management capacities within the Company since 1988.

Donald C. Duncan has been General Counsel of the Company since January 2002 and was elected Vice President in February 2003. Prior to joining the Company, Mr. Duncan was counsel for various publicly held companies in Houston, Texas and most recently was Associate General Counsel for EGL, Inc. from 2000 to 2001 and Senior Counsel for Weatherford International Inc. from 1997 to 1999.

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Geoff Davies, OBE and PhD, has been Managing Director of Alamo Group (EUR) Ltd. since December 1993 and was elected Vice President of the Company in February 2003. From 1988 to 1993, Dr. Davies served *McConnel* Ltd., a U.K. company acquired by Alamo Group in 1991, in various capacities including serving as its Marketing Director from February 1992 until December 1993.

Richard D. Pummell was elected Vice President of Alamo Group Inc. in November 2009. Mr. Pummell joined the Company in 2005 as Executive Vice President of Alamo Group (USA) Inc. and is in charge of the Agricultural division. Prior to joining the Company, Mr. Pummell was Vice President for Global Supply and General Manager of Metso Minerals.

Item 1A. Risk Factors

You should carefully consider each of the risks described below, together with all of the other information contained in this Annual Report on Form 10-K, before making an investment decision with respect to the Company's securities. If any of the following risks develop into actual events, the Company's business, financial condition or results from operations could be materially and adversely affected and you could lose all or part of your investment.

Risks related to our business

Deterioration of industry conditions could harm our business, results of operations and financial condition.

Our business depends to a large extent upon the prospects for the mowing, right-of-way maintenance and agricultural markets in general. Future prospects of the industry depend largely on factors outside of our control. Any of those factors could adversely impact demand for our products, which could adversely impact our business, results of operations and financial condition. These factors include the following:

- weakness in worldwide economy;
- the price and availability of raw materials, purchased components and energy;
- budget constraints and revenue shortfalls for our governmental customers;
- changes in domestic and foreign governmental policies and laws, including increased levels of governmental regulation;
- the levels of interest rates;
- the value of the U.S. dollar relative to the foreign currencies in countries where we sell our products but don't have a manufacturing presence;
- impact of tighter credit markets on the Company, its dealers and end-users;
- impairment in the carrying value of goodwill; and
- increase in unfunded pension plan liability due to financial market deterioration.

In addition, our business is susceptible to a number of factors that specifically affect agricultural customer spending patterns, including the following:

- animal disease outbreaks, epidemics and crop pests;
- weather conditions, such as droughts, floods and snowstorms;
- changes in farm incomes;
- cattle and agricultural commodity prices;
- changes in governmental agricultural policies worldwide;
- the level of worldwide farm output and demand for farm products; and
- limits on agricultural imports.

A downturn in general economic conditions and outlook in the United States and around the world could adversely affect our net sales and earnings.

The strength and profitability of our business depends on the overall demand for our products and upon economic conditions and outlook, including but not limited to economic growth rates; consumer spending levels; financing availability, pricing and terms for our dealers and end-users; employment rates; interest rates; inflation; consumer confidence and general economic and political conditions and expectations in the United States and the foreign economies in which we conduct business. Slow or negative growth rates, inflationary pressures, higher commodity costs and energy prices, reduced credit availability or unfavorable credit terms for our dealers and end-user customers, increased unemployment rates, and continued recessionary economic conditions and outlook could cause consumers to continue to reduce spending, which may cause them to delay or forego purchases of our products and could have an adverse effect on our net sales and earnings.

We depend on governmental sales and a decrease in such sales could adversely affect us.

A substantial portion of our revenues is derived from sales to federal, state and local governmental entities both in the U.S. and in other countries in which we sell our products. These sales depend primarily on the levels of budgeted and appropriated expenditures for highway, airport, roadside and parks maintenance by various governmental entities and are affected by changes in local and national economic conditions.

Our dependence on, and the price and availability of, raw materials as well as purchased components may adversely affect our business, results of operations and financial condition.

We are subject to fluctuations in market prices for raw materials such as steel and energy. Additionally, although most of the raw materials and purchase components we use are commercially available from a number of sources, we could experience disruptions in the availability of such materials. If we are unable to purchase materials we require or are unable to pass on price increases to our customers or otherwise reduce our cost of goods sold, our business, results of operations and financial condition may be adversely affected. In addition, higher energy costs may negatively affect spending by farmers, including their purchases of our products.

Impairment in the carrying value of goodwill could negatively impact our consolidated results of operations and net worth.

The Company estimates the fair value of its reporting units using a discounted cash flow analysis. This analysis requires the Company to make significant assumptions and estimates about the extent and timing of future cash flows, discount rates and growth rates. The cash flows are estimated over a significant future period of time, which makes those estimates and assumptions subject to an even higher degree of uncertainty. The Company also utilizes market valuation models and other financial ratios, which require the Company to make certain assumptions and estimates regarding the applicability of those models to its assets and businesses. The Company believes that the assumptions and estimates used to determine the estimated fair values of each of its reporting units are reasonable. However, different assumptions could materially affect the estimated fair value. As of December 31, 2010, goodwill was \$34,073,000, which represents 9% of total assets. The Company recognized no goodwill impairment in 2010. The North American Industrial segment had a goodwill impairment of \$14,104,000 in 2009. During the 2010 impairment analysis review, it was noted that even though the *Schwarze* reporting unit's fair value was above carrying value it was not materially different. On December 31, 2010, there was approximately \$6.8 million of goodwill related to the *Schwarze* reporting unit. This reporting unit would be most likely affected by changes in the Company's assumptions and estimates. 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.

We operate in a highly competitive industry, and some of our competitors and potential competitors have greater resources than we do.

Our products are sold in highly competitive markets throughout the world. We compete with several large national and international companies that offer a broad range of equipment and replacement parts that compete with our products, as well as with numerous small, privately-held manufacturers and suppliers of a limited number of products mainly on a regional basis. Some of our competitors are significantly larger than we are and have substantially greater financial and other resources at their disposal. We believe that we are able to compete successfully in our markets by, to some extent, avoiding direct competition with significantly larger potential competitors. There can be no assurance that our competitors will not substantially increase the resources devoted to the development and marketing of products competitive with our products or that new competitors with greater resources will not enter our markets. Any failure to effectively compete could have an adverse effect on our business, results of operations and financial condition.

We operate and source internationally, which exposes us to the political, economic and other risks of doing business abroad.

We have operations in a number of countries outside of the United States. Our international operations are subject to the risks normally associated with conducting business in foreign countries, including but not limited to the following:

- limitations on ownership and on repatriation of earnings;
- import and export restrictions, tariffs and quotas;
- additional expenses relating to the difficulties and costs of staffing and managing international operations;

- labor disputes and uncertain political and economic environments and the impact of foreign business cycles;

- 14 -

- changes in laws or policies;
- delays in obtaining or the inability to obtain necessary governmental permits;
- potentially adverse consequences resulting from the applicability of foreign tax laws;
- cultural differences;
- increased expenses due to inflation;
- weak economic conditions in foreign markets where our subsidiaries distribute their products;
- changes in currency exchange rates;
- disruptions in transportation and port authorities; and
- new regulations involving international freight shipments

Our international operations may also be adversely affected by laws and policies of the United States and the other countries in which we operate affecting foreign trade, investment and taxation.

In addition, political developments and governmental regulations and policies in the countries in which we operate directly affect the demand for our products. For example, decreases or delays in farm subsidies to our agricultural customers, or changes in environmental policies aimed at limiting mowing activities, could adversely affect our business, results of operations and financial condition.

Our acquisition strategy may not be successful, which may adversely affect our business, results of operations and financial condition.

We intend to grow internally and through the acquisition of businesses and assets that will complement our current businesses. To date, a material portion of our growth has come through acquisitions. We cannot be certain that we will be able to identify attractive acquisition targets, obtain financing for acquisitions on satisfactory terms or successfully acquire identified targets. Competition for acquisition opportunities may also increase our costs of making acquisitions or prevent us from making certain acquisitions. These and other acquisition-related factors may adversely impact our business, results of operations and financial condition.

We may be unable to complete or integrate existing or future acquisitions effectively, and businesses we have acquired, or may acquire in the future, may not perform as expected.

We may not be successful in integrating acquired businesses into our existing operations and achieving projected synergies. We could face many risks in integrating acquired businesses, but not limited to the following:

- we may incur substantial costs, delays or other operational or financial challenges in integrating acquired businesses, including integrating each company's accounting, information technology, human resource and other administrative systems to permit effective management;
- we may be unable to achieve expected cost reductions, to take advantage of cross-selling opportunities, or to eliminate redundant operations, facilities and systems;
- we may need to implement or improve controls, procedures and policies appropriate for a public company;
- acquisitions may divert our management's attention from the operation of our businesses;
- we may not be able to retain key personnel of acquired businesses;
- there may be cultural challenges associated with integrating management and employees from the acquired businesses into our organization; and
- we may encounter unanticipated events, circumstances or legal liabilities.

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Our integration of acquired businesses requires significant efforts from the management of each entity, including coordinating existing business plans and research and development efforts. Integrating operations may distract management's attention from the day-to-day operation of the combined companies. Ultimately, our attempts to integrate the operations, technology and personnel of acquired businesses may not be successful. If we are unable to successfully integrate acquired businesses, our future results may be negatively impacted.

In addition, we may be adversely affected if businesses that we have acquired, or that we acquire in the future, do not perform as expected. An acquired business could perform below our expectations for a number of reasons, including legislative or regulatory changes that affect the areas in which the acquired business specializes, the loss of customers and dealers, general economic factors that directly affect the acquired business, and the cultural incompatibility of its management team. Any or all of these reasons could adversely affect our business, results of operation and financial condition.

The agricultural industry and the mowing and right of way maintenance industry are seasonal and are affected by the weather, and seasonal fluctuations may cause our results of operations and working capital to fluctuate from quarter to quarter.

In general, agricultural and governmental end-users typically purchase new equipment during the first and second calendar quarters. Other products such as street sweepers, excavators, snow blowers, front-end loaders and pothole patchers have different seasonal patterns, as do replacement parts in general. In attempting to achieve efficient utilization of manpower and facilities throughout the year, we estimate seasonal demand months in advance and manufacturing capacity is scheduled in anticipation of such demand. We utilize a rolling twelve-month sales forecast provided by our marketing divisions and order backlog in order to develop a production plan for our manufacturing facilities. Additionally, many of our marketing departments attempt to equalize demand for their products throughout the calendar year by offering seasonal sales programs which may provide additional incentives, including discounts and extended payment terms, on equipment that is ordered during off-season periods. Because we spread our production and wholesale shipments throughout the year to take into account the factors described above, sales in any given period may not reflect the timing of dealer orders and retail demand.

Weather conditions and general economic conditions may affect the timing of purchases and actual industry conditions might differ from our forecasts. Consequently, we cannot assure that sudden or significant declines in industry demand would not adversely affect our working capital or results of operations.

If we do not retain key personnel and attract and retain other highly skilled employees, our business may suffer.

Our continued success will depend on, among other things, the efforts and skills of our executive officers, including our president and chief executive officer, and our ability to attract and retain additional highly qualified managerial, technical, manufacturing and sales and marketing personnel. We do not maintain key man life insurance for any of our employees, and all of our senior management are employed at will. We cannot assure you that we will be able to attract and hire suitable replacements for any of our key employees. We believe the loss of a key executive officer or other key employee could have an adverse effect on our business, results of operations and financial condition.

We are subject on an ongoing basis to the risk of product liability claims and other litigation arising in the ordinary course of business.

Like other manufacturers, we are subject to various claims, including product liability claims, arising in the ordinary course of business, and we are a party to various legal proceedings that constitute routine litigation incidental to our business. We may be exposed to product liability claims in the event that the use of our products results, or is alleged to result, in bodily injury, property damage, or both. We cannot assure you that we will not experience any material product liability losses in the future or that we will not incur significant costs to defend such claims. While we currently have product liability insurance, we cannot assure you that our product liability insurance coverage will be adequate for any liabilities that may ultimately be incurred or that it will continue to be available on terms acceptable to us. A successful claim brought against us in excess of available insurance coverage or a requirement to participate in a product recall may have a materially adverse effect on our business.

We are subject to environmental, health and safety and employment laws and regulations and related compliance expenditures and liabilities.

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 our 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 us in the future. Like other industrial concerns, our manufacturing operations entail the risk of noncompliance, and there can be no assurance that we 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 by future monitoring of existing wells, an unconditional "no further action" letter will be requested.

On December 31, 2010, the Company had an environmental reserve in the amount of \$1,495,000 related to the acquisition of *Gradall's* facility in New Philadelphia, Ohio. Three specific remediation projects that were identified prior to the acquisition are in process of remediation with a remaining reserve balance of \$30,000. The Company has a reserve of \$277,000 concerning a potential asbestos issue that is expected to be remediated over time. 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.

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 1960's and '70s. 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 remedied 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 and is administering the cleanup and will monitor the sites on an ongoing basis until the remediation program is complete and approved by the applicable authorities.

Certain other assets of the Company contain asbestos that may have to be remediated over time. Management has made its best estimate of the cost to remediate these environmental issues. However, such estimates are difficult to estimate including the timing of such costs. 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.

We have incurred and will continue to incur capital and other expenditures to comply with the laws and regulations applicable to our operations. In particular, if we fail to comply with any environmental regulations, then we could be subject to future liabilities, fines or penalties or the suspension of production at our manufacturing facilities. If unexpected obligations at these or other sites or more stringent environmental laws are imposed in the future, our business, results of operations and financial condition may be adversely affected.

If we are unable to comply with the terms of our credit arrangements, especially the financial covenants, our credit arrangements could be terminated.

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We cannot assure you that we will be able to comply with all of the terms of our credit arrangements, especially the financial covenants. Our ability to comply with such terms depends on the success of our business and our operating results. Various risks, uncertainties, and events beyond our control could affect our ability to comply with the terms of our credit arrangements. If we were out of compliance with any covenant required by our credit arrangements following any applicable cure periods, the banks could terminate their commitments unless we could negotiate a covenant waiver. The banks could condition such waiver on amendments to the terms of our credit arrangements that may be unfavorable to us including, the interest rate we currently pay on outstanding debt under our credit arrangements could increase, which could adversely affect our operating results.

Fluctuations in currency exchange rates may adversely affect our financial results.

Our earnings are affected by fluctuations in the value of the U.S. dollar as compared to foreign currencies, predominantly in European countries, Canada and Australia, as a result of the sale of our products in international markets. While we do hedge against such fluctuations to an extent (primarily in the U.K. market), we cannot assure you that we will be able to effectively manage these risks. Significant long-term fluctuations in relative currency values, such as a devaluation of the Euro against the U.S. dollar, could have an adverse effect on our future results of operations or financial condition.

Risks related to investing in our common stock

Because the price of our common stock may fluctuate significantly and its trading volume has generally been low, it may be difficult for you to resell our common stock when desired or at attractive prices.

The trading price of our common stock has and may continue to fluctuate. The closing prices of our common stock on the NYSE during 2010 ranged from \$27.82 to \$17.02 per share, and during 2009 from \$17.15 to \$9.37 per share. Our stock price may fluctuate in response to the risk factors set forth herein and to a number of events and factors, such as quarterly variations in operating and financial results, litigation, changes in financial estimates and recommendations by securities analysts, the operating and stock performance of other companies that investors may deem comparable to us, news reports relating to us or trends in our industry or general economic conditions. Furthermore, the trading volume of our common stock has generally been low, which may increase the volatility of the market price for our stock. The stock price volatility and low trading volume may make it difficult for you to resell your shares of our common stock when desired or at attractive prices.

You may experience dilution of your ownership interests due to the future issuance of additional shares of our common stock.

We may issue shares of our previously authorized and unissued securities which will result in the dilution of the ownership interests of our present stockholders. We are currently authorized to issue 20,000,000 shares of common stock. On December 31, 2010, 11,829,879 shares of our common stock were issued and outstanding, and there were outstanding options to purchase an additional 471,530 shares of our common stock. We also have additional shares available for grant under our 2005 Incentive Stock Option Plan and our 2009 Equity Incentive Plan. Additional stock option or other compensation plans or amendments to existing plans for employees and directors may be adopted. Issuance of these shares of common stock may dilute the ownership interests of our then existing stockholders. We may also issue additional shares of our common stock in connection with the hiring of personnel, future acquisitions, such as the 1,700,000 shares issued as consideration for the acquisition of *Bush Hog*, future private placements of our securities for capital raising purposes or for other business purposes. This would further dilute the interests of our existing stockholders.

Future sales, or the possibility of future sales, of a substantial amount of our common stock may depress the price of the shares of our common stock.

Future sales, or the availability for sale in the public market, of substantial amounts of our common stock could adversely affect the prevailing market price of our common stock and could impair our ability to raise capital through future sales of equity securities. If we or our existing stockholders sell substantial amounts of our common stock in the public market, or if there is a perception that these sales may occur, the market price of our common stock could decline.

There is no assurance that we will continue declaring dividends or have the available cash to make dividend payments.

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Although we have paid a cash dividend of \$0.06 per share in each quarter since the third quarter of 1999, there can be no assurance that we will continue to declare dividends or that funds will continue to be available for this purpose in the future. The declaration and payment of dividends are restricted by the terms of our amended and restated revolving credit agreement and are subject to the discretion of our Board of Directors, are not cumulative, and will depend upon our profitability, financial condition, capital needs, future prospects, and other factors deemed relevant by our Board of Directors.

Provisions of our corporate documents may have anti-takeover effects that could prevent a change in control.

Provisions of our charter, bylaws and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions include supermajority voting requirements, prohibiting the stockholder from calling stockholder meetings, removal of directors for cause only and prohibiting shareholder actions by written consent. Our Certificate of Incorporation and By-laws state that any amendment to certain provisions, including those provisions regarding the removal of directors and limitations on action by written consent discussed above, be approved by the holders of at least two-thirds of our common stock. We are also afforded the protections of Section 203 of the Delaware General Corporation Law, which would prevent us from engaging in a business combination with a person who becomes a 15% or greater shareholder for a period of three years from the date such person acquired such status unless certain board or shareholder approvals were obtained.

Certain stockholders own a significant amount of our common stock, and their interests may conflict with those of our other stockholders.

As of December 31, 2010, Capital Southwest Venture Corporation, a subsidiary of Capital Southwest Corporation, beneficially owned approximately 24% of our outstanding common stock and three other investors, Duroc, LLC, Dimensional Fund Advisors LP and Third Avenue Management LLC beneficially own approximately 29% of our outstanding common stock. As a result, either Capital Southwest or the other major stockholders combined could be able to significantly influence the direction of the Company, the election of our Board of Directors and the outcome of any other matter requiring stockholder approval, including mergers, consolidations and the sale of all or substantially all of our assets, and together with other beneficially owned investors, to prevent or cause a change in control of the Company. In addition, the interests of Capital Southwest and other major stockholders may conflict with the interests of our other stockholders.

Item 1B. Unresolved Staff Comments

The Company has no unresolved staff comments to report pursuant to Item 1B.

Item 2. Properties

As of December 31, 2010, the Company utilized ten principal manufacturing plants located in the United States, six in Europe, one in Canada, and one in Australia. The facilities are listed below:

| <u>Facility</u> | <u>Square Footage</u> | | <u>Principal Types of Products</u> |
|---------------------------------|-----------------------|--------|--|
| | | | <u>Manufactured And Assembled</u> |
| Selma, Alabama | 767,700 | Owned | Mechanical Rotary mowers, finishing mowers, zero turn radius mowers, backhoes, front-end loaders for <i>Bush Hog</i> |
| New Philadelphia, Ohio | 430,000 | Owned | Telescopic Excavators for <i>Gradall</i> and Vacuum Trucks for <i>VacAll</i> |
| Gibson City, Illinois | 275,000 | Owned | Mechanical Mowers for <i>Rhino</i> and <i>M&W</i> , Mechanical Rotary Mowers, Blades and Post Hole Diggers for <i>Rhino</i> , and Deep Tillage Equipment |
| Seguin, Texas | 230,000 | Owned | Hydraulic and Mechanical Rotary and Flail Mowers, Sickle-Bar Mowers, and Boom-Mounted Equipment for <i>Alamo Industrial</i> |
| Indianola, Iowa | 200,000 | Owned | Distribution and Manufacturing of Aftermarket Farm Equipment Replacement and Wear Parts for <i>Herschel/Valu-Bilt</i> |
| Neuville, France | 195,000 | Leased | Hydraulic and Mechanical Boom-Mounted Hedge and Grass Cutters for <i>Rousseau</i> and <i>SMA</i> |
| Ludlow, England | 160,000 | Owned | Hydraulic Boom-Mounted Hedge and Grass Cutters and other Equipment for <i>McConnel</i> and <i>Twose</i> |
| Chartres, France | 136,000 | Owned | Front-end Loaders, Backhoes and Attachments for <i>Faucheux</i> and <i>McConnel</i> |
| Huntsville, Alabama | 136,000 | Owned | Air and Mechanical Sweeping Equipment for <i>Schwarze</i> |
| Salford Priors, England | 106,000 | Owned | Tractor-Mounted Power Arm Flails and other Equipment for <i>Bomford</i> and <i>Twose</i> and <i>Spearhead</i> |
| Daumeray, France | 100,000 | Leased | Vacuum trucks, high pressure cleaning systems and trenchers for <i>Rivard</i> |
| Leavenworth, Kansas | 70,000 | Owned | Snow Plows and Heavy-duty Snow Removal Equipment for <i>Henke</i> |
| Sioux Falls, South Dakota | 66,000 | Owned | Hydraulic and Mechanical Mowing Equipment for <i>Tiger</i> |
| Englefeld, Saskatchewan, Canada | 64,000 | Owned | Mechanical Rotary Mowers, Snow Blowers, and Rock Removal Equipment for <i>Schulte</i> |
| Sioux Falls, South Dakota | 59,000 | Owned | Front-end Loaders and Backhoes for OEMs, <i>SMC</i> , <i>Rhino</i> and Front-end Loaders for <i>Bush Hog</i> |
| Kent, Washington | 42,800 | Leased | Truck Mounted Sweeping Equipment for the contractor market branded <i>Nite-Hawk</i> |
| Ipswich, Australia | 15,000 | Leased | Air and Mechanical Sweeping Equipment for <i>Schwarze</i> |
| Peschadoires, France | 12,000 | Owned | Replacement Parts for Blades, Knives and Shackles for <i>Forges Gorce</i> |
| Warehouses & Sales | 58,000 | Owned | Service Parts Distribution and Sales Office |
| Offices, Seguin, Texas | 10,400 | Owned | Corporate Office |

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| Offices | 1,000 | Leased | |
|---------|-----------|--------|--|
| Total | 3,133,900 | | |

Approximately 89% of the manufacturing, warehouse and office space is owned. During the third quarter of 2010 the Company closed and sold its SMA facility in Orleans, France. During 2009, the Company closed its warehouse operations in Memphis, Tennessee and this 15,000 sq. ft. facility is for sale or lease. The Company considers each of its facilities to be well maintained, in good operating condition and adequate for its present level of operations.

Item 3. Legal Proceedings

The Company is subject to various legal actions which have arisen in the ordinary course of its business. The most prevalent of such actions relate to product liability, which is generally covered by insurance after various self-insured retention amounts. While amounts claimed might be substantial and the ultimate liability with respect to such litigation cannot be determined at this time, the Company believes that the ultimate 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 resolutions cannot be determined at this time.

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 by future monitoring of existing wells, an unconditional "no further action" letter will be requested.

On December 31, 2010, the Company had an environmental reserve in the amount of \$1,495,000 related to the acquisition of *Gradall's* facility in New Philadelphia, Ohio. Three specific remediation projects that were identified prior to the acquisition are in process of remediation with a remaining reserve balance of \$30,000. The Company has a reserve of \$277,000 concerning a potential asbestos issue that is expected to be remediated over time. 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.

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 1960's and 70s. 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 remedied 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 and is administering the cleanup and will monitor the sites on an ongoing basis until the remediation program is complete and approved by the applicable authorities.

Certain other assets of the Company contain asbestos that may have to be remediated over time. Management has made its best estimate of the cost to remediate these environmental issues. However, such estimates are difficult to estimate including the timing of such costs. 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.

Item 4. [Remove and Reserved]

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock trades on the New York Stock Exchange under the symbol: ALG. On February 25, 2011, there were 11,831,979 shares of common stock outstanding, held by approximately 116 holders of record, but the total number of beneficial owners of the Company's common stock exceeds this number. On February 25, 2011, the closing price of the common stock on the New York Stock Exchange was \$28.03 per share.

The following table sets forth, for the period indicated, on a per share basis, the range of high and low sales prices for the Company's common stock as quoted by the New York Stock Exchange. These price quotations reflect inter-dealer prices, without adjustment for retail markups, markdowns or commissions, and may not necessarily represent actual transactions.

| 2010 | | | | 2009 | | | |
|--------------------|-------------|----------|----------|--------------------|-------------|---------|----------|
| | Sales Price | | Cash | | Sales Price | | Cash |
| Quarter Ended | High | Low | Declared | Quarter Ended | High | Low | Declared |
| March 31, 2010 | \$ 20.36 | \$ 16.62 | \$.06 | March 31, 2009 | \$ 18.04 | \$ 9.22 | \$.06 |
| June 30, 2010 | 27.00 | 19.58 | .06 | June 30, 2009 | 13.25 | 9.90 | .06 |
| September 30, 2010 | 25.41 | 18.68 | .06 | September 30, 2009 | 17.16 | 9.98 | .06 |
| December 31, 2010 | 28.19 | 21.55 | .06 | December 31, 2009 | 17.33 | 13.10 | .06 |

On January 5, 2011, the Board of Directors of the Company declared a quarterly dividend of \$.06 per share which was paid on February 2, 2011, to holders of record as of January 19, 2011. The Company expects to continue its policy of paying regular cash dividends, although there is no assurance as to future dividends as they depend on future earnings, capital requirements and financial condition. In addition, the payment of dividends is subject to restrictions under the Company's bank revolving credit agreement. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources in Item 7 of Part II of this Annual Report on Form 10-K for a further description of the bank revolving credit agreement.

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 repurchased in 2009 or in 2010. The authorization to repurchase up to 1,000,000 shares remains available, less 42,600 shares previously purchased.

Information relating to compensation plans under which equity securities of the Company are authorized for issuance is set forth in Part III, Item 13 of this Annual Report on Form 10-K.

Stock Price Performance Graph

The information contained in this Stock Performance Graph section shall not be deemed to be soliciting material or filed with the SEC or subject to the liabilities of Section 18 of the Exchange Act except to the extent that Alamo Group Inc. specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

The following graph and table set forth the cumulative total return to the Company's stockholders of our Common Stock during a five-year period ended December 31, 2010, as well as the performance of an overall stock market index (the S&P 500 Index) and the Company's selected peer group index (the Russell 2000 Index).

The Company believes a representative industry peer group of companies with a similar business segment profile does not exist. The SEC has indicated that companies may use a base other than industry or line of business for determining its peer group index, such as an index of companies with similar market capitalization. Accordingly, the Company has selected the Russell 2000 Index, a widely used small market capitalization index, to use as a representative peer group.

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| | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 |
|-------------------------|---------------|---------------|---------------|--------------|--------------|---------------|
| Alamo Group Inc. | 100.00 | 115.69 | 90.24 | 75.42 | 88.16 | 144.61 |
| S&P 500 | 100.00 | 115.80 | 122.16 | 76.96 | 97.33 | 111.99 |
| Russell 2000 | 100.00 | 118.37 | 116.51 | 77.15 | 98.11 | 124.46 |

Item 6. Selected Financial Data

The following selected financial data is derived from the consolidated financial statements of Alamo Group Inc. and its subsidiaries. The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

Fiscal Year Ended December 31,(1)

| (in thousands, except per share amounts) | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|------------|------------|------------|------------|------------|
| Operations: | | | | | |
| Net sales | \$ 524,540 | \$ 446,487 | \$ 557,135 | \$ 504,386 | \$ 456,494 |
| Income before income taxes | 29,032 | 31,106 | 17,226 | 18,035 | 16,975 |
| Net income | 21,117 | 18,633 | 10,999 | 12,365 | 11,488 |
| Percent of sales | 4.0% | 4.2% | 2.0% | 2.5% | 2.5% |
| Earnings per share | | | | | |
| Basic | 1.79 | 1.80 | 1.12 | 1.26 | 1.18 |
| Diluted | 1.78 | 1.80 | 1.11 | 1.24 | 1.16 |
| Dividends per share | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 |
| Average common shares | | | | | |
| Basic | 11,782 | 10,330 | 9,847 | 9,781 | 9,756 |
| Diluted | 11,893 | 10,363 | 9,950 | 9,953 | 9,925 |
| Financial Position: | | | | | |
| Total assets | \$ 370,983 | \$ 379,957 | \$ 386,132 | \$ 350,630 | \$ 326,634 |
| Short-term debt and current maturities | 2,319 | 5,453 | 4,186 | 3,368 | 3,339 |
| Long-term debt, excluding current maturities | 23,106 | 44,336 | 99,884 | 78,527 | 78,526 |
| Stockholders' equity | \$ 253,260 | \$ 236,919 | \$ 184,312 | \$ 198,698 | \$ 181,734 |

(1) Includes the results of operations of companies acquired from the effective dates of acquisitions.

Item 7. Management's Discussion and Analysis of Financial Condition**And Results of Operations**

The following discussion should be read in conjunction with the consolidated financial statements of the Company and the notes thereto included elsewhere in this Annual Report on Form 10-K.

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

Fiscal Year Ended December 31,

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| Net sales (data in thousands): | 2010 | 2009 | 2008 |
|--------------------------------|------------|------------|------------|
| North American | | | |
| Industrial | \$ 192,379 | \$ 173,905 | \$ 254,787 |
| Agricultural | 173,464 | 92,415 | 120,232 |
| European | 158,697 | 180,167 | 182,116 |
| Total net sales | \$ 524,540 | \$ 446,487 | \$ 557,135 |

Cost and profit margins, as percentages of net sales:

| | | | |
|--|-------|-------|-------|
| Cost of sales | 77.7% | 78.8% | 80.4% |
| Gross profit | 22.3% | 21.2% | 19.6% |
| Selling, general and administrative expenses | 16.4% | 17.0% | 14.9% |
| Income from operations | 5.9% | 7.7% | 3.8% |
| Income before income taxes | 5.5% | 7.0% | 3.1% |
| Net income | 4.0% | 4.2% | 2.0% |

Results of Operations

Fiscal 2010 compared to Fiscal 2009

The Company's net sales in the fiscal year ended December 31, 2010 (2010) were \$524,540,000, an increase of \$78,053,000 or 17.5% compared to \$446,487,000 for the fiscal year ended December 31, 2009 (2009). The increase was primarily due to the inclusion of a full year of the results of *Bush Hog* which was acquired in October 2009.

North American Industrial sales (net) were \$192,379,000 in 2010 compared to \$173,905,000 in 2009, an increase of \$18,474,000 or 10.6%. The increase resulted from higher sales of replacement parts and, to a lesser extent, a slight improvement in sales of excavator, vacuum truck, sweeper and mowing equipment products. Governmental entities continue to be affected by budget constraints and revenue shortfalls. Compared to 2009, sales to state agencies remained steadier than those to cities and counties.

North American Agricultural sales (net) were \$173,464,000 in 2010 compared to \$92,415,000 in 2009, representing an increase of \$81,049,000 or 87.7%. The increase was primarily due to the acquisition of *Bush Hog*, which contributed \$78,030,000 of the increase. The agricultural market was soft during the first six months of 2010 due to the weakness in the overall economy, leading to dealer reluctance to stock farm equipment. During the third quarter of 2010, market conditions reflected some improvement due to increases in commodity prices and growth in farm income.

European sales (net) decreased \$21,470,000 or 11.9% to \$158,697,000 in 2010 compared to \$180,167,000 in 2009. This decrease was mainly due to soft market conditions caused by the slowdown in the European economy. Specifically, our U.K. units held up better than our French operations, which were responsible for the majority of the decrease. The agricultural market in Europe showed more improvement in 2010 than the governmental market. The European sales in 2010 had a lagging effect from what we saw in the Company's North American markets.

Gross margins for 2010 were \$116,914,000 (22.3% of net sales) compared to \$94,561,000 (21.2% of net sales) in 2009, an increase of \$22,353,000. The majority of the increase was due to the acquisition of *Bush Hog*, which accounts for \$20,271,000 of the increase. Increases in the Company's replacement part business supported higher margins as well as improved margin percentages. Margin percentages also improved over 2009 as a result of ongoing cost savings initiatives which helped lower manufacturing costs.

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Selling, general and administrative expenses (SG&A) were \$86,041,000 (16.4% of net sales) in 2010 compared to \$76,100,000 (17.0% of net sales) in 2009. The increase of \$9,941,000 in SG&A in 2010 was due to the acquisition of *Bush Hog* which added a net increase of \$11,799,000. Without *Bush Hog* expenses in 2010 and 2009 along with acquisition costs related to *Bush Hog* in 2009, SG&A expenses were relatively flat year over year.

The Company recorded a \$27,689,000 bargain purchase gain during the fourth quarter of 2009 which has since been adjusted to \$30,177,000 as a result of retrospective adjustments to the fair value of assets acquired and liabilities assumed since the date of acquisition. The purchase price consideration was 1,700,000 unregistered shares of Alamo Group stock at a closing price of \$16.09 per share plus the assumption of certain liabilities and other considerations.

There was no goodwill impairment for 2010 compared to non-cash \$14,104,000 impairment in 2009. In 2009, the Company wrote off the goodwill at *Gradall/VacAll* and just over 75% of the goodwill at *Nite-Hawk* in its Industrial Division after performing its required impairment test.

Interest expense for 2010 was \$3,664,000 compared to \$4,766,000 in 2009, a \$1,102,000 or a 23.1% decrease. The decrease was due to reduced borrowings in 2010 compared to 2009. The 2010 interest expense includes \$375,000 in amortization of bank fees from the amendment to the Company's revolving credit agreement in November 2009. In 2009, the Company amortized \$63,000 in bank fees relating to the same amendment.

Other income net, was \$290,000 during 2010 compared to income of \$625,000 in 2009. The gains in both 2010 and 2009 are entirely from changes in exchange rates.

Provision for Income Taxes was \$7,915,000 (27.3% of income before income taxes) for 2010 compared to \$12,473,000 (40.1% of income before income taxes) in 2009. Included in the 2010 tax provision is an \$898,000 tax credit related to prior years' research and development expenses. The increase in the effective tax rate for 2009 was from increased state taxes in the United States and from the non-deductible tax write-off of goodwill in the Industrial Division.

Net Income for 2010 was \$21,117,000 compared to \$18,633,000 in 2009 due to the factors described above.

Fiscal 2009 compared to Fiscal 2008

The Company's net sales in the fiscal year ended December 31, 2009 (2009) were \$446,487,000, a decrease of \$110,648,000 or 19.9% compared to \$557,135,000 for the fiscal year ended December 31, 2008 (2008). The decrease was primarily attributable to the general weakness in the worldwide economy which began in the fourth quarter of 2008 and continues to affect the markets the Company serves. The acquisitions of *Rivard* and *Bush Hog* were accretive to the Company's sales for 2009.

North American Industrial sales (net) were \$173,905,000 in 2009 compared to \$254,787,000 in 2008, an \$80,882,000 or 31.7% decrease. The decrease came from lower sales of excavator, vacuum truck, sweeper and mowing equipment as governmental entities continue to be affected by budget constraints and revenue shortfalls. Sales to cities and counties remained steadier than those to state agencies.

North American Agricultural sales (net) were \$92,415,000 in 2009 compared to \$120,232,000 in 2008, representing a decrease of \$27,817,000 or 23.1%. The decrease was due to market uncertainty and tighter credit as dealers were reluctant to stock inventory at historical levels. The acquisition of *Bush Hog* on October 22, 2009 added \$10,863,000 in sales.

European sales (net) decreased \$1,949,000 or 1.1% to \$180,167,000 in 2009 compared to \$182,116,000 in 2008. This decrease was mainly due to changes in the exchange rates and softness in the French markets and to a lesser extent was offset by higher export sales outside our core markets. The *Rivard* acquisition added \$23,858,000 to sales for 2009.

Gross margins for 2009 were \$94,561,000 (21.2% of net sales) compared to \$109,414,000 (19.6% of net sales) in 2008, a decrease of \$14,853,000. The decrease was due to reduced sales during 2009, which was somewhat offset by the *Rivard* acquisition. Gross margin percentages improved over 2008 as a result of favorable pricing in both raw and purchase components and continued improvement in efficiency initiatives.

Selling, general and administrative expenses (SG&A) were \$76,100,000 (17.0% of net sales) in 2009 compared to \$83,059,000 (14.9% of net sales) in 2008. The decrease of \$6,959,000 in SG&A in 2009 primarily came from reductions in workforce net of \$1,158,000 in severance costs, lower insurance premiums and professional fees, and reduced commissions from lower sales volumes. *Bush Hog* acquisition costs were \$828,000 in 2009 and, during the fourth quarter of 2009, the Company also incurred \$1,383,000 at *Bush Hog* relating to severance and restructuring costs. The acquisitions of *Rivard* and *Bush Hog* added \$3,230,000 and \$2,204,000 respectively to the SG&A expense for 2009.

The Company recorded a \$27,689,000 bargain purchase gain during the fourth quarter of 2009 which has since been adjusted to \$30,177,000 as a result of retrospective adjustments to the fair value of assets acquired and liabilities assumed since the date of acquisition. The purchase price consideration was 1,700,000 unregistered shares of Alamo Group stock at a closing price of \$16.09 per share plus the assumption of certain liabilities and other considerations.

Goodwill impairment for 2009 was non-cash \$14,104,000 compared to non-cash \$5,010,000 in 2008. In 2009, the Company wrote off the goodwill at *Gradall/VacAll* and just over 75% of the goodwill at *Nite-Hawk* in its Industrial Division after performing its required impairment test review. The Company wrote off the entire goodwill relating to its Agricultural Division in 2008.

Interest expense for 2009 was \$4,766,000 compared to \$7,450,000 in 2008, a \$2,684,000 or a 36% decrease. The decrease was due primarily to reduced borrowings along with lower interest rates in 2009.

Other income net, was \$625,000 during 2009 compared to income of \$1,513,000 in 2008. The gains in both 2009 and 2008 are entirely from changes in exchange rates.

Provision for Income Taxes was \$12,473,000 (40.1% of income before income taxes) for 2009 compared to \$6,227,000 (36.1% of income before income taxes) in 2008. The increase in the effective tax rate for 2009 was from increased state taxes in the United States and from the non-deductible tax write-off of goodwill in the Industrial Division.

Net Income for 2009 was \$18,633,000 compared to \$10,999,000 in 2008 due to the factors described above.

Liquidity and Capital Resources

In addition to normal operating expenses, the Company has ongoing cash requirements which are necessary to conduct the Company's business, including inventory purchases and capital expenditures. The Company's inventory and accounts payable levels, particularly in its North American Agricultural Division, build in the first quarter and early spring and, to a lesser extent, 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 pre-season sales. These sales help balance the Company's production during the first and fourth quarters. Some of the Company's recent acquisitions which are not involved in vegetation maintenance have helped to soften this seasonality pattern.

As of December 31, 2010, the Company had working capital of \$185,871,000, which represents an increase of \$1,960,000 from working capital of \$183,911,000 as of December 31, 2009. The increase in working capital was primarily from higher accounts receivable in the Company's North American and European operations offset by decreases in inventory from reduced levels of activity.

Capital expenditures were \$4,980,000 for 2010, compared to \$3,453,000 for 2009. For 2011, capital expenditures are expected to be higher compared to 2010 though still below depreciation levels. The Company expects to fund capital 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 repurchased in 2009 or in 2010. The authorization to repurchase up to 1,000,000 shares remains available less 42,600 shares previously purchased.

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During the third quarter of 2010, the Company closed its manufacturing facility located in Orleans, France and incurred \$924,000 in redundancy costs. The Company also sold the Orleans facility and recorded a capital gain of \$885,000. Production was relocated to the *Rousseau* manufacturing facility near Lyon, France.

Net cash provided by operating activities was \$41,877,000 for 2010, compared to \$72,086,000 for 2009. The decrease of cash from operating activities resulted primarily from increased accounts receivable levels specifically in the Company's North American operations. The higher levels in 2009 were a result of greater inventory and accounts receivable reductions due to the market decline.

Net cash used by financing activities was \$26,013,000 for 2010, compared to net cash used of \$56,965,000 for 2009. The decrease in financing activities in 2010 was from repayments of amounts borrowed from our bank credit facility due to cash provided by operating activities.

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 October 14, 2008, the Company entered into the Sixth Amendment and Waiver under the Amended and Restated Revolving Credit Agreement. The purpose of the amendment and waiver was to clarify company names within the Obligated Group after merging or dissolving some subsidiaries, to define operating cash flow and defining quarterly operating cash flow for *Rivard* through March 31, 2010. Beginning June 30, 2009, *Rivard*'s actual operating cash flow was used in the calculation of consolidated operating flow.

On November 6, 2009, the Company entered into the Seventh Amendment of the Amended and Restated Revolving Credit Agreement with Bank of America, N.A., Wells Fargo Bank, N.A., BBVA Compass Bank, and Rabobank, as its lenders. The revolving credit line remained at \$125.0 million. Prior to the execution of this Amendment, BBVA Compass Bank acquired certain assets of Guaranty Bank which included this credit facility, and JPMorgan Chase Bank assigned its interest to Well Fargo Bank, N.A. The purpose of the amendment was to add *Bush Hog* as a member of the Obligated Group and pledge a first priority security interest in certain U.S. assets (accounts receivable, inventory, equipment, trademarks and trade names) of the Borrower and each member of the Obligated Group. The Lenders agreed to increase the operating leverage ratio during the next three quarters and to add a new EBIT to Interest Expense covenant in exchange for a commitment fee and an increase in the Applicable Interest Margin over LIBOR or Prime Rate advances.

As of December 31, 2010, there was \$21,000,000 borrowed under the revolving credit facility. On December 31, 2010, \$833,000 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 \$103,000,000 in available borrowings.

On May 13, 2008, Alamo Group Europe Limited expanded its overdraft facility with Lloyd's TSB Bank plc from £ 1.0 million to £ 5.5 million. The facility was renewed effective October 29, 2010 and outstandings currently bear interest at Lloyd's Base Rate plus 1.4% per annum. The facility is unsecured but guaranteed by the U.K. subsidiaries of Alamo Group Europe Limited. As of December 31, 2010, there were no outstanding balances in British pounds borrowed against the U.K. overdraft facility.

There are additional lines of credit: for the Company's French operations in the amount of 7,300,000 Euros, which includes the *Rivard* credit facilities; 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 December 31, 2010, no Euros were borrowed against the French line of credit; no Canadian dollars were outstanding on the Canadian line of credit; and 600,000 Australian dollars were outstanding under its facility. The Canadian and Australian revolving credit facilities are guaranteed by the Company.

As of December 31, 2010, the Company is in compliance with the terms and conditions of its credit facilities.

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

Inflation

The Company believes that inflation generally has not had a material impact on its operations or liquidity. The Company is exposed to the risk that the price of energy, steel and other purchased components may increase and the Company may not be able to increase the price of its products correspondingly. If this occurs, the Company's results of operations would be adversely impacted.

Recent Accounting Pronouncements and Legislative Changes

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act (the Act), which is a comprehensive health care reform bill for the United States. In addition, on March 30, 2010, President Obama signed into law the reconciliation measure (Health Care and Education Reconciliation Act of 2010), which modifies certain provisions of the Act. Although the new legislation did not have an impact on our consolidated financial position, results of operation or cash flows in 2010, the Company is continuing to assess the potential impacts on our future obligations, costs and cash flows related to our health care benefits.

In April 2010, the FASB issued ASU No. 2010-17, Revenue Recognition (ASC Topic 605): Milestone Method (ASU No. 2010-17). ASU No. 2010-17 recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development transactions. A milestone is substantive when the consideration earned from achievement of the milestone is commensurate with either (a) the vendor's performance to achieve the milestone or (b) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the vendor's performance to achieve the milestone and the consideration earned from the achievement of a milestone relates solely to past performance and is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement. This new guidance will be effective for our fiscal year 2011 and its interim periods, with early adoption permitted. This guidance will not have a material impact on our consolidated financial position, results of operations or cash flows.

In January 2010, the provisions of ASC Topic 820 were modified to require additional disclosures, including transfers in and out of Level 1 and 2 fair value measurements and the gross basis presentation of the reconciliation of Level 3 fair value measurements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures related to Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 (including interim periods). Early adoption is permitted. We have adopted all of these provisions of ASC Topic 820 effective December 31, 2009. Since only disclosures are affected by these requirements, the adoption of these provisions will not affect our financial position or results of operations.

In October 2009, the FASB issued ASU No. 2009-14 Software (ASC Topic 985): Certain Revenue Arrangements That Include Software Elements (ASU No. 2009-14). ASU No. 2009-14 modifies the scope of the software revenue recognition guidance to exclude (i) non-software components of tangible products and (ii) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. ASU No. 2009-14 is effective for fiscal years beginning on or after June 15, 2010 with early adoption permitted. The guidance may be applied retrospectively or prospectively for new or materially modified arrangements. This guidance will not have a material impact on our consolidated financial position, results of operations or cash flows.

In October 2009, the FASB issued ASU No. 2009-13 Revenue Recognition (ASC Topic 605): Multiple-Deliverable Revenue Arrangements (ASU No. 2009-13). ASU No. 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the arrangement consideration should be allocated among the separate units of accounting. ASU No. 2009-13 is effective for fiscal years beginning on or after June 15, 2010 with early adoption permitted. The guidance may be applied retrospectively or prospectively for new or materially modified arrangements. This guidance will not have a material impact on our consolidated financial position, results of operations or cash flows.

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 a 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.

Contractual and Other Obligations

The following table shows the Company's approximate obligations and commitments to make future payments under contractual obligations as of December 31, 2010:

| (in thousands) Contractual Obligations | Payment due by period | | | | |
|--|------------------------------|-----------------------------|----------------------|----------------------|------------------------------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Long-term debt obligations | \$ 23,662 | \$ 1,217 | \$ 21,433 | \$ 460 | \$ 552 |
| Capital lease obligations | 1,763 | 1,102 | 543 | 118 | |
| Interest obligations | 2,271 | 1,091 | 1,062 | 79 | 39 |
| Operating lease obligations | 2,421 | 1,102 | 1,034 | 254 | 31 |
| Purchase obligations | 69,148 | 69,148 | | | |
| Total | \$ 99,265 | \$ 73,660 | \$ 24,072 | \$ 911 | \$ 622 |

Definitions:

- (A) *Long-term debt obligation* means a principal payment obligation under long-term borrowings.
- (B) *Capital lease obligation* means a principal payment obligation under a lease classified as a capital lease.
Interest obligation represents interest due on long-term debt and capital lease obligations. Interest on long-term debt assumes all floating rates of interest remain the same as those in effect at December 31, 2010 and include the effect of the Company's interest rate derivative arrangements on future cash payments for the remaining period of those derivatives.
- (C) *Operating lease obligation* means a payment obligation under a lease classified as an operating lease.
- (D) *Purchase obligation* means an agreement to purchase goods or services that is enforceable and legally binding on the registrant that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions.
- (E)

In addition, the Company sponsors various pension plans that may obligate it to make contributions from time to time. We expect to make a cash contribution to our pension plans in 2011 in the amount of \$1.1 million.

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 U.S. Generally Accepted Accounting Principles (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 the collectability of its accounts receivable based on a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations, the Company 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 aging and changes in current economic conditions.

The Company evaluates all receivables that are over 60 days old and will reserve specifically on a 90-day basis. The Company has a secured interest on most of its wholegoods that 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 also allows Alamo Group to maintain only a reserve over its cost, which usually represents the margin on the original sales price.

The allowance for doubtful accounts balance was \$2,852,000 on December 31, 2010, and \$2,548,000 on December 31, 2009. The increase was mainly from the Company's Agricultural operations.

Sales Discounts

On December 31, 2010, the Company had \$11,903,000 in reserves for sales discounts compared to \$3,803,000 on December 31, 2009 on product shipped to our customers under various promotional programs. The increase was due primarily to increased sales volume of the Company's agricultural products during the pre-season, which runs from September to December of each year with orders shipped through the first quarter of 2011. The Company reviews the reserve quarterly based on analysis made on each program outstanding at the time.

The Company bases its reserves on historical data relating to discounts taken by the customer under each program. Historically, between 85% and 95% of the Company's customers who qualify for each program actually take the discount that is available.

Inventories - Obsolete and Slow Moving

The Company had a reserve of \$7,506,000 on December 31, 2010 and \$9,060,000 on December 31, 2009 to cover obsolete and slow moving inventory. The decrease in the reserve was mainly from the Company's U.S. operations, specifically its facilities in Gibson City and Indianola as a result of greater disposals and sales of slow moving and obsolete inventory. The obsolete and slow moving inventory policy states that the reserve is to be calculated as follows: 1) no inventory usage over a three-year period 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 are made on a quarterly basis. The Company relies on historical information when available to support its reserve. The Company does not adjust the reserve balance until the inventory is liquidated.

Warranty

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

Warranty reserve, as a percentage of sales, is generally calculated by looking at the current twelve months' expenses and prorating that amount based on twelve months' sales with a ninety-day to 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 made when required.

The current liability warranty reserve balance was \$5,554,000 on December 31, 2010 and \$5,972,000 on December 31, 2009. The increase came mainly from the acquisition of Bush Hog.

Goodwill

Goodwill must be tested for impairment at least annually. In the fourth quarter of each year, or when events and circumstances warrant such a review, the Company tests the goodwill of all of its reporting units for impairment. The goodwill impairment test is determined using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill (Step 1). If the fair value of a reporting unit exceeds its carrying value amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step is not necessary. However, if the carrying amount of the reporting unit exceeds its fair value, the second step (Step 2) is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any. Step 2 compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied value of goodwill is less than the carrying amount of goodwill, then a charge is recorded to reduce goodwill to the implied goodwill. The implied goodwill is calculated based on a hypothetical purchase price allocation, in that it takes the implied fair value of the reporting unit and allocates such fair value to the fair value of the assets and liabilities of the reporting unit.

The Company estimates the fair value of its reporting units using a discounted cash flow analysis. This analysis requires the Company to make significant assumptions and estimates about the extent and timing of future cash flows, discount rates and growth rates. The cash flows are estimated over a significant future period of time, which makes those estimates and assumptions subject to an even higher degree of uncertainty. The Company also utilizes market valuation models and other financial ratios, which require the Company to make certain assumptions and estimates regarding the applicability of those models to its assets and businesses. The Company believes that the assumptions and estimates used to determine the estimated fair values of each of its reporting units are reasonable. However, different assumptions could materially affect the estimated fair value. As of December 31, 2010, goodwill was \$34,073,000, which represents 9% of total assets. The Company recognized no goodwill impairment in 2010. The North American Industrial segment had a goodwill impairment of \$14,104,000 in 2009. During the 2010 impairment analysis review, it was noted that even though the *Schwarze* reporting unit's fair value was above carrying value it was not materially different. On December 31, 2010, there was approximately \$6.8 million of goodwill related to the *Schwarze* reporting unit. This reporting unit would be most likely affected by changes in the Company's assumptions and estimates. 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.

See Note 6 to the Consolidated Financial Statements for more information regarding goodwill.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to various financial market risks. Market risk is the potential loss 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 effect 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 over 90% of its future net foreign currency cash receipts over a period of six months. As of December 31, 2010, the Company had \$2,664,000 outstanding in forward exchange contracts related to accounts receivable. A 15% fluctuation in exchange rates for these currencies would change the fair value by approximately \$400,000. 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.

On December 31, 2010, the fair value of these agreements was in an unfavorable position; therefore, the derivative financial instruments were recorded as a loss of \$43,000, which has been recognized in other income (expense), net.

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, predominantly in European countries, Canada and Australia, as a result of the sale of its products in international markets. Foreign currency forward contracts in the U.K. are used to hedge against the earnings effects of such fluctuations. On December 31, 2010, the result of a uniform 10% strengthening in the value of the U.S. dollar relative to the currencies in which the Company's sales are denominated would result in a decrease in gross profit of \$4,435,000 for the year ended December 31, 2010. Comparatively, on December 31, 2009, 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 \$4,891,000 for the year ended December 31, 2009. 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 2010 was a loss of \$3,659,000. On December 31, 2010, the British pound closed at .6411 relative to the U.S. dollar, and the Euro closed at .7479 relative to the U.S. dollar. By comparison, on December 31, 2009, the British pound closed at .6187 relative to the U.S. dollar, and the Euro closed at .6985 relative to the 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 majority of 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 hundred basis point change in the 2010 average interest rate under these borrowings, the Company's 2010 interest expense would have changed by approximately \$420,000. In the event of an adverse change in interest rates, management could take actions to mitigate its exposure. 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. However, the challenges affecting the banking industry and credit markets in general can potentially cause changes to credit availability which creates a level of uncertainty.

Item 8. Financial Statements and Supplementary Data

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The financial statements and supplementary data described in Item 15 of this report and included on pages 44 through 74 of this report are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. 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 & Chief Executive Officer, Executive Vice President & Chief Financial Officer (Principal Financial Officer), and Vice President & Corporate Controller (Principal Accounting Officer) concluded that the Company's disclosure controls and procedures were effective at the end of the period covered by this report.

Management's Annual Report on Internal Control Over Financial Reporting. Management's report on the Company's internal control over financial reporting is included on page 40 of this Annual Report on Form 10-K and incorporated by reference herein. The Company's independent public accounting firm has audited and issued a report on the Company's internal control over financial reporting which is included on page 41 of this Annual Report on Form 10-K and incorporated by reference herein.

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 fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, Alamo's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

There is incorporated in this Item 10, by reference, that portion of the Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders, which appears therein under the captions Proposal 1 - Election of Directors, Nominees for Election to the Board of Directors, Information Concerning Directors, Meetings and Committees of the Board, The Audit Committee, and The Nominating/Corporate Governance Committee, and Section 16(a) Beneficial Ownership Reporting Compliance. See also the information under the caption Executive Officers of

the Company in Part I of this Report.

The Board of Directors has delegated certain responsibilities to three Committees of the Board. The Committees are the Audit Committee, Compensation Committee and Nominating/Corporate Governance Committee. The Board of Directors has also adopted Corporate Governance guidelines and a Code of Conduct and Ethics for all employees, including the Chief Executive Officer, Principal Financial Officer, Principal Accounting Officer and those individuals performing similar functions.

The Committee Charters, Code of Conduct and Ethics, and Corporate Governance Guidelines may be found on the Company's website (www.alamo-group.com) under the Our Commitment tab and are also available without charge in print by sending a request to the Corporate Secretary, Alamo Group Inc., 1627 E. Walnut Street, Seguin, Texas, 78155, which is the principal executive office of the Company. The telephone number is 830-379-1480. The Company will post any amendments to the Code of Conduct and Ethics, and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange (NYSE), on the Company's website.

Item 11. Executive Compensation

There is incorporated in this Item 11, by reference, that portion of the Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders which appears under the caption Executive Compensation, The Compensation Committee, Compensation Discussion and Analysis, Compensation Committee Report and Director Compensation during 2010.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

There is incorporated in this Item 12, by reference, that portion of the Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders which appears under the caption "Beneficial Ownership of Common Stock."

Information on Alamo Group Inc.'s Equity Compensation Plans

The following table provides information on the shares that are available under the Company's stock compensation plans and, in the case of plans where stock options may be granted, the number of shares of common stock issuable upon exercise of those stock options.

The numbers in the table are as of December 31, 2010, the last day of Alamo Group Inc.'s 2010 fiscal year.

| | A | B | C |
|--|---|--|--|
| Equity Compensation Plan Category | Number of Securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of Securities that remain available for future issuance under equity compensation plans (excluding securities reflected in column A) |
| Plans approved by stockholders | | | |
| <i>Amended and Restated 1994 Incentive Stock Option Plan</i> | 58,030 | \$13.54 | |
| <i>First Amended and Restated 1999 Non-Qualified Stock Option Plan</i> | 82,400 | \$16.63 | |

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| | | | |
|---|----------------|---------|----------------|
| <i>2005 Incentive Stock Option Plan</i> | 302,100 | \$19.20 | 195,500 |
| <i>2009 Equity Incentive Plan</i> | 29,000 | \$12.82 | 364,000 |
| Total | 471,530 | | 559,500 |

- 35 -

Item 13. Certain Relationships, Related Transactions and Director Independence

Information regarding certain relationships and related transactions is set forth under the caption "Certain Relationships and Related Transactions" in the Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders and such information is incorporated by reference herein. There were no such reportable relationships or related party transactions in the fiscal year ended December 31, 2010. In 1999, the Company approved a supplemental retirement benefit for Donald J. Douglass which is paid on a quarterly basis over a period of fourteen and one-half years that began in the year 2000. The remaining balances on December 31, 2010 and 2009 were \$248,000 and \$308,000, respectively, and are included in the Accrued liabilities and Other long-term liabilities sections of the Company's balance sheets.

Information regarding director independence is set forth under the caption "Information Concerning Directors" in the Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders and such information is incorporated by reference herein.

Item 14. Principal Accountant Fees and Services

Information regarding principal accountant fees and services is set forth under the caption "Proposal 2 - Ratification of Appointment of Independent Auditors" in the Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders and such information is incorporated by reference herein.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements

| | Page |
|---|-------------|
| <u>Report of Management on Internal Control Over Financial Reporting</u> | 40 |
| <u>Reports of Independent Registered Public Accounting Firm (KPMG LLP)</u> | 41-42 |
| <u>Reports of Independent Registered Public Accounting Firm (Ernst & Young LLP)</u> | 43 |
| <u>Consolidated Balance Sheets</u> | 44 |
| <u>Consolidated Statements of Income</u> | 45 |
| <u>Consolidated Statements of Stockholders' Equity</u> | 46 |
| <u>Consolidated Statements of Cash Flows</u> | 47 |
| <u>Notes to Consolidated Financial Statements</u> | 48 |

Financial Statement Schedules

All schedules for which a provision is made in the applicable accounting regulation of the Securities and Exchange Commission are omitted because they are not required or because the required information is included in the consolidated financial statements or notes thereto.

Exhibits

Exhibits The following exhibits are incorporated by reference to the filing indicated or are included following the index to Exhibits.

INDEX TO EXHIBITS

| Exhibits | Exhibit Title | Incorporated by Reference From the Following Documents |
|----------|---|---|
| 2.1 | Asset Purchase Agreement, dated February 3, 2006, between the Alamo Group Inc. and JLG Industries Inc. | Filed as Exhibit 2.1 to Form 8-K, February 8, 2006 |
| 2.2 | Asset Purchase Agreement, dated September 4, 2009, between the Company and Bush Hog | Filed as Exhibit 2.1 to Form 8-K, September 4, 2009, as amended by Form 8-K/A, November 9, 2009 |
| 3.1 | Certificate of Incorporation, as amended, of Alamo Group Inc. | Filed as Exhibit 3.1 to Form S-1, February 5, 1993 |
| 3.2 | By-Laws of Alamo Group Inc. as amended | Filed as Exhibit 3.2 to Form 10K, March 10, 2009 |
| 10.1 | Form of indemnification agreements with Directors of Alamo Group Inc. | Filed as Exhibit 10.1 to Form 10-Q, May 15, 1997 |
| 10.2 | Form of indemnification agreements with certain executive officers of Alamo Group Inc. | Filed as Exhibit 10.2 to Form 10-Q, May 15, 1997 |
| *10.3 | Incentive Compensation Plan, adopted on December 9, 1997 | Filed as Exhibit 10.14 to Form 10-K, March 31, 1998 |
| *10.4 | 401(k) Restoration Plan for Highly Compensated Employees, adopted on December 9, 1997 | Filed as Exhibit 10.15 to Form 10-K, March 31, 1998 |
| *10.5 | Amended and Restated 1994 Incentive Stock Option Plan adopted by the Board of Directors on July 7, 1999 | Filed as Exhibit B to Schedule 14A, July 30, 1999 |
| *10.6 | First Amended and Restated 1999 Non-Qualified Stock Option Plan, adopted by the Board of Directors on February 13, 2001 | Filed as Exhibit B to Schedule 14A, May 3, 2001 |
| *10.7 | 2005 Incentive Stock Option Plan, adopted by the Board of Directors on May 4, 2005 | Filed as Appendix E to Schedule 14A, May 4, 2005 |
| *10.8 | 2009 Equity Incentive Plan, adopted by the Board of Directors on May 7, 2009 | Filed as Exhibit 10.1 to Form 8-K, May 13, 2009 |
| 10.9 | Amended and Restated Revolving Credit Agreement among Alamo Group Inc., the Guarantors, and Bank of America, N.A., Chase Manhattan Bank, and Guaranty Bank dated February 3, 2006 | Filed as Exhibit 10.3 to Form 8-K, February 8, 2006 |
| 10.10 | | |

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| | | |
|--------|---|--|
| | Fourth Amendment of the Amended and Restated Revolving Credit Agreement, dated March 30, 2006, between the Company and Bank of America, N.A., JPMorgan Chase Bank and Guaranty Bank | Filed as Exhibit 10.1 to Form 8-K, April 5, 2006 |
| 10.11 | Registration statement with the Securities and Exchange Commission to register 2,300,000 shares of common stock for offer and sale by Alamo Group | Filed Form S-3, July 27, 2006 |
| 10.12 | Fifth Amendment of the Amended and Restated Revolving Credit Agreement, dated May 7, 2007, between the Company and Bank of America, N.A., JPMorgan Chase Bank, Guaranty Bank and Rabobank | Filed as Exhibit 10.13 to Form 10 Q, May 7, 2007 |
| 10.13 | Sixth Amendment of and Waiver under Amended and Restated Revolving Credit Agreement, dated October 14, 2008, between the Company and Bank of America, N.A., JPMorgan Chase Bank, Guaranty Bank and Rabobank | Filed as Exhibit 10.12 to Form 10K, March 10, 2009 |
| 10.14 | Seventh Amendment of the Amended and Restated Revolving Credit Agreement, dated November 5, 2009, between the Company and Bank of America, N.A., Wells Fargo Bank, N.A., BBVA Compass Bank, and Rabobank | Filed as Exhibit 10.1 to Form 10 Q, November 9, 2009 |
| *10.15 | Form of Restricted Stock Award Agreement under the 2009 Equity Incentive Plan | Filed as Exhibit 10.2 to Form 8-K, May 13, 2009 |
| *10.16 | Form of Restricted Stock Unit Award Agreement under the 2009 Equity Incentive Plan | Filed as Exhibit 10.3 to Form 8-K, May 13, 2009 |
| *10.17 | Form of Nonqualified Stock Option Agreement under the 2009 Equity Incentive Plan | Filed as Exhibit 10.4 to Form 8-K, May 13, 2009 |
| *10.18 | Form of Nonqualified Stock Option Agreement under the First Amended and Restated 1999 Nonqualified Stock Option Plan | Filed as Exhibit 10.5 to Form 8-K, May 13, 2009 |
| *10.19 | Form of Stock Option Agreement under the 2005 Stock Option Plan | Filed as Exhibit 10.6 to Form 8-K, May 13, 2009 |

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| | | |
|--------------------|---|--|
| *10.20 | Supplemental Executive Retirement Plan | Filed as Exhibit 10.1 to Form 8K, January 18, 2011 |
| *10.21 | Amended Incentive Compensation Plan | Filed as Exhibit 10.1 to Form 8K, March 11, 2011 |
| 21.1 | Subsidiaries of the Registrant | Filed Herewith |
| 23.1 | Consent of KPMG LLP | Filed Herewith |
| 23.2 | Consent of Ernst & Young LLP | 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 |
| *Compensatory Plan | | |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 14, 2011

By: /s/ RONALD A. ROBINSON
President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities and on 15th day of March, 2011.

| Signature | Title |
|---|--|
| <u>/s/ DONALD J. DOUGLASS</u> Donald J. Douglass | Chairman of the Board & Director |
| <u>/s/ RONALD A. ROBINSON</u> Ronald A. Robinson | President, Chief Executive Officer & Director (Principal Executive Officer) |
| <u>/s/ DANE E. MALONE</u> Dan E. Malone | Executive Vice President & Chief Financial Officer (Principal Financial Officer) |
| <u>/s/ RICHARD J. WEHRLE</u> Richard J. Wehrle | Vice President & Corporate Controller (Principal Accounting Officer) |

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Helen W. Cornell

Director

/s/ JERRY E. GOLDRESS

Director

Jerry E. Goldress

/s/ DAVID W. GRZELAK

Director

David W. Grzelak

/s/ GARY L. MARTIN

Director

Gary L. Martin

/s/ JAMES B. SKAGGS

Director

James B. Skaggs

Report of Management on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 using the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company's management concludes that, as of December 31, 2010, the Company's internal controls over financial reporting were effective based on the framework in Internal Control – Integrated Framework.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of internal control over financial reporting, which is included herein.

Date: March 14, 2011

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

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

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders Alamo Group Inc:

We have audited Alamo Group Inc. 's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Alamo Group Inc. 's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company 's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company 's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company 's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company 's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Alamo Group Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the

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Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Alamo Group Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for the years ended December 31, 2010 and 2009, and our report dated March 14, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/KPMG LLP

San Antonio, Texas
March 14, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders Alamo Group Inc:

We have audited the accompanying consolidated balance sheets of Alamo Group Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for the years ended December 31, 2010 and 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alamo Group Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years ended December 31, 2010 and 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alamo Group Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2011, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for business combinations in 2009 due to the adoption of FASB ASC Topic 805, Business Combinations.

/s/KPMG LLP

San Antonio, Texas
March 14, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Alamo Group Inc.

We have audited the accompanying consolidated statements of income, stockholders' equity, and cash flows of Alamo Group Inc. and subsidiaries (the Company) as of and for the year ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States).

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Alamo Group Inc. and subsidiaries for the year ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

San Antonio, Texas

March 6, 2009

Alamo Group Inc. and Subsidiaries

Consolidated Balance Sheets

| | December 31, | |
|--|---------------------|-------------|
| (in thousands, except per share amounts) | 2010 | 2009 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 30,243 | \$ 17,774 |
| Accounts receivable, net | 127,388 | 113,718 |
| Inventories | 99,304 | 124,775 |
| Deferred income taxes | 3,813 | 3,118 |
| Prepaid expenses | 3,864 | 3,147 |
| Income tax receivable | 448 | 1,195 |
| Total current assets | 265,060 | 263,727 |
| Property, plant and equipment | 139,674 | 142,076 |
| Less: Accumulated depreciation | (78,490) | (72,215) |
| | 61,184 | 69,861 |
| Goodwill | 34,073 | 35,207 |
| Intangible assets | 5,500 | 5,803 |
| Deferred income taxes | 4,311 | 4,158 |
| Other assets | 855 | 1,201 |
| Total assets | \$ 370,983 | \$ 379,957 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 45,152 | \$ 36,005 |
| Income taxes payable | 1,567 | 2,688 |
| Accrued liabilities | 29,813 | 31,561 |
| Current maturities of long-term debt and capital lease obligations | 2,319 | 5,453 |
| Deferred income taxes | 338 | 4,109 |
| Total current liabilities | 79,189 | 79,816 |
| Long-term debt and capital lease obligation, net of current maturities | 23,106 | 44,336 |

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| | | |
|--|------------|------------|
| Accrued pension liabilities | 7,151 | 7,640 |
| Other long-term liabilities | 2,109 | 3,665 |
| Deferred income taxes | 6,168 | 7,581 |
| Stockholders' equity: | | |
| Common stock, \$.10 par value, 20,000,000 shares authorized; 11,872,479 and 11,789,529 issued and outstanding at December 31, 2010 and December 31, 2009, respectively | 1,187 | 1,179 |
| Additional paid-in capital | 84,377 | 82,721 |
| Treasury stock, at cost: 42,600 shares at December 31, 2010 and December 31, 2009 | (426) | (426) |
| Retained earnings | 166,589 | 148,298 |
| Accumulated other comprehensive income (loss) | 1,533 | 5,147 |
| Total stockholders' equity | 253,260 | 236,919 |
| Total liabilities and stockholders' equity | \$ 370,983 | \$ 379,957 |

See accompanying notes.

Alamo Group Inc. and Subsidiaries**Consolidated Statements of Income****Year Ended December 31,**

| (in thousands, except per share amounts) | 2010 | 2009 | 2008 |
|---|------------------|------------------|------------------|
| Net sales: | | | |
| North American | | | |
| Industrial | \$ 192,379 | \$ 173,905 | \$ 254,787 |
| Agricultural | 173,464 | 92,415 | 120,232 |
| European | 158,697 | 180,167 | 182,116 |
| Total net sales | 524,540 | 446,487 | 557,135 |
| Cost of sales | 407,626 | 351,926 | 447,721 |
| Gross profit | 116,914 | 94,561 | 109,414 |
| Selling, general and administrative expenses | 86,041 | 76,100 | 83,059 |
| Gain on bargain purchase | | (30,177) | |
| Goodwill impairment | | 14,104 | 5,010 |
| Income from operations | 30,873 | 34,534 | 21,345 |
| Interest expense | (3,664) | (4,766) | (7,450) |
| Interest income | 1,533 | 713 | 1,818 |
| Other income (expense), net | 290 | 625 | 1,513 |
| Income before income taxes | 29,032 | 31,106 | 17,226 |
| Provision for income taxes | 7,915 | 12,473 | 6,227 |
| Net income | \$ 21,117 | \$ 18,633 | \$ 10,999 |
| Net income per common share: | | | |
| Basic | \$ 1.79 | \$ 1.80 | \$ 1.12 |
| Diluted | \$ 1.78 | \$ 1.80 | \$ 1.11 |
| Average common shares: | | | |
| Basic | 11,782 | 10,330 | 9,847 |

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| | | | |
|---------|--------|--------|-------|
| Diluted | 11,893 | 10,363 | 9,950 |
|---------|--------|--------|-------|

See accompanying notes.

Alamo Group Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity

| (in thousands) | Additional | | | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income | Total Stock- holders Equity |
|---|------------------|-----------------|--------------------|-------------------|----------------------|---|-----------------------------------|
| | Common Shares | Stock Amount | Paid-in Capital | | | | |
| Balance at December 31, 2007 | 9,797 | \$ 984 | \$3,610 | \$(426) | \$ 123,426 | \$21,104 | \$ 198,698 |
| Net income | | | | | 10,999 | | 10,999 |
| Translation adjustment | | | | | | (18,121) | (18,121) |
| Unrealized derivative loss, net of taxes | | | | | | (800) | (800) |
| Net actuarial (loss) arising during period net of taxes | | | | | | (6,188) | (6,188) |
| Total comprehensive (loss) | | | | | | | (14,110) |
| Tax effect of non-qualified stock options | | | 361 | | | | 361 |
| Stock-based compensation | | | 563 | | | | 563 |
| Exercise of stock options | 125 | 12 | 1,149 | | | | 1,161 |
| Dividends paid (\$.24 per share) | | | | | (2,361) | | (2,361) |
| Balance at December 31, 2008 | 9,922 | \$ 996 | \$5,683 | \$(426) | \$ 132,064 | \$(4,005) | \$ 184,312 |
| Net income | | | | | 18,633 | | 18,633 |
| Translation adjustment | | | | | | 6,595 | 6,595 |
| Unrealized derivative gain, net of taxes | | | | | | 816 | 816 |
| Net actuarial gain arising during period net of taxes | | | | | | 1,741 | 1,741 |
| Total comprehensive income | | | | | | | 27,785 |
| Tax effect of non-qualified stock options | | | 122 | | | | 122 |
| Stock-based compensation | | | 543 | | | | 543 |
| Issuance of stock for acquisition | 1,700 | 170 | 25,268 | | | | 25,438 |
| Exercise of stock options | 125 | 13 | 1,105 | | | | 1,118 |
| Dividends paid (\$.24 per share) | | | | | (2,399) | | (2,399) |
| Balance at December 31, 2009 | 11,747 | \$ 1,179 | \$2,721 | \$(426) | \$ 148,298 | \$5,147 | \$ 236,919 |
| Net income | | | | | 21,117 | | 21,117 |
| Translation adjustment | | | | | | (3,659) | (3,659) |
| Unrealized derivative gain, net of taxes | | | | | | 573 | 573 |
| Net actuarial (loss) arising during period net of taxes | | | | | | (528) | (528) |
| Total comprehensive income | | | | | | | 17,503 |

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| | | | | | | | |
|----------------------------------|--------|----------|---------|---------|------------|---------|------------|
| Stock-based compensation | | | 674 | | | | 674 |
| Exercise of stock options | 83 | 8 | 982 | | | | 990 |
| Dividends paid (\$.24 per share) | | | | | (2,826) | | (2,826) |
| Balance at December 31, 2010 | 11,830 | \$ 1,187 | \$4,377 | \$(426) | \$ 166,589 | \$1,533 | \$ 253,260 |

See accompanying notes.

Alamo Group Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,

| (in thousands) | 2010 | 2009 | 2008 |
|---|-----------|-----------|-----------|
| Operating Activities | | | |
| Net income | \$ 21,117 | \$ 18,633 | \$ 10,999 |
| Adjustments to reconcile net income to cash provided by | | | |
| operating activities: | | | |
| Provision for doubtful accounts | 1,112 | 546 | 1,043 |
| Depreciation | 10,558 | 8,706 | 9,261 |
| Amortization of intangibles | 342 | 79 | 99 |
| Amortization of debt issuance | 375 | 63 | |
| Gain on bargain purchase | | (30,177) | |
| Goodwill impairment charge | | 14,104 | 5,010 |
| Stock-based compensation | 674 | 543 | 563 |
| Excess tax benefits from stock-based payment arrangements | | (122) | (52) |
| Provision for deferred income tax expense (benefit) | (6,384) | 8,896 | 89 |
| Gain on sale of equipment | (833) | (59) | (102) |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | | |
| Accounts receivable | (16,615) | 40,285 | (14,295) |
| Inventories | 24,603 | 32,432 | (6,694) |
| Prepaid expenses and other | (1,061) | 3,177 | (588) |
| Trade accounts payable and accrued liabilities | 9,133 | (25,408) | 5,004 |
| Income taxes payable | (268) | 2,423 | (217) |
| Other assets and liabilities, net | (876) | (2,035) | (1,396) |
| Net cash provided by operating activities | 41,877 | 72,086 | 8,724 |
| Investing Activities | | | |
| Acquisitions, net of cash acquired | | | (21,349) |
| Purchase of property, plant and equipment | (4,980) | (3,453) | (6,553) |
| Proceeds from sale of property, plant and equipment | 2,014 | 922 | 213 |
| Net cash used in investing activities | (2,966) | (2,531) | (27,689) |

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Financing Activities

| | | | |
|---|-----------|-----------|----------|
| Net change in bank revolving credit facility | (20,000) | (54,000) | 20,000 |
| Principal payments on long-term debt and capital leases | (4,545) | (2,255) | (1,604) |
| Proceeds from issuance of long-term debt | 368 | 1,387 | 1,941 |
| Debt issuance cost | | (938) | |
| Dividends paid | (2,826) | (2,399) | (2,361) |
| Proceeds from sale of common stock | 990 | 1,118 | 1,522 |
| Excess tax benefits from stock-based payment arrangements | | 122 | 52 |
| Net cash provided by (used in) financing activities | (26,013) | (56,965) | 19,550 |
| Effect of exchange rate changes on cash | (429) | 652 | (512) |
| Net change in cash and cash equivalents | 12,469 | 13,242 | 73 |
| Cash and cash equivalents at beginning of the year | 17,774 | 4,532 | 4,459 |
| Cash and cash equivalents at end of the year | \$ 30,243 | \$ 17,774 | \$ 4,532 |
| Cash paid during the year for: | | | |
| Interest | \$ 3,597 | \$ 5,179 | \$ 7,579 |
| Income taxes | 12,999 | 5,181 | 6,591 |

See accompanying notes.

Alamo Group Inc.

Notes to Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Description of the Business and Segments

The Company manufactures, distributes and services high quality tractor-mounted mowing and other vegetation maintenance equipment, street sweepers, excavators, vacuum trucks, snow removal equipment, pothole patchers, zero turn radius mowers, agricultural implements and related aftermarket parts and services.

The Company manages its business in three principal reporting segments: North America Agricultural, North American Industrial and European, which are discussed in Notes 15 and 16.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Alamo Group Inc. and its subsidiaries (the Company or Alamo Group), all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

We have evaluated subsequent events that occurred after December 31, 2010 through the filing of this Form 10-K. Any material subsequent events that occurred during this time have been properly recognized or disclosed in our financial statements.

Certain reclassifications have been made to prior year balances in order to conform to the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Judgments related to asset impairment and certain reserves are particularly subject to change. Actual results could differ from those estimates.

Foreign Currency

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The Company translates the assets and liabilities of foreign-owned subsidiaries at rates in effect at the end of the year. Revenues and expenses are translated at average rates in effect during the reporting period. Translation adjustments are included in accumulated other comprehensive income within the statement of stockholders' equity.

The Company enters into foreign currency forward contracts to hedge its exposure to certain foreign currency transactions. The Company does not hold or issue financial instruments for trading purposes. Changes in the market value of the foreign currency instruments are recognized in the financial statements upon settlement of the hedged transaction. On December 31, 2010, the Company had \$2,664,000 in outstanding forward exchange contracts related to sales. The unrealized loss of the December 31, 2010 contracts that the Company expects to incur during the first quarter of 2011 is approximately \$27,000, net of taxes. Foreign currency transaction gains or losses are included in Other income (expense), net. For 2010, 2009 and 2008, such transactions netted gains of \$265,000, \$625,000, and \$1,513,000, respectively.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. The credit risk is limited because of the large numbers and types of customers and their geographic dispersion.

Inventories

Inventories of U.S. operating subsidiaries are stated at the lower of cost (last-in, first-out method) (LIFO) or market, and the Company's international subsidiaries' inventories are stated at the lower of cost (first-in, first-out) (FIFO) or market.

Property, Plant and Equipment

Property, plant, and equipment are stated on the basis of cost. Major renewals and betterments are charged to the property accounts while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed to the current period. Depreciation is provided at amounts calculated to amortize the cost of the assets over their estimated useful economic lives using the straight-line method.

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. In the fourth quarter of each year, or when events and circumstances warrant such a review, the Company tests the goodwill of all of its reporting units for impairment. The goodwill impairment test is determined using a two-step process. The first step is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill (Step 1). If the fair value of a reporting unit exceeds its carrying value amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step is not necessary. However, if the carrying amount of the reporting unit exceeds its fair value, the second step (Step 2) is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any. Step 2 compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied value of goodwill is less than the carrying amount of goodwill, then a charge is recorded to reduce goodwill to the implied goodwill. The implied goodwill is calculated based on a hypothetical purchase price allocation, in that it takes the implied fair value of the reporting unit and allocates such fair value to the fair value of the assets and liabilities of the reporting unit.

The Company estimates the fair value of its reporting units using a discounted cash flow analysis. This analysis requires the Company to make significant assumptions and estimates about the extent and timing of future cash flows, discount rates and growth rates. The cash flows are estimated over a significant future period of time, which makes those estimates and assumptions subject to an even higher degree of uncertainty. The Company also utilizes market valuation models and other financial ratios, which require the Company to make certain assumptions and estimates regarding the applicability of those models to its assets and businesses. The Company believes that the assumptions and estimates used to determine the estimated fair values of each of its reporting units are reasonable. However, different assumptions could materially affect the estimated fair value. As of December 31, 2010, goodwill was \$34,073,000, which represents 9% of total assets. The Company recognized no goodwill impairment in 2010. The North American Industrial segment had a goodwill impairment of \$14,104,000 in 2009. During the 2010 impairment analysis review, it was noted that even though the *Schwarze* reporting unit's fair value was above carrying value it was not materially different. On December 31, 2010, there was approximately \$6.8 million of goodwill related to the *Schwarze* reporting unit. This reporting unit would be most likely affected by changes in the Company's assumptions and estimates. 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.

See Note 6 to the Consolidated Financial Statements for more information regarding goodwill.

Intangible Assets

The Company's definite-lived intangible assets consist primarily of patents and trade names. The gross carrying value of definite-lived intangible assets was zero on December 31, 2010 and \$1,147,000 on December 31, 2009 and \$1,391,000 on December 31, 2008. Accumulated amortization of definite-lived intangible assets was \$1,147,000 and \$1,088,000 on December 31, 2010 and 2009, respectively. Amortization expense of definite-lived intangible assets was \$79,000 in 2010, \$79,000 in 2009, and \$99,000 in 2008. During the fourth quarter of 2010, the Company wrote off \$224,000 in older patents which the Company believes no longer provide a competitive advantage. The net book value of the patents and trademarks was \$5,500,000 and \$5,803,000 as of December 31, 2010 and 2009, respectively.

Intangible assets with indefinite useful lives not subject to amortization consist of the *Gradall* trade name valued at \$3,600,000 and the *Bush Hog* trade name valued at \$1,900,000 on December 31, 2010.

The Company tests its indefinite-lived intangible assets for impairment on an annual basis at year-end, or more frequently if an event occurs or circumstances change that indicate that the fair value of an indefinite-lived intangible asset could be below its carrying amount. The impairment test consists of comparing the fair value of the indefinite-lived intangible asset, determined using the relief from royalty method, with its carrying amount. An impairment loss would be recognized for the carrying amount in excess of its fair value.

Identifiable intangible assets are recorded at estimated cost. Definite-lived intangible assets are amortized over their estimated useful lives.

Pensions

In connection with the February 3, 2006 purchase of all the net assets of the *Gradall* excavator business, the Company 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 JLG Industries, Inc., (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 220 former employees and 120 current employees who (i) were formerly employed by JLG Industries, Inc., (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 recognizes the funded status of the defined benefit pension plans as a liability in its statement of financial position and recognizes any changes in that funded status in the year in which the changes occur through other comprehensive income.

Related Party Transactions

There were no reportable relationships or related party transactions for the years ended December 31, 2010 and 2009. During 1999, the Company approved a supplemental retirement benefit for Donald J. Douglass which is paid on a quarterly basis over a period of fourteen and one-half years that began in the year 2000. The balance on December 31, 2010 and 2009 was \$248,000 and \$308,000, respectively, and is included in the Accrued liabilities and Other long-term liabilities sections of the Company's consolidated balance sheet.

Revenue Recognition

The Company recognizes revenue when each of the following four criteria are met: 1) a contract or sales arrangement exists; 2) products have been shipped per agreed terms and title has been transferred or services have been rendered; 3) the prices of the products or services are fixed or determinable; and 4) collectability is reasonably assured. Pre-season sales orders are solicited in the fall in advance of the dealer's sales season in the spring and summer. Pre-season sales orders are shipped beginning in the fall and continuing through the spring and represent an opportunity for the Company's factories to level their production/shipping volumes through the winter months. These pre-season shipments carry descending discounts in conjunction with delayed payment terms of up to six months from the dealer's requested delivery date. Revenue from sales is recorded net of a provision for discounts that are anticipated to be earned and deducted at time of payment by the customer. These approximated discounts represent an average of historical amounts taken and are adjusted as program terms are changed. The reserves for discounts are reviewed and adjusted quarterly. From time to time, revenue is recognized under a bill and hold arrangement.

Accounting for Internal Use Software

The Company capitalizes certain costs associated with the development and installation of internal use software. Internal use software costs are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage or the post-implementation stage. Amounts capitalized are amortized over the estimated useful lives of the software.

The book value of capitalized software net of depreciation is approximately \$1,779,000 and \$1,516,000 on December 31, 2010 and December 31, 2009, respectively. Software depreciation expense was \$749,000, \$721,000 and \$992,000 in 2010, 2009 and 2008, respectively. Internal use software is amortized for financial reporting purposes using the straight-line method over the estimated life of two to seven years.

Shipping and Handling Costs

The Company's policy is to include shipping and handling costs in costs of goods sold.

Advertising

We charge advertising costs to expense as incurred. Advertising and marketing expense related to operations for fiscal years 2010, 2009 and 2008 was approximately \$5,135,000, \$4,378,000 and \$5,735,000, respectively. Advertising and marketing expenses are included in Selling, General and Administrative expenses (SG&A).

Research and Development

Product development and engineering costs charged to SG&A amounted to \$5,774,000, \$4,762,000, and \$5,443,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Legal Costs

The Company's policy is to accrue for legal costs expected to be incurred in connection with loss contingencies.

Federal Income Taxes

Deferred tax assets and liabilities are determined based on differences between the financial reporting basis and tax basis of assets and liabilities and are measured by applying enacted statutory tax rates applicable to the future years in which deferred tax assets or liabilities are expected to be settled or realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that we will realize the benefits of these deductible differences.

We do not provide for a U.S. income tax liability on undistributed earnings of our foreign subsidiaries. The earnings of non-U.S. subsidiaries, which reflect full provision for non-U.S. income taxes, are currently indefinitely reinvested in non-U.S. operations.

Business Combinations

Effective January 1, 2009, we adopted the new provisions of ASC Topic 805, Business Combinations, which address the recognition and measurement of (i) identifiable assets acquired or liabilities assumed, and any non-controlling interest in the acquiree, and (ii) goodwill acquired or gain from a bargain purchase. In addition, acquisition-related costs are accounted for as expenses in the period in which the costs are incurred and the services are received. These provisions were applied to the acquisition of certain assets and liabilities of Bush Hog LLC in the fourth quarter of 2009, which is discussed in Note 20.

Stock-Based Compensation

Effective January 1, 2006, we began using the modified-prospective transition method. However, for unvested equity awards outstanding as of the date of January 1, 2006, we continue to amortize those awards using the minimum value method. Beginning January 1, 2006 measurement and recognition of compensation expense for all share-based payment awards made to employees and directors is recognized based on estimated fair values. We use the Black-Scholes pricing model to determine the fair value of the stock options on the grant dates for stock awards made on or after January 1, 2006, and we amortize the fair value of share-based payments on a straight-line basis over the requisite service periods of the award, which is generally the vesting period.

The Black-Scholes valuation model requires us to make assumptions and judgments about the variables used in the calculation. These variables and assumptions include the fair value of our common stock, expected term, the expected volatility, the risk-free interest rate, expected dividends, and the estimated rate of forfeitures of unvested stock options.

The Company calculated the fair value for options using a Black-Scholes option-pricing model with the following weighted-average assumptions for 2010, 2009, and 2008:

| | December 31, 2010 | 2009 | 2008 |
|--------------------------------|------------------------------|-------------|-------------|
| Risk-free interest rate | 3.04% | 2.67% | 3.13% |
| Dividend yield | 1.20% | 1.20% | 1.20% |
| Volatility factors | 44.3% | 42.8% | 43.6% |
| Weighted-average expected life | 8.0 years | 7.5 years | 9.0 years |

Fair Value Measurements and Disclosures

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In January 2010, the provisions of ASC Topic 820 were modified to require additional disclosures, including transfers in and out of Level 1 and 2 fair value measurements and the gross basis presentation of the reconciliation of Level 3 fair value measurements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosures related to Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 (including interim periods). Early adoption is permitted. We have adopted all of these provisions of ASC Topic 820 effective December 31, 2009. Since only disclosures are affected by these requirements, the adoption of these provisions did not affect our financial position or results of operations.

2. 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 does not differ.

| (in thousands, except per share amounts) | 2010 | 2009 | 2008 |
|---|-----------|-----------|-----------|
| Net income | \$ 21,117 | \$ 18,633 | \$ 10,999 |
| Average common shares: | | | |
| Basic (weighted-average outstanding shares) | 11,782 | 10,330 | 9,847 |
| Dilutive potential common shares from stock options | 111 | 33 | 103 |
| Diluted (weighted-average outstanding shares) | 11,893 | 10,363 | 9,950 |
| Basic earnings per share | \$ 1.79 | \$ 1.80 | \$ 1.12 |
| Diluted earnings per share | \$ 1.78 | \$ 1.80 | \$ 1.11 |

Stock options totaling 133,700 shares in 2010, 304,533 shares in 2009, and 188,523 shares in 2008 were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive.

3. VALUATION AND QUALIFYING ACCOUNTS

Valuation and qualifying accounts included the following:

| (in thousands) | Balance Beginning of Year | Net Charged to Costs and Expenses | Translations, Reclassifications and Acquisitions | Net Write-Offs or Discounts Taken | Balance End of Year |
|------------------------------------|---------------------------------|--|--|--|---------------------------|
| 2010 | | | | | |
| Allowance for doubtful accounts | \$ 2,548 | \$ 1,112 | \$ (81) | \$ (727) | \$ 2,852 |
| Reserve for sales discounts | 3,803 | 51,813 | (2) | (43,711) | 11,903 |
| Reserve for inventory obsolescence | 9,060 | 2,811 | (230) | (4,135) | 7,506 |
| Reserve for warranty | 5,972 | 7,225 | (173) | (7,470) | 5,554 |
| 2009 | | | | | |
| Allowance for doubtful accounts | \$ 2,430 | \$ 546 | \$ 114 | \$ (543) | \$ 2,548 |
| Reserve for sales discounts | 6,849 | 25,514 | 5 | (28,565) | 3,803 |
| Reserve for inventory obsolescence | 8,978 | 1,515 | 163 | (1,596) | 9,060 |
| Reserve for warranty | 4,764 | 6,609 | 1,250 | (6,651) | 5,972 |
| 2008 | | | | | |
| Allowance for doubtful accounts | \$ 1,922 | \$ 948 | \$ 18 | \$ (458) | \$ 2,430 |
| Reserve for sales discounts | 6,338 | 36,311 | (16) | (35,784) | 6,849 |
| Reserve for inventory obsolescence | 8,526 | 570 | 452 | (570) | 8,978 |
| Reserve for warranty | 4,093 | 7,554 | 286 | (7,169) | 4,764 |

Allowance for Doubtful Accounts

The Company evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations, the Company 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 aging and changes in current economic

conditions.

The Company evaluates all receivables that are over 60 days old and will reserve specifically on a 90-day basis. The Company has a secured or insured interest on most of its wholegoods that 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 also allows Alamo Group to maintain only a reserve over its cost, which usually represents the margin on the original sales price.

The allowance for doubtful accounts balance was \$2,852,000 on December 31, 2010, and \$2,548,000 on December 31, 2009. The increase was mainly from the Company's Agricultural operations.

Sales Discounts

On December 31, 2010, the Company had \$11,903,000 in reserves for sales discounts compared to \$3,803,000 on December 31, 2009 on product shipped to our customers under various promotional programs. The increase was due primarily to higher sales activity of the Company's agricultural products during the pre-season, which runs from September to December of each year with orders shipped through the first quarter of 2011. The Company reviews the reserve quarterly based on analysis made on each program outstanding at the time.

The Company bases its reserves on historical data relating to discounts taken by the customer under each program. Historically, between 85% and 95% of the Company's customers who qualify for each program actually take the discount that is available.

Inventories - Obsolete and Slow Moving

The Company had a reserve of \$7,506,000 on December 31, 2010 and \$9,060,000 on December 31, 2009 to cover obsolete and slow moving inventory. The decrease in the reserve was mainly from the Company's U.S. operations, specifically its facilities in Gibson City and Indianola as a result of greater disposals and sales of slow moving and obsolete inventory. The obsolete and slow moving inventory policy states that the reserve is to be calculated as follows: 1) no inventory usage over a three-year period 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.

Warranty

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

Warranty reserve, as a percentage of sales, is generally calculated by looking at the current twelve months' expenses and prorating that amount based on twelve months' sales with a ninety-day to 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 made when required.

The current liability warranty reserve balance was \$5,554,000 on December 31, 2010 and \$5,972,000 on December 31, 2009. The decrease came mainly from the acquisition of *Bush Hog*.

4. INVENTORIES

Inventories valued at LIFO represented 63% of total inventory for the years ended December 31, 2010 and 2009, respectively. The excess of current costs over LIFO-valued inventories was \$7,654,000 and \$9,106,000 on December 31, 2010 and December 31, 2009, respectively. The \$1,452,000 decrease in LIFO reserve during 2010 came from reductions in inventory levels within U.S. operations. The impact of the application of the LIFO method on the Statement of Income for the years ended December 31, 2010, was a decrease to cost of sales of \$1,452,000, and a decrease in 2009 of \$3,685,000 and an increase in 2008 of \$3,729,000. Inventories consisted of the following on a cost basis, net of reserves:

| (in thousands) | December 31, 2010 | 2009 |
|----------------|----------------------|------|
|----------------|----------------------|------|

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| | | |
|--------------------------|-----------|------------|
| Finished goods and parts | \$ 80,102 | \$ 103,134 |
| Work in process | 9,857 | 10,611 |
| Raw materials | 9,345 | 11,030 |
| | \$ 99,304 | \$ 124,775 |

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| (in thousands) | December 31, | | Useful Lives |
|--------------------------------|--------------|-----------|-----------------|
| | 2010 | 2009 | |
| Land | \$ 8,656 | \$ 9,226 | |
| Buildings and improvements | 55,237 | 58,862 | 10-20 yrs. |
| Machinery and equipment | 55,438 | 54,478 | 3-15 yrs. |
| Office furniture and equipment | 5,769 | 6,065 | 3-7 yrs. |
| Computer software | 10,111 | 9,078 | 2-7 yrs. |
| Transportation equipment | 4,463 | 4,367 | 3 yrs. |
| | 139,674 | 142,076 | |
| Accumulated depreciation | (78,490) | (72,215) | |
| | \$ 61,184 | \$ 69,861 | |

Property, plant and equipment on December 31, 2010 and December 31, 2009 include \$16,955,000 and \$18,364,000, respectively, for items listed above that are held under capital leases. Accumulated depreciation relating to the capital leases on December 31, 2010 and 2009 was \$7,428,000 and \$7,233,000, respectively. Amortization related to the capital lease is included in depreciation expense.

6. GOODWILL

The changes in the carrying amount of goodwill for the twelve months ended December 31, 2008, 2009 and 2010 are as follows:

| (in thousands) | | |
|-------------------------------|----|---------|
| Balance at December 31, 2007 | \$ | 43,946 |
| Acquisition (<i>Rivard</i>) | | 12,787 |
| Translation adjustment | | (3,616) |
| Goodwill impairment | | (5,010) |
| Balance at December 31, 2008 | \$ | 48,107 |

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| | | |
|------------------------------|----|----------|
| Translation adjustment | | 1,204 |
| Goodwill impairment | | (14,104) |
| Balance at December 31, 2009 | \$ | 35,207 |
| Translation adjustment | | (1,134) |
| Balance at December 31, 2010 | \$ | 34,073 |

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following balances:

| (in thousands) | December 31, | |
|-----------------------------|--------------|-----------|
| | 2010 | 2009 |
| Salaries, wages and bonuses | \$ 12,605 | \$ 12,696 |
| Warranty | 5,554 | 5,972 |
| State taxes | 5,323 | 5,463 |
| Retirement | 2,210 | 2,313 |
| Other | 4,121 | 5,117 |
| | \$ 29,813 | \$ 31,561 |

8. LONG-TERM DEBT

The components of long-term debt are as follows:

| (in thousands) | December 31, | |
|--------------------------------|---------------------|-------------|
| | 2010 | 2009 |
| Bank revolving credit facility | \$ 21,000 | \$ 41,000 |
| Capital lease obligations | 1,763 | 3,233 |
| Other notes payable | 2,662 | 5,556 |
| Total debt | 25,425 | 49,789 |
| Less current maturities | 2,319 | 5,453 |
| Total long-term debt | \$ 23,106 | \$ 44,336 |

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 October 14, 2008, the Company entered into the Sixth Amendment and Waiver under the Amended and Restated Revolving Credit Agreement. The purpose of the amendment and waiver was to clarify company names within the Obligated Group after merging or dissolving some subsidiaries, to define operating cash flow and defining quarterly operating cash flow for *Rivard* through March 31, 2009. Beginning June 30, 2009, *Rivard*'s actual operating cash flow will be used in the calculation of consolidated operating cash flow.

On November 6, 2009, the Company entered into the Seventh Amendment of the Amended and Restated Revolving Credit Agreement with Bank of America, N.A., Wells Fargo Bank, N.A., BBVA Compass Bank, and Rabobank, as its lenders. The revolving credit line remained at \$125.0 million. Prior to the execution of this Amendment, BBVA Compass Bank acquired certain assets of Guaranty Bank which included this credit facility, and JPMorgan Chase Bank assigned its interest to Well Fargo Bank, N.A. The purpose of the amendment was to add *Bush Hog* as a member of the Obligated Group and pledge a first priority security interest in certain U.S. assets (accounts receivable, inventory, equipment, trademarks and trade names) of the Borrower and each member of the Obligated Group. The Lenders agreed to increase the operating leverage ratio during the next three quarters and to add a new EBIT to Interest Expense covenant in exchange for a commitment fee and an increase in the Applicable Interest Margin over LIBOR or Prime Rate advances.

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As of December 31, 2010, there was \$21,000,000 borrowed under the revolving credit facility. On December 31, 2010, \$833,000 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 \$103,000,000 in available borrowings.

On May 13, 2008, Alamo Group Europe Limited expanded its overdraft facility with Lloyd's TSB Bank plc from £ 1.0 million to £ 5.5 million. The facility was renewed on October 29, 2010 and outstandings currently bear interest at Lloyd's Base Rate plus 1.4% per annum. The facility is unsecured but guaranteed by the U.K. subsidiaries of Alamo Group Europe Limited. As of December 31, 2010, there were no outstanding balances in British pounds borrowed against the U.K. overdraft facility.

There are additional lines of credit: for the Company's French operations in the amount of 7,300,000 Euros, which includes the *Rivard* credit facilities; 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 December 31, 2010, no Euros were borrowed against the French line of credit; no Canadian dollars were outstanding on the Canadian line of credit; and 600,000 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 December 31, 2010, the Company is in compliance with the terms and conditions of its credit facilities.

The aggregate maturities of long-term debt, as of December 31, 2010, are as follows: \$2,319,000 in 2011; \$21,477,000 in 2012; \$499,000 in 2013; \$336,000 in 2014; \$242,000 in 2015; and \$552,000 thereafter.

The fair value of the Company's debt is based on secondary market indicators. Since the Company's debt is not quoted, estimates are based on each obligation's characteristics, including remaining maturities, interest rate, credit rating, collateral, amortization schedule and liquidity. The carrying amount approximates fair value.

9. 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 JPMorgan that hedge future cash flows related to its outstanding debt obligations. One swap had a three-year term and fixed the LIBOR base rate at 4.910% covering \$20 million of this debt which expired on March 31, 2010. The other swap has a four-year term and fixed the LIBOR base rate at 4.935% covering an additional \$20 million of these variable rate borrowings and expires on March 31, 2011. On November 5, 2009, JPMorgan transferred the swap transactions to Bank of America. The terms of the hedging instrument remain the same. As of December 31, 2010, the Company had \$21 million outstanding under its revolving credit facility and one interest rate swap contract designated as cash flow hedge which is effectively hedging \$20 million of these borrowings from changes in underlying LIBOR base rates. The fair market value of this hedge, which is the amount that would have been paid or received by the Company had it prematurely terminated this swap contract at December 31, 2010, was a \$231,000 liability. This is included in Accrued liabilities with an offset in Accumulated other comprehensive income, net of taxes. At December 31, 2010, ineffectiveness related to the interest rate swap agreement was not material.

10. FAIR VALUE MEASUREMENTS

Fair value is defined 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. In 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 \$231,000 in a liability position as of December 31, 2010.

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 \$43,000 in a liability position as of December 31, 2010.

11. INCOME TAXES

The jurisdictional components of income before taxes consist of the following:

| (in thousands) | December 31, | | |
|------------------------------------|---------------------|-------------|-------------|
| | 2010 | 2009 | 2008 |
| Income before income taxes: | | | |
| Domestic | \$ 15,639 | \$ 13,381 | \$ 2,176 |
| Foreign | 13,393 | 17,725 | 15,050 |
| | \$ 29,032 | \$ 31,106 | \$ 17,226 |

The components of income tax expense (benefit) consist of the following:

| (in thousands) | December 31, | | |
|------------------|---------------------|-------------|-------------|
| | 2010 | 2009 | 2008 |
| Current: | | | |
| Domestic | \$ 8,995 | \$ (1,059) | \$ 891 |
| Foreign | 3,851 | 5,017 | 4,789 |
| State | 1,453 | (381) | 458 |
| | 14,299 | 3,577 | 6,138 |
| Deferred: | | | |
| Domestic | (5,308) | 8,017 | (242) |
| Foreign | (284) | (641) | 331 |
| State | (792) | 1,520 | |

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| | | | | | | |
|--------------------|----|---------|----|--------|----|-------|
| | | (6,384) | | 8,896 | | 89 |
| Total income taxes | \$ | 7,915 | \$ | 12,473 | \$ | 6,227 |

The difference between income tax expense (benefit) for financial statement purposes and the amount of income tax expense computed by applying the domestic statutory income tax rate of 34% to income loss before income taxes consist of the following:

| (in thousands) | | December 31, | | |
|-----------------------------------|----|--------------|-----------|----------|
| | | 2010 | 2009 | 2008 |
| Domestic statutory rate at 34% | \$ | 9,871 | \$ 10,576 | \$ 5,857 |
| Increase (reduction) from: | | | | |
| Jurisdictional rate differences | | (986) | (581) | (634) |
| Goodwill impairment | | | 2,686 | 424 |
| Valuation allowance | | | (793) | |
| Stock based compensation | | 135 | 138 | 144 |
| U.S. state taxes | | 436 | 745 | 324 |
| Domestic Production Deduction | | (744) | (50) | |
| R&E Credit Reserve | | (1,068) | | |
| Other, net | | 271 | (248) | 112 |
| Provision for income taxes | \$ | 7,915 | \$ 12,473 | \$ 6,227 |
| Effective tax rate | | 27% | 40% | 36% |

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Deferred income taxes arise from temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. The components of the Company's deferred income tax assets and liabilities consist of the following:

| (in thousands) | December 31, | |
|--|---------------------|-------------------|
| | 2010 | 2009 |
| Current: | | |
| Deferred tax assets: | | |
| Inventory basis differences | \$ 1,219 | \$ 283 |
| Accounts receivable reserve | 665 | 413 |
| Employee benefit accruals | 347 | 935 |
| Product liability and warranty reserves | 1,035 | 433 |
| Expenses not deductible for tax purposes | 547 | 630 |
| Foreign net operating loss | | 424 |
| Other | | 3,813 |
| | 3,813 | 3,118 |
| Deferred tax liabilities: | | |
| Inventory basis differences | | (3,376) |
| Expenses deductible for tax purposes | (338) | (733) |
| | (338) | (4,109) |
| Net current deferred tax asset | \$ 3,475 | \$ (991) |
| Non-Current: | | |
| Deferred tax assets: | | |
| Environmental reserve | \$ 568 | \$ 611 |
| Pension liability | 2,717 | 2,845 |
| Derivative liability | 88 | 481 |
| Stock based compensation | 325 | 221 |
| Foreign net operating loss | 613 | |
| Valuation allowance | | 4,311 |
| | 4,311 | 4,158 |
| Deferred tax liabilities: | | |
| Depreciation | (5,444) | (6,949) |
| Intangible assets | (277) | (277) |
| Deferred revenue | (355) | (355) |
| | (6,168) | (7,581) |
| Net non-current tax asset (liability) | \$ (1,857) | \$ (3,423) |

As of December 31, 2010, the Company had foreign deferred tax assets consisting of foreign net operating losses and other tax benefits available to reduce future taxable income in a foreign jurisdiction. The net operating loss (NOL) has an unlimited carry-forward.

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In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the expectation of future taxable income and that the deductible temporary differences will offset existing taxable temporary differences, the Company believes it is more likely than not that it will realize the benefits of these deductible differences.

Deferred income taxes have not been provided on the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and the respective tax bases of the Company's foreign subsidiaries, based on the determination that such differences are essentially permanent in duration in that the earnings of the subsidiaries are expected to be indefinitely reinvested in foreign operations. As of December 31, 2010, the cumulative undistributed earnings of these subsidiaries approximated \$102,223,000. If these earnings were not considered indefinitely reinvested, deferred income taxes would have been recorded after the consideration of foreign tax credits. At this time, it is not practicable to estimate the amount of additional income taxes that might be payable on those earnings, if distributed.

The Company adopted the provisions of FASB ASC Section 740-10-25 (formerly FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes) on January 1, 2007. During 2009, the Company removed their liability for unrecognized tax positions after a reevaluation of the liabilities under the measurement criteria of ASC 740. During the third quarter of 2010, the Company completed a research and development credit study (R&D study) related to prior year tax returns. The R&D study resulted in tax credits of approximately \$1,100,000. The Company has recorded an unrecognized tax benefit in the amount of \$193,000 that if recognized would affect our annual effective tax rate. We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

| (in thousands) | December 31, | |
|---|---------------------|-------------|
| | 2010 | 2009 |
| Balance as of beginning of year | \$ | \$ 465,000 |
| Additions for tax positions related to prior years | 193,000 | |
| Reductions for tax positions related to prior years | | (465,000) |
| Balance as of end of year | \$ 193,000 | \$ |

The Company adopted the policy to include interest and penalty expense related to income taxes as interest and other expense, respectively. As of December 31, 2010, no interest or penalties has been or is required to be accrued. The Company's open tax years for its federal and state income tax returns are for the tax years ended 2006 through 2010.

12. COMMON STOCK

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. No shares were repurchased in 2009 or 2010. The authorization to repurchase up to 1,000,000 shares remains available less 42,600 shares, previously purchased.

Subsequent to December 31, 2010, the Company declared and paid a dividend of \$.06 per share.

13. STOCK OPTIONS

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.

There are 58,030 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 Incentive Stock Option Plan (2005 ISO Plan) and the Company reserved 500,000 shares of common stock for options to be issued under the 2005 ISO Plan . During the years ended December 31, 2010, 2009 and 2008, options to purchase 19,000 shares, 99,000 shares and 39,000 shares, respectively, were granted under this plan. 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.

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

| | 2010 | | 2009 | | 2008 | |
|--|---------|-----------------|---------|-----------------|----------|-----------------|
| | Shares | Exercise Price* | Shares | Exercise Price* | Shares | Exercise Price* |
| Options outstanding at beginning of year | 345,480 | \$ 18.73 | 253,980 | \$ 20.44 | 277,080 | \$ 18.26 |
| Granted | 19,000 | 24.69 | 99,000 | 11.45 | 39,000 | 22.55 |
| Exercised | (4,350) | 12.98 | | | (49,100) | 9.76 |
| Cancelled | | | (7,500) | 20.04 | (13,000) | 20.71 |
| Options outstanding at end of year | 360,130 | 18.29 | 345,480 | 18.73 | 253,980 | 20.44 |
| Options exercisable at end of year | 209,530 | \$ 18.86 | 156,780 | \$ 18.74 | 118,180 | \$ 17.55 |
| Options available for grant at end of year | 195,500 | | 214,500 | | 307,000 | |

*Weighted Averages

Options outstanding and exercisable at December 31, 2010 were as follows:

| Qualified Stock Options | Options Outstanding | | | Options Exercisable | |
|-------------------------|---------------------|-------------|-----------------|---------------------|-----------------|
| | Shares | Life (yrs)* | Exercise Price* | Shares | Exercise Price* |
| Range of Exercise Price | | | | | |
| \$11.45 - \$17.85 | 153,130 | 6.80 | \$ 12.24 | 75,130 | \$ 13.06 |
| \$19.79 - \$25.18 | 207,000 | 6.75 | 22.77 | 134,400 | 22.10 |
| Total | 360,130 | | | 209,530 | |

*Weighted Averages

The weighted-average grant-date fair values of options granted during 2010, 2009, and 2008 were \$11.40, \$5.08 and \$10.72, respectively. As of December 31, 2010, there was \$859,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a period of five years.

Non-qualified Options

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On May 7, 2009, the stockholders of the Company approved the 2009 Equity Incentive Plan and the Company reserved 400,000 shares of common stock for this plan. Options become 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 Non-Qualified Stock Option Plans for the periods indicated:

| | 2010 | | 2009 | | 2008 | |
|--|----------|-----------------|-----------|-----------------|----------|-----------------|
| | Shares | Exercise Price* | Shares | Exercise Price* | Shares | Exercise Price* |
| Options outstanding at beginning of year | 186,000 | \$ 14.57 | 226,000 | \$ 12.62 | 302,000 | \$ 11.71 |
| Granted | | | 85,000 | 11.45 | | |
| Exercised | (78,600) | 12.52 | (125,000) | 8.94 | (76,000) | 8.98 |
| Cancelled | (5,000) | 25.18 | | | | |
| Options outstanding at end of year | 102,400 | 15.62 | 186,000 | 14.57 | 226,000 | 12.62 |
| Options exercisable at end of year | 30,300 | \$ 20.79 | 79,000 | \$ 15.17 | 194,500 | \$ 10.76 |
| Options available for grant at end of year | 364,000 | | 367,000 | | 63,500 | |

*Weighted Averages

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Options outstanding and exercisable as of December 31, 2010 were as follows:

| Non-Qualified Stock Options | Options Outstanding | | | Options Exercisable | |
|--------------------------------|---------------------|--|--------------------|---------------------|--------------------|
| | Shares | Remaining Contractual Life(yrs)* | Exercise Price* | Shares | Exercise Price* |
| Range of Exercise Price | | | | | |
| \$11.45 - \$12.10 | 68,900 | 9.00 | \$11.45 | 7,300 | \$11.45 |
| \$13.96 - \$19.79 | 6,000 | 5.00 | 19.79 | 6,000 | 19.79 |
| \$25.02 - \$25.18 | 27,500 | 6.91 | \$25.17 | 17,000 | \$25.16 |
| Total | 102,400 | | | 30,300 | |

*Weighted Averages

The weighted-average grant-date fair values of options granted during 2009 were \$5.08. There were no options granted in 2010. As of December 31, 2010, there was \$326,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a period of five years.

During 2010, 2009 and 2008, 78,600, 125,000, and 76,000 non-qualified options, respectively, were exercised, \$984,000, \$1,117,000, and \$682,000 of cash receipts were received, respectively, and tax deductions of \$796,000, \$289,000, and \$951,000 were realized, respectively, for the tax deductions from option exercises.

Restricted Stock Units

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

| | Shares | Price | Weighted-average remaining contractual term (in years) |
|--|---------|----------|---|
| Options outstanding at beginning of year | 8,000 | 11.45 | |
| Granted | 3,000 | \$ 24.69 | 3.33 |
| Vested | (2,000) | 11.45 | |
| Forfeited or Cancelled | | | |
| Options outstanding at end of year | 9,000 | \$ 15.86 | |

Restricted stock units vest 25% after one year following the award date and for an additional 25% of total awarded shares each succeeding year until fully vested. As of December 31, 2010, there was \$198,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plans. That cost is expected to be recognized over a period of four years.

14. RETIREMENT BENEFIT PLANS

Defined Benefit Plans

In connection with the February 3, 2006 purchase of all the net assets of the *Gradall* excavator business, the Company assumed sponsorship of two *Gradall* non-contributory defined benefit pension plans, both of which are 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 JLG Industries, Inc., (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.

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The *Gradall* Company Employees Retirement Plan covers approximately 220 former employees and 120 current employees who (i) were formerly employed by JLG Industries, Inc., (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 set forth the change in plan assets, change in projected benefit obligation, rate assumptions and components of net periodic benefit cost as of December 31 with respect to these plans. The measurement dates of the assets and liabilities of both plans were December 31 of the respective years presented.

| (in thousands) | Year ended December 31, 2010 | | Total |
|--|-------------------------------------|---------------------------------|------------|
| | Hourly Employees Pension Plan | Employees Retirement Plan | |
| Change in projected benefit obligation | | | |
| Benefit obligation at beginning of year | \$ 9,067 | \$ 15,056 | \$ 24,123 |
| Service cost | 6 | 3 | 9 |
| Interest cost | 498 | 864 | 1,362 |
| Liability actuarial (gain)/loss | 578 | 1,119 | 1,697 |
| Benefits paid | (638) | (615) | (1,253) |
| Benefit obligation at end of year | 9,511 | 16,427 | 25,938 |
| Change in fair value of plan assets | | | |
| Fair value of plan assets at beginning of year | 5,560 | 10,922 | 16,482 |
| Return on plan assets | 678 | 1,319 | 1,997 |
| Employer contributions | 702 | 859 | 1,561 |
| Benefits paid | (638) | (615) | (1,253) |
| Fair value of plan assets at end of year | 6,302 | 12,485 | 18,787 |
| Underfunded status December 31, 2010 | \$ (3,209) | \$ (3,942) | \$ (7,151) |
| Accumulated benefit obligation December 31, 2010 | \$ 9,511 | \$ 16,427 | \$ 25,938 |

| (in thousands) | Year ended December 31, 2009 | | Total |
|---|-------------------------------------|---------------------------------|-----------|
| | Hourly Employees Pension Plan | Employees Retirement Plan | |
| Change in projected benefit obligation | | | |
| Benefit obligation at beginning of year | \$ 8,848 | \$ 14,254 | \$ 23,102 |
| Service cost | 8 | 4 | 12 |

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| | | | |
|--|------------|------------|------------|
| Interest cost | 518 | 863 | 1,381 |
| Liability actuarial (gain)/loss | 309 | 497 | 806 |
| Benefits paid | (616) | (562) | (1,178) |
| Benefit obligation at end of year | 9,067 | 15,056 | 24,123 |
| Change in fair value of plan assets | | | |
| Fair value of plan assets at beginning of year | 4,961 | 9,460 | 14,421 |
| Return on plan assets | 967 | 1,939 | 2,906 |
| Employer contributions | 249 | 85 | 334 |
| Benefits paid | (616) | (562) | (1,178) |
| Fair value of plan assets at end of year | 5,561 | 10,922 | 16,483 |
| Underfunded status December 31, 2009 | \$ (3,506) | \$ (4,134) | \$ (7,640) |
| Accumulated benefit obligation December 31, 2009 | \$ 9,067 | \$ 15,056 | \$ 24,123 |

The Company recognizes the overfunded or underfunded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of defined benefit postretirement plans as an asset or liability in its statement of financial position and recognized changes in the funded status in the year in which the changes occur. The Company measures the funded status of a plan as of the date of its year-end statement of financial position.

The underfunded status of the plan of \$7,151,000 and \$7,640,000 as of December 31, 2010 and 2009, respectively, is recognized in the accompanying consolidated balance sheets as long-term accrued pension liability because plan assets are less than the value of benefit obligations expected to be paid.

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels.

In determining the projected benefit obligation and the net pension cost, we used the following significant weighted-average assumptions:

Assumptions used to determine benefit obligations at December 31:

| | Hourly Employees Pension Plan | | Employees Retirement Plan | |
|---|--|-------------|--------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Discount rate | 5.12% | 5.67% | 5.30% | 5.83% |
| Composite rate of compensation increase | N/A | N/A | N/A | N/A |

Assumptions used to determine net periodic benefit cost for the years ended December 31:

| | Hourly Employees Pension Plan | | Employees Retirement Plan | |
|---|--|-------------|--------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Discount rate | 5.67% | 6.15% | 5.83% | 6.14% |
| Long-term rate of return on plan assets | 7.75% | 7.75% | 7.75% | 7.75% |

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| | | | | |
|---|-----|-----|-----|-----|
| Composite rate of compensation increase | N/A | N/A | N/A | N/A |
|---|-----|-----|-----|-----|

The Company employs a building block approach in determining the expected long-term rate on return on plan assets. Historical markets are studied and long-term historical relationships between equities and fixed income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term market assumptions are determined. The long-term portfolio return is established via a building block approach with proper consideration of diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

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The following tables present the components of net periodic benefit cost (gains are denoted with parentheses and losses are not):

Year ended December 31, 2010

| (in thousands) | Hourly Employees Pension Plan | Employees Retirement Plan | Total |
|------------------------------------|--|--------------------------------------|--------------|
| Service cost | \$ 6 | \$ 3 | \$ 9 |
| Interest cost | 499 | 864 | 1,363 |
| Expected return on plan assets | (431) | (850) | (1,281) |
| Amortization of prior service cost | | | |
| Amortization of net (gain)/loss | 96 | 33 | 129 |
| Net periodic benefit cost | \$ 170 | \$ 50 | \$ 220 |

Year ended December 31, 2009

| (in thousands) | Hourly Employees Pension Plan | Employees Retirement Plan | Total |
|------------------------------------|--|--------------------------------------|--------------|
| Service cost | \$ 8 | \$ 4 | \$ 12 |
| Interest cost | 518 | 863 | 1,381 |
| Expected return on plan assets | (372) | (715) | (1,087) |
| Amortization of prior service cost | | | |
| Amortization of net (gain)/loss | 130 | 117 | 247 |
| Net periodic benefit cost | \$ 284 | \$ 269 | \$ 553 |

The Company estimates that \$194,000 of unrecognized actuarial expense will be amortized from accumulated other comprehensive income into net periodic benefit costs during 2011.

The Company employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

The pension plans' weighted-average asset allocations as a percentage of plan assets at December 31 are as follows:

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| | Hourly Employees | | Employees Retirement | |
|------------------------|------------------|------|----------------------|------|
| | Pension Plan | | Plan | |
| | 2010 | 2009 | 2010 | 2009 |
| Equity securities | 47% | 60% | 47% | 57% |
| Debt securities | 45% | 37% | 45% | 42% |
| Short-term investments | 3% | 2% | 3% | 0% |
| Other | 5% | 1% | 5% | 1% |
| Total | 100% | 100% | 100% | 100% |

As of December 31, 2010, we used the following valuation techniques to measure fair value for assets. There were no changes to these methodologies during 2010: Level 1 - Assets were valued using the closing price reported in the active market in which the individual security was traded. Level 2 - Assets were valued using quoted prices in markets that are not active, broker dealer quotations, net asset value of shares held by the plans, and other methods by which all significant input were observable at the measurement date. Level 3 - Assets were valued using valuation reports from the respective institutions at the measurement date. The following table presents the hierarchy levels for our postretirement benefit plan investments as of December 31, 2010:

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| (in thousands) | December 31, 2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|--------------------------|--|---|---|
| Mutual Funds: | | | | |
| Small Cap | \$ 1,418 | \$1,418 | \$- | \$- |
| Mid Cap | 1,737 | 1,737 | | |
| Large Cap | 6,567 | 6,567 | | |
| Common/Collective: | | | | |
| Liability Driven Solution | 4,266 | | 4,266 | |
| Wells Fargo International Equity Index Fund | 703 | | 703 | |
| Wells Fargo Large Cap Growth Index Fund | 1,273 | | 1,273 | |
| Wells Fargo Large Cap Value Index Fund | 1,223 | | 1,223 | |
| Wells Fargo Russell 2000 Index Fund | 466 | | 466 | |
| Wells Fargo S&P Mid Cap Index Fund | 483 | | 483 | |
| Cash & Short-term | | | | |
| Investments | 652 | 652 | - | - |
| Total | \$ 18,788 | \$10,374 | \$8,414 | \$- |

Our interests in the common collective trust investments are managed by one custodian. Consistent with our investment strategy, the custodian has invested the assets across a widely diversified portfolio of U.S. and international equity and fixed income securities. Fair values of each security within the collective trust as of December 31, 2010 were obtained from the custodian and are based on quoted market prices of individual investments; however, since the fund itself does not have immediate liquidity or a quoted market price, these assets are considered Level 2.

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation as of December 31, 2010. The following table illustrates the estimated pension benefit payments which reflect expected future service, as appropriate, that are projected to be paid:

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| (in thousands) | Hourly Employees Pension Plan | Employees Retirement Plan | Total |
|-------------------------|----------------------------------|------------------------------|----------|
| 2011 | \$ 664 | \$ 731 | \$ 1,395 |
| 2012 | 663 | 748 | 1,411 |
| 2013 | 658 | 784 | 1,442 |
| 2014 | 658 | 861 | 1,519 |
| 2015 | 650 | 887 | 1,537 |
| Years 2016 through 2020 | \$ 3,273 | \$ 5,299 | \$ 8,572 |

Defined Contribution Plans

The Company has three defined contribution plans, The *Gradall* Salaried Employees Savings and Investment Plan (Salary Plan), The *Gradall* Hourly Employees Savings and Investment Plan (Hourly Plan) and The International Association of Machinist and Aerospace Retirement Plan (IAM Plan). The Company contributed \$269,000 and \$254,000 to the IAM Plan for the plan years ended December 31, 2010 and 2009, respectively. The Company converted the Salary Plan into its 401(k) retirement and savings plan and put the Hourly Plan into a separate 401(k) retirement and savings plan.

The Company provides a defined contribution 401(k) retirement and savings plan for eligible U.S. employees. Company matching contributions are based on a percentage of employee contributions. Company contributions to the plan during 2010, 2009 and 2008 were \$481,000, \$1,330,000, and \$1,520,000, respectively. A U.S. subsidiary of the Company had an Hourly Employee Pension Plan of Trust covering collective bargaining which was terminated on December 31, 2006. As of January 1, 2006 the employees were added to the existing 401(k) retirement and salary plan.

Three of the Company's international subsidiaries also participate in a defined contribution and savings plan covering eligible employees. The Company's international subsidiaries contribute between 3% and 7.5% of the participant's salary up to a specific limit. Total contributions made to the above plan were \$607,000, \$537,000, and \$620,000 for the year ended December 31, 2010, 2009 and 2008, respectively.

15. SEGMENT REPORTING

The Company reports three business segments: Industrial, Agricultural and European. The Company's sales are principally within the United States, United Kingdom, France, Canada and Australia. The Company sells its products primarily through a network of independent dealers and distributors, governmental end-users, related independent contractors, as well as to the agricultural and commercial turf markets.

The Company has included a summary of the financial information by reporting segment. The following table presents the revenues, income from operations (loss), goodwill and total identifiable assets by reporting segment for the years ended December 31, 2010, 2009 and 2008:

| (in thousands) | December 31, | | |
|----------------------------------|---------------------|-------------|-------------|
| | 2010 | 2009 | 2008 |
| Net Revenue | | | |
| Industrial | \$ 192,379 | \$ 173,905 | \$ 254,787 |
| Agricultural | 173,464 | 92,415 | 120,232 |
| European | 158,697 | 180,167 | 182,116 |
| Consolidated | \$ 524,540 | \$ 446,487 | \$ 557,135 |
| Income from Operations | | | |
| Industrial | \$ 8,513 | \$ (12,426) | \$ 9,716 |
| Agricultural | 10,073 | 31,206 | (3,400) |
| European | 12,287 | 15,754 | 15,029 |
| Consolidated | \$ 30,873 | \$ 34,534 | \$ 21,345 |
| Goodwill | | | |
| Industrial | \$ 13,316 | \$ 13,128 | \$ 26,755 |
| Agricultural | | | |
| European | 20,757 | 22,079 | 21,352 |
| Consolidated | \$ 34,073 | \$ 35,207 | \$ 48,107 |
| Total Identifiable Assets | | | |
| Industrial | \$ 120,293 | \$ 126,553 | \$ 179,000 |
| Agricultural | 116,575 | 124,165 | 78,793 |

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| | | | | | | |
|--------------|----|---------|----|---------|----|---------|
| European | | 134,115 | | 129,239 | | 128,339 |
| Consolidated | \$ | 370,983 | \$ | 379,957 | \$ | 386,132 |

- 67 -

16. INTERNATIONAL OPERATIONS AND GEOGRAPHIC INFORMATION

Following is selected financial information on the Company's international operations which include Europe, Canada and Australia:

| (in thousands) | December 31, | | |
|---|--------------|------------|------------|
| | 2010 | 2009 | 2008 |
| Net sales | \$ 190,336 | \$ 209,721 | \$ 215,733 |
| Income from operations | 13,476 | 17,776 | 13,898 |
| Income before income taxes and allocated interest expense | 13,429 | 17,740 | 15,077 |
| Identifiable assets | 160,966 | 153,968 | 148,706 |

Following is other selected geographic financial information on the Company's operations:

| (in thousands) | December 31, | | |
|------------------------------|--------------|------------|------------|
| | 2010 | 2009 | 2008 |
| Geographic net sales: | | | |
| United States | \$ 322,253 | \$ 231,981 | \$ 331,671 |
| United Kingdom | 36,685 | 38,332 | 44,306 |
| France | 93,130 | 115,395 | 99,685 |
| Canada | 15,325 | 17,756 | 22,255 |
| Australia | 11,765 | 11,400 | 11,175 |
| Mexico | | 1,337 | 2,187 |
| Other | 45,382 | 30,286 | 45,856 |
| Total net sales | \$ 524,540 | \$ 446,487 | \$ 557,135 |

Geographic location of long-lived assets:

| | | | |
|-------------------------|------------|------------|------------|
| United States | \$ 55,448 | \$ 59,094 | \$ 63,449 |
| United Kingdom | 13,757 | 14,483 | 13,335 |
| France | 29,165 | 33,588 | 34,383 |
| Canada | 6,776 | 6,542 | 5,824 |
| Australia | 84 | 265 | 45 |
| Total long-lived assets | \$ 105,230 | \$ 113,972 | \$ 117,036 |

Net sales are attributed to countries based on the location of customers.

17. COMPREHENSIVE INCOME (LOSS)

For 2010, 2009 and 2008 the Company's Comprehensive Income was \$17,503,000, \$27,785,000, and (\$14,110,000), respectively.

The components of Accumulated Other Comprehensive Income (Loss) are as follows:

| (in thousands) | December 31, | | |
|---|--------------|----------|------------|
| | 2010 | 2009 | 2008 |
| Foreign currency translation adjustments | \$ 4,489 | \$ 8,148 | \$ 1,553 |
| Derivatives net of taxes | (171) | (744) | (1,560) |
| Actuarial (loss) gain on defined benefit pension plan, net of taxes | (2,785) | (2,257) | (3,998) |
| Accumulated other comprehensive income (loss) | \$ 1,533 | \$ 5,147 | \$ (4,005) |

18. COMMITMENTS AND CONTINGENCIES*Leases*

The Company leases office space and equipment under various operating leases, which generally are expected to be renewed or replaced by other leases. The Company has certain capitalized leases consisting principally of leases of buildings. As of December 31, 2010, future minimum lease payments under these non-cancelable leases and the present value of the net minimum lease payments for the capitalized leases are:

| | Operating Leases | Capitalized Leases |
|---|-----------------------------|-------------------------------|
| (in thousands) | | |
| 2011 | \$ 1,102 | \$ 1,187 |
| 2012 | 673 | 300 |
| 2013 | 361 | 298 |
| 2014 | 158 | 113 |
| 2015 | 96 | 9 |
| Thereafter | 31 | |
| Total minimum lease payments | \$ 2,421 | \$ 1,907 |
| Less amount representing interest | | 144 |
| Present value of net minimum lease payments | | \$ 1,763 |
| Less current portion | | 1,102 |
| Long-term portion | | \$ 661 |

Rental expense for operating leases was \$1,632,000 for 2010, \$1,693,000 for 2009, and \$1,787,000 for 2008.

Purchase obligations of \$69,148,000 represent an estimate of goods and services to be purchased under outstanding purchase orders not reflected on the Company's balance sheet. New purchase obligations should be received and paid for during the current fiscal year.

Other

The Company is subject to various unresolved legal actions that arise in the ordinary course of its business. The most significant 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 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

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received a conditional no further action letter in January of 2009. When we demonstrate stable or improving conditions below residential standards by future monitoring of existing wells, an unconditional no further action letter will be requested.

On December 31, 2010, the Company had an environmental reserve in the amount of \$1,495,000 related to the acquisition of *Gradall's* facility in New Philadelphia, Ohio. Three specific remediation projects that were identified prior to the acquisition are in process of remediation with a remaining reserve balance of \$30,000. The Company has a reserve of \$277,000 concerning a potential asbestos issue that is expected to be abated over time. 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.

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 70s. 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 remedied 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 and is administering the cleanup and will monitor the sites on an ongoing basis until the remediation program is complete and approved by the applicable authorities.

Certain other assets of the Company contain asbestos that may have to be remediated over time. Management has made its best estimate of the cost to remediate these environmental issues. However, such estimates are difficult to estimate including the timing of such costs. 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.

19. QUARTERLY FINANCIAL DATA (Unaudited)

Summarized quarterly financial data for 2010 and 2009 is presented below. Seasonal influences affect the Company's sales and profits, with peak business occurring in May through August.

(in thousands, except per share amounts)

| | 2010 | | | | 2009 | | | |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | First | Second | Third | Fourth | First | Second | Third | Fourth |
| Sales | \$ 128,389 | \$ 134,334 | \$ 132,298 | \$ 129,519 | \$ 110,143 | \$ 113,243 | \$ 110,318 | \$ 112,783 |
| Gross profit | 28,135 | 28,681 | 32,390 | 27,708 | 21,727 | 24,329 | 25,649 | 22,856 |
| Net income | 3,993 | 4,870 | 8,150 | 4,104 | 1,543 | 2,992 | 4,583 | 9,515 |

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Earnings per share

| | | | | | | | | |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Diluted | \$ 0.34 | \$ 0.41 | \$ 0.68 | \$ 0.34 | \$ 0.15 | \$ 0.30 | \$ 0.46 | \$ 0.83 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|

Average shares

| | | | | | | | | |
|---------|--------|--------|--------|--------|-------|-------|--------|--------|
| Diluted | 11,833 | 11,882 | 11,906 | 11,952 | 9,963 | 9,986 | 10,086 | 11,417 |
|---------|--------|--------|--------|--------|-------|-------|--------|--------|

| | | | | | | | | |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Dividends per share | \$ 0.06 | \$ 0.06 | \$ 0.06 | \$ 0.06 | \$ 0.06 | \$ 0.06 | \$ 0.06 | \$ 0.06 |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|

Market price of

common stock

| | | | | | | | | |
|------|----------|----------|----------|----------|----------|----------|----------|----------|
| High | \$ 20.36 | \$ 27.00 | \$ 25.41 | \$ 28.19 | \$ 18.04 | \$ 13.25 | \$ 17.16 | \$ 17.33 |
| Low | \$ 16.62 | \$ 19.58 | \$ 18.68 | \$ 21.55 | \$ 9.22 | \$ 9.90 | \$ 9.98 | \$ 13.10 |

The sum of quarterly earnings per share may not equal total year earnings per share due to rounding of earnings per share amounts, and differences in weighted-average shares and equivalent shares outstanding for each of the periods presented.

The third quarter of 2010 results include a tax credit of \$0.9 million relating to prior years research and development expenses. The fourth quarter 2009 results include the following items: (1) a pre-tax charge of \$14.1 million related to goodwill impairment, (2) a pre-tax benefit of \$3.7 million related to LIFO liquidation, and (3) a \$30.2 million gain on bargain purchase of *Bush Hog*.

20. ACQUISITIONS AND INVESTMENTS

Bush Hog

On October 22, 2009 (Closing Date), the Company acquired the majority of the assets and assumed certain liabilities of Bush Hog located in Selma, Alabama. The purchase included substantially all of the ongoing business of Bush Hog, including the Bush Hog brand name and all related product names and trademarks (the Acquisition). The purchase price consideration was 1.7 million unregistered shares of Alamo Group common stock which represented approximately 14.5% of the outstanding stock of Alamo Group. Because the restricted stock was issued in an unregistered private transaction, resale of the shares is restricted and the shares may be resold only if registered or sold in a transaction exempt from the registration requirements of the Securities Act, including pursuant to Rule 144 under the Securities Act. Under Rule 144, the restricted stock is subject to, among other things, an initial 6-month holding period before any of the shares can be sold in the public market. Accordingly, the fair value of the 1.7 million shares was based on the public market price of Alamo common stock less a discount for lack of marketability associated with the 6-month holding period. We utilized an Asian put option model to measure the discount for lack of marketability. An Asian put option is an option that entitles the holder to a payoff based on the average price of an underlying asset, over a predetermined period. The closing price of our common stock on October 22, 2009 was \$16.09 per share.

The Acquisition was accounted for in accordance with ASC Topic 805, *Business Combinations* (ASC Topic 805). Accordingly, the total purchase price was allocated on a provisional basis to assets acquired and net liabilities assumed in connection with the Acquisition based on their estimated fair values as of the completion of the Acquisition. These allocations reflected various provisional estimates that were available at the time and were subject to change during the purchase price allocation period as valuations are finalized. All valuations are now final.

The Company believes that it was able to acquire *Bush Hog* for less than the fair value of its assets because of (i) the Company's unique position as a market leader in this industry segment and (ii) the seller's intent to exit its *Bush Hog* operations. *Bush Hog* was an unprofitable venture, and the seller approached the Company in an effort to sell *Bush Hog* and exit the agricultural equipment manufacturing business that no longer fit its strategy. With the seller's intent to exit the agricultural manufacturing business segment and the Company's position as a market leader, the Company was able to agree on a favorable purchase price.

The primary reason for the *Bush Hog* acquisition was to help the Company further the goal of becoming the largest manufacturer of agricultural mowers in the world. This acquisition enabled the Company to expand its market presence, expand its product offerings and enter new markets.

The fair value of the net assets acquired was approximately \$53.1 million, which exceeds the preliminary estimated purchase price of \$25.4 million. Accordingly, the Company recognized the excess of the fair value of the net assets over the purchase price of approximately \$27.7 million as a gain on bargain purchase. The gain on bargain purchase of \$27.7 million was shown separately within income from operations in the Consolidated Statements of Income in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The recorded amount was provisional and subject to change. The Company evaluated the purchase price allocation during 2010, including the opening fair value of inventory, accounts receivable, property, plant & equipment, accrued liabilities and deferred taxes, which required the Company to adjust the recorded gain.

The following table summarizes the fair value of assets acquired and liabilities assumed as of the Closing Date. Since the acquisition, net adjustments of \$2,488,000 were made to the fair value of the assets acquired and liabilities assumed with a corresponding adjustment to the bargain purchase gain. A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The Company's judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. The December 31, 2009 financial statement balances and disclosures impacted by these adjustments have been retrospectively adjusted. The adjustments were due to the final valuation of property, plant and equipment, accounts receivable, other liabilities and deferred taxes.

| (in thousands) | Initial | | Adjusted |
|---|-----------|-------------|-----------|
| | Valuation | Adjustments | Values |
| Accounts receivable | \$ 25,571 | \$ 1,974 | \$ 27,545 |
| Inventory | 21,875 | 453 | 22,328 |
| Prepaid expenses | 395 | | 395 |
| Property, plant & equipment | 12,743 | (432) | 12,311 |
| Other Liabilities | (9,357) | 493 | (8,864) |
| Net Assets acquired | 51,227 | 2,488 | 53,715 |
| Intangible asset: | | | |
| Bush Hog trade name | 1,900 | | 1,900 |
| Total assets acquired | 53,127 | 2,488 | 55,615 |
| Less: Fair value of 1.7 million unregistered shares | 25,438 | | 25,438 |
| Gain on Bargain purchase | \$ 27,689 | \$ 2,488 | \$ 30,177 |

In accordance with the closing documents, the Company received a 50% undivided interest in the Accounts Receivable of *Bush Hog*, subject to any net working capital adjustment. The post closing net working capital adjustment was \$3.8 million which increased accounts receivable and the gain on bargain purchase. The Company will collect payments on the acquired accounts receivable and remit 50% of the collections to the seller less the \$3.8 million. The *Bush Hog* accounts receivable were recorded at 50% of the fair value, plus the working capital adjustment.

The intangible asset relates to the appraised value of the *Bush Hog* name at closing and has an indefinite life.

Under 805-10, acquisition related costs (i.e., advisory, legal, valuation and other professional fees) are not included as a component of consideration transferred, but are accounted for as expenses in the periods in which the costs are incurred. The Company incurred \$828,000 of acquisition related costs.

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In 2010 *Bush Hog*'s net revenue was \$88.9 million and net profit was \$4.3 million. In the period between the Closing Date and December 31, 2009, *Bush Hog* generated approximately \$10.9 million of net revenue and \$1.5 million net loss. The Company has included the operating results of *Bush Hog* in its consolidated financial statements since the Closing Date.

The following table presents unaudited supplemental pro forma information as if the acquisition of *Bush Hog* had occurred on January 1, 2009 for the year ended December 31, 2010 and for the year ended December 31, 2009:

| (in thousands, except per share amounts) | | 2010 | | 2009 |
|--|----|-------------|----|-------------|
| Net sales | \$ | 524,540 | \$ | 561,740 |
| Net gain (loss) | \$ | 21,117 | \$ | (10,516) |
| Diluted gain (loss) per share | \$ | 1.78 | \$ | (0.92) |

The unaudited pro forma financial information is presented for informational purposes only and is not intended to represent or be indicative of the consolidated results of operations of the Company that would have been reported had the acquisition been completed as of the beginning of the periods presented, and should not be taken as being representative of the future consolidated results of operations of the Company.

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 1960's and '70s. 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 remedied 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 and is administering the cleanup and will monitor the sites on an ongoing basis until the remediation program is complete and approved by the applicable authorities.

Rivard Developpement

On May 30, 2008, the Company purchased Rivard Developpement S.A.S. (*Rivard*), a leading French manufacturer of vacuum trucks, high-pressure cleaning systems and trenchers. The purchase price was approximately €15 million (approximately U.S. \$23 million) plus the assumption of certain liabilities. The Company has allocated the purchase price to the acquired assets and liabilities assumed and recorded goodwill of approximately €9 million (approximately U.S. \$15 million) related to this acquisition. We finalized the purchase price allocation during the second quarter of 2009. The majority of the purchase price was funded utilizing the Company's cash reserves in Europe, with the balance from bank credit facilities. *Rivard*'s sales in 2007 were €40 million (approximately U.S. \$62 million), and the company has 275 full-time employees. *Rivard* is located in Daumeray, France and was founded in 1952.

21. SUBSEQUENT EVENTS

The Board of Directors of the Company adopted the Alamo Group Inc. Supplemental Executive Retirement Plan (the Plan), effective as of January 3, 2011. The Plan will benefit certain key management or other highly compensated employees of the Company and/or certain subsidiaries who are selected by the Board to participate. The Plan is also intended to provide a benefit from the Company upon retirement, death or disability or a change in control of the Company. Accordingly, the Plan obligates the Company to pay to a participant a Retirement Benefit (as defined in the Plan) upon the occurrence of certain payment events to the extent a participant has a vested right thereto.

