COCA COLA BOTTLING CO CONSOLIDATED /DE/
Form 10-Q
November 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended October 2, 2011
Commission File Number 0-9286
COCA-COLA BOTTLING CO. CONSOLIDATED
(Exact name of registrant as specified in its charter)

Delaware	**56-0950585**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4100 Coca-Cola Plaza, Charlotte, North Carolina 28211
(Address of principal executive offices) (Zip Code)
(704) 557-4400
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of 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 requirements for the past 90 days. Yes þ No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2011
Common Stock, $1.00 Par Value	7,141,447
Class B Common Stock, $1.00 Par Value	2,066,522

COCA-COLA BOTTLING CO. CONSOLIDATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED OCTOBER 2, 2011
INDEX

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Coca-Cola Bottling Co. Consolidated

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

In Thousands (Except Per Share Data)

	Third Quarter		First Nine Months	
	2011	2010	2011	2010
Net sales	$ 405,858	$ 395,364	$ 1,188,380	$ 1,160,223
Cost of sales	243,142	222,247	710,930	672,395
Gross margin	162,716	173,117	477,450	487,828
Selling, delivery and administrative expenses	137,752	139,455	404,887	406,689
Income from operations	24,964	33,662	72,563	81,139
Interest expense, net	9,087	8,841	26,898	26,453
Income before income taxes	15,877	24,821	45,665	54,686
Income tax expense	4,892	7,610	16,227	18,936
Net income	10,985	17,211	29,438	35,750
Less: Net income attributable to the noncontrolling interest	1,217	1,678	2,656	3,514
Net income attributable to Coca-Cola Bottling Co. Consolidated	$ 9,768	$ 15,533	$ 26,782	$ 32,236
Basic net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	$ 1.06	$ 1.69	$ 2.91	$ 3.51
Weighted average number of Common Stock shares outstanding	7,141	7,141	7,141	7,141
Class B Common Stock	$ 1.06	$ 1.69	$ 2.91	$ 3.51
Weighted average number of Class B Common Stock shares outstanding	2,067	2,044	2,061	2,039
Diluted net income per share based on net income attributable to Coca-Cola Bottling Co. Consolidated:				
Common Stock	$ 1.06	$ 1.68	$ 2.90	$ 3.50
Weighted average number of Common Stock shares outstanding assuming dilution	9,248	9,225	9,242	9,220

Class B Common Stock	$	1.05	$	1.68	$	2.89	$	3.48
Weighted average number of Class B Common Stock shares outstanding assuming dilution		2,107		2,084		2,101		2,079
Cash dividends per share:								
Common Stock	$	.25	$	.25	$	.75	$	.75
Class B Common Stock	$	.25	$	.25	$	.75	$	.75

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
In Thousands (Except Share Data)

	Oct. 2, 2011	Jan. 2, 2011	Oct. 3, 2010
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 68,549	$ 45,872	$ 30,424
Restricted cash	3,000	3,500	3,500
Accounts receivable, trade, less allowance for doubtful accounts of $1,555, $1,300 and $1,261, respectively	109,173	96,787	115,554
Accounts receivable from The Coca-Cola Company	17,663	12,081	20,165
Accounts receivable, other	10,636	15,829	23,382
Inventories	74,373	64,870	62,686
Prepaid expenses and other current assets	20,800	25,760	31,817
Total current assets	304,194	264,699	287,528
Property, plant and equipment, net	313,511	322,143	312,759
Leased property under capital leases, net	61,294	46,856	48,029
Other assets	51,806	46,332	40,645
Franchise rights	520,672	520,672	520,672
Goodwill	102,049	102,049	102,049
Other identifiable intangible assets, net	4,542	4,871	4,983
Total	$ 1,358,068	$ 1,307,622	$ 1,316,665

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
In Thousands (Except Share Data)

	Oct. 2, 2011	Jan. 2, 2011	Oct. 3, 2010
LIABILITIES AND EQUITY			
Current Liabilities:			
Current portion of obligations under capital leases	$ 4,373	$ 3,866	$ 3,861
Accounts payable, trade	34,518	41,878	38,377
Accounts payable to The Coca-Cola Company	37,240	25,058	43,394
Other accrued liabilities	81,600	69,471	65,119
Accrued compensation	23,883	30,944	26,385
Accrued interest payable	12,717	5,523	10,056
Total current liabilities	194,331	176,740	187,192
Deferred income taxes	142,226	143,962	158,359
Pension and postretirement benefit obligations	106,546	114,163	81,021
Other liabilities	111,736	109,882	108,417
Obligations under capital leases	70,645	55,395	56,386
Long-term debt	523,179	523,063	523,025
Total liabilities	1,148,663	1,123,205	1,114,400
Commitments and Contingencies (Note 14)			
Equity:			
Common Stock, $1.00 par value:			
Authorized 30,000,000 shares;			
Issued 10,203,821 shares	10,204	10,204	10,204
Class B Common Stock, $1.00 par value:			
Authorized 10,000,000 shares;			
Issued 2,694,636, 2,672,316 and 2,672,316 shares, respectively	2,693	2,671	2,671
Capital in excess of par value	106,140	104,835	104,758
Retained earnings	154,753	134,872	133,347
Accumulated other comprehensive loss	(62,309)	(63,433)	(43,779)
	211,481	189,149	207,201
Less-Treasury stock, at cost:			
Common 3,062,374 shares	60,845	60,845	60,845
Class B Common 628,114 shares	409	409	409
Total equity of Coca-Cola Bottling Co. Consolidated	150,227	127,895	145,947
Noncontrolling interest	59,178	56,522	56,318
Total equity	209,405	184,417	202,265

Total	$ 1,358,068	$ 1,307,622	$ 1,316,665

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
In Thousands (Except Share Data)

	Common Stock	Class B Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Equity of CCBCC	Noncontrolling Interest	Total Equity
Balance on Jan. 3, 2010	$ 10,204	$ 2,649	$ 103,464	$ 107,995	$ (46,767)	$ (61,254)	$ 116,291	$ 52,804	$ 169,095
Comprehensive income:									
Net income				32,236			32,236	3,514	35,750
Ownership share of Southeastern OCI					39		39		39
Foreign currency translation adjustments, net of tax					(7)		(7)		(7)
Pension and postretirement benefit adjustments, net of tax					2,956		2,956		2,956
Total comprehensive income							35,224	3,514	38,738
Cash dividends paid									
Common ($.75 per share)				(5,356)			(5,356)		(5,356)
Class B Common ($.75 per share)				(1,528)			(1,528)		(1,528)
Issuance of 22,320 shares of Class B Common Stock		22	1,294				1,316		1,316
Balance on Oct. 3, 2010	$ 10,204	$ 2,671	$ 104,758	$ 133,347	$ (43,779)	$ (61,254)	$ 145,947	$ 56,318	$ 202,265
Balance on Jan. 2, 2011	$ 10,204	$ 2,671	$ 104,835	$ 134,872	$ (63,433)	$ (61,254)	$ 127,895	$ 56,522	$ 184,417

Comprehensive income:									
Net income				26,782			26,782	2,656	29,438
Foreign currency translation adjustments, net of tax					1		1		1
Pension and postretirement benefit adjustments, net of tax					1,123		1,123		1,123
Total comprehensive income							27,906	2,656	30,562
Cash dividends paid									
Common ($.75 per share)				(5,356)			(5,356)		(5,356)
Class B Common ($.75 per share)				(1,545)			(1,545)		(1,545)
Issuance of 22,320 shares of Class B Common Stock		22	1,305				1,327		1,327
Balance on Oct. 2, 2011	$ 10,204	$ 2,693	$ 106,140	$ 154,753	$ (62,309)	$ (61,254)	$ 150,227	$ 59,178	$ 209,405

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
In Thousands

	First Nine Months	
	2011	2010
Cash Flows from Operating Activities		
Net income	$ 29,438	$ 35,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	45,828	43,801
Amortization of intangibles	329	367
Deferred income taxes	348	2,188
Loss on sale of property, plant and equipment	405	1,211
Impairment/accelerated depreciation of property, plant and equipment		787
Net gain on property, plant and equipment damaged in flood		(881)
Amortization of debt costs	1,744	1,760
Amortization of deferred gain related to terminated interest rate agreements	(915)	(907)
Stock compensation expense	1,664	1,588
Insurance proceeds received for flood damage		1,450
(Increase) decrease in current assets less current liabilities	6,917	(10,414)
(Increase) decrease in other noncurrent assets	(6,364)	4,434
Decrease in other noncurrent liabilities	(5,809)	(5,368)
Other	2	(13)
Total adjustments	44,149	40,003
Net cash provided by operating activities	73,587	75,753
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(41,392)	(40,640)
Proceeds from the sale of property, plant and equipment	552	1,373
Decrease in restricted cash	500	1,000
Net cash used in investing activities	(40,340)	(38,267)
Cash Flows from Financing Activities		
Repayments under revolving credit facility		(15,000)
Cash dividends paid	(6,901)	(6,884)
Principal payments on capital lease obligations	(2,875)	(2,860)
Debt issuance costs paid	(668)	
Other	(126)	(88)
Net cash used in financing activities	(10,570)	(24,832)
Net increase in cash	22,677	12,654
Cash at beginning of period	45,872	17,770

Cash at end of period	$ 68,549	$ 30,424
Significant non-cash investing and financing activities:		
Issuance of Class B Common Stock in connection with stock award	$ 1,327	$ 1,316
Capital lease obligations incurred	18,632	

See Accompanying Notes to Consolidated Financial Statements.

Coca-Cola Bottling Co. Consolidated
Notes to Consolidated Financial Statements (Unaudited)
1. Significant Accounting Policies

The consolidated financial statements include the accounts of Coca-Cola Bottling Co. Consolidated and its majority-owned subsidiaries (the Company). All intercompany accounts and transactions have been eliminated.

The consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal, recurring nature.

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by GAAP. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior year amounts have been reclassified to conform to current classifications.

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 1 to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended January 2, 2011 filed with the United States Securities and Exchange Commission.

Revision of Prior Period Financial Statements

In connection with the preparation of the consolidated financial statements for the second quarter of 2011, the Company identified an error in the treatment of accrued additions for property, plant and equipment in the Consolidated Statements of Cash Flows. This error affected the year-to-date Consolidated Statements of Cash Flows presented in each of the quarters of 2010, including the year-end consolidated financial statements for 2010, as well as the first quarter of 2011 and resulted in an understatement of net cash provided by operating activities and net cash used in investing activities for each of the impacted periods. In accordance with accounting guidance presented in ASC 250-10 (SEC Staff Accounting Bulletin No. 99, Materiality), the Company assessed the materiality of the error and concluded that the error was not material to any of the Company s previously issued financial statements taken as a whole. The Company will revise previously issued financial statements to correct the effect of this error. This revision did not affect the Company s Consolidated Statements of Operations or Consolidated Balance Sheets for any of these periods.

Coca-Cola Bottling Co. Consolidated

Notes to Consolidated Financial Statements (Unaudited)

1. Significant Accounting Policies

The following tables present the effe:rgb(255,255,255, 0.0);color:#000000;font-family:Arial;font-size:9pt;font-weight:400;line-height:100%;">None

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

(in thousands, except share amounts)	September 30, 2018		December 31, 2017	
ASSETS				
Current assets:				
Cash and cash equivalents	$	48,880	$	25,373
Accounts receivable, net	227,828		205,767	
Inventories, net	184,018		155,568	
Prepaid expenses	6,122		5,336	
Income tax receivable	4,460		483	
Total current assets	471,308		392,527	
Rental equipment, net	40,461		28,493	
Property, plant and equipment	214,175		202,293	
Less: Accumulated depreciation	(130,606)		(125,629)	
	83,569		76,664	
Goodwill	83,716		84,761	
Intangible assets, net	49,763		52,872	
Deferred income taxes	1,553		992	
Other assets	4,403		3,362	
Total assets	$	734,773	$	639,671
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Trade accounts payable	$	71,944	$	55,825
Income taxes payable	—		5,002	
Accrued liabilities	38,297		40,454	
Current maturities of long-term debt and capital lease obligations	189		82	
Total current liabilities	110,430		101,363	
Long-term debt and capital lease obligations, net of current maturities	101,000		60,000	

Long-term tax liability	7,347		12,316	
Deferred pension liability	706		1,225	
Other long-term liabilities	7,474		7,291	
Deferred income taxes	10,924		8,368	
Stockholders' equity:				
Common stock, $.10 par value, 20,000,000 shares authorized; 11,660,933 and 11,577,048 outstanding at September 30, 2018 and December 31, 2017, respectively	1,166		1,158	
Additional paid-in-capital	107,737		103,864	
Treasury stock, at cost; 42,600 shares at September 30, 2018 and December 31, 2017	(426)		(426)	
Retained earnings	427,737		374,678	
Accumulated other comprehensive loss	(39,322)		(30,166)	
Total stockholders' equity	496,892		449,108	
Total liabilities and stockholders' equity	$	734,773	$	639,671

See accompanying notes.

3

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

(in thousands, except per share amounts)	Three Months Ended September 30, 2018		2017		Nine Months Ended September 30, 2018		2017	
Net sales:								
Industrial	$	156,721	$	132,388	$	438,919	$	375,546
Agricultural	61,464		64,923		179,182		170,921	
European	39,387		43,144		134,683		122,653	
Total net sales	257,572		240,455		752,784		669,120	
Cost of sales	190,800		175,516		559,301		495,338	
Gross profit	66,772		64,939		193,483		173,782	
Selling, general and administrative expenses	38,523		37,178		117,087		105,463	
Income from operations	28,249		27,761		76,396		68,319	
Interest expense	(1,399)		(1,414)		(4,233)		(4,241)	
Interest income	100		100		309		257	
Other income (expense)	(265)		(1,561)		(491)		(2,734)	
Income before income taxes	26,685		24,886		71,981		61,601	
Provision for income taxes	3,142		8,294		15,084		20,526	
Net Income	$	23,543	$	16,592	$	56,897	$	41,075
Net income per common share:								
Basic	$	2.01	$	1.43	$	4.88	$	3.56
Diluted	$	2.00	$	1.42	$	4.84	$	3.52
Average common shares:								
Basic	11,689		11,586		11,649		11,535	
Diluted	11,777		11,708		11,758		11,666	
Dividends declared	$	0.11	$	0.10	$	0.33	$	0.30

See accompanying notes.

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

	Three Months Ended September 30,						**Nine Months Ended September 30,**	
(in thousands)	**2018**		**2017**		**2018**		**2017**	
Net Income	$	23,543	$	16,592	$	56,897	$	41,075
Other comprehensive income:								
Foreign currency translation adjustments	(924)		7,452		(9,657)		17,596	
Net gain on pension and other postretirement benefits	211		218		634		652	
Other comprehensive income (loss) before income tax expense	(713)		7,670		(9,023)		18,248	
Income tax expense related to items of other comprehensive loss	(44)		(80)		(133)		(239)	
Other comprehensive income (loss)	(757)		7,590		(9,156)		18,009	
Comprehensive Income	$	22,786	$	24,182	$	47,741	$	59,084

See accompanying notes.

5

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

(in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stock-holders' Equity
Balance at December 31, 2017	11,534	$ 1,158	$ 103,864	$ (426)	$ 374,678	$ (30,166)	$ 449,108
Net income	—	—	—	—	56,897	—	56,897
Translation adjustment	—	—	—	—	—	(9,657)	(9,657)
Net actuarial gain arising during period, net of taxes	—	—	—	—	—	501	501
Stock-based compensation	—	—	1,810	—	—	—	1,810
Exercise of stock options	84	8	2,063	—	—	—	2,071
Dividends paid ($0.33 per share)	—	—	—	—	(3,838)	—	(3,838)
Balance at September 30, 2018	11,618	$ 1,166	$ 107,737	$ (426)	$ 427,737	$ (39,322)	$ 496,892

See accompanying notes.

6

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

	Nine Months Ended September 30,	
(in thousands)	**2018**	**2017**
Operating Activities		
Net income	$ 56,897	$ 41,075
Adjustment to reconcile net income to net cash (used in) provided by operating activities:		
Provision for doubtful accounts	(132)	(2)
Depreciation - Property, plant and equipment	9,388	8,631
Depreciation - Rental equipment	4,790	4,253
Amortization of intangibles	2,630	2,445
Amortization of debt issuance costs	166	166
Stock-based compensation expense	1,810	1,254
Deferred income tax expense (benefit)	1,160	(74)
Gain on sale of property, plant and equipment	(298)	(312)
Changes in operating assets and liabilities:		
Accounts receivable	(24,916)	(20,330)
Inventories	(31,521)	(4,075)
Rental equipment	(16,758)	(4,327)
Prepaid expenses and other assets	(1,887)	2,828
Trade accounts payable and accrued liabilities	15,797	10,811

Income taxes payable	(8,887)	(665)
Long-term tax liability	(4,969)	—
Other assets and long-term liabilities	317	204
Net cash provided by operating activities	3,587	41,882
Investing Activities		
Acquisitions, net of cash acquired	—	(38,523)
Purchase of property, plant and equipment	(18,781)	(9,686)
Proceeds from sale of property, plant and equipment	1,037	555
Net cash used in investing activities	(17,744)	(47,654)
Financing Activities		
Borrowings on bank revolving credit facility	126,000	126,000
Repayments on bank revolving credit facility	(85,000)	(70,000)
Principal payments on long-term debt and capital leases	(82)	(17)
Dividends paid	(3,838)	(3,455)
Proceeds from sale of common stock	2,507	2,059
Redemptions of common stock to satisfy withholding taxes related to stock-based compensation	(436)	(166)
Net cash provided by financing activities	39,151	54,421
	(1,487)	3,626

Effect of exchange rate changes on cash and cash equivalents				
Net change in cash and cash equivalents	23,507		52,275	
Cash and cash equivalents at beginning of the period	25,373		16,793	
Cash and cash equivalents at end of the period	$	48,880	$	69,068
Cash paid during the period for:				
Interest	$	3,889	$	5,073
Income taxes	26,568		20,699	

See accompanying notes.

7

Alamo Group Inc. and Subsidiaries
Notes to Interim Condensed Consolidated Financial Statements - (Unaudited)
September 30, 2018

1. Basis of Financial Statement Presentation

General

The accompanying unaudited interim condensed consolidated financial statements of Alamo Group Inc. and its subsidiaries (the “Company”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulations S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2017 (the "2017 10-K").

Reclassifications

Certain amounts reported for the three and nine months ended September 30, 2017 have been reclassified in order to conform to the 2018 presentation.

Accounting Pronouncements Adopted on January 1, 2018

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605. “Revenue Recognition,” and most industry-specific guidance. Effective January 1, 2018 the Company adopted the provisions of Topic 606 using the modified retrospective method of adoption. There was no impact to our financial position or results of operations as of and for the nine months ended September 30, 2018 as a result of adopting Topic 606. Therefore, there was no cumulative-effect adjustment to retained earnings as of January 1, 2018 for the impact of the adoption of Topic 606. See “Revenue Recognition” below for our accounting policy affected by our adoption of Topic 606.

In March 2017, the FASB issued ASU No. 2017-07, “Compensation-Retirement Benefits (Topic 715),” which requires employers to report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost (non-service cost components) to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This ASU is to be applied retrospectively for income statement items and prospectively for any capitalized benefit costs. The adoption of this ASU effective January 1, 2018 did not affect our financial position or results of operations. Accordingly, for the three months ended September 30, 2018 and 2017, we reclassified the non-service cost components out of selling, general and administrative expenses of $62,000 and $150,000 respectively, and into other income (expense), net. For the nine months ended September 30, 2018 and 2017 we reclassified the non-service cost components out of selling, general and administrative expenses of $187,000 and $450,000 respectively, and into other income (expense), net.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, "Leases." This update requires that a lessee recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Similar to current guidance, the update continues to differentiate between finance leases and operating leases, however this distinction now primarily relates to differences in the manner of expense recognition over time and in the classification of lease payments in the statement of cash flows. The updated guidance leaves the accounting for leases by lessors largely unchanged from existing GAAP. Entities may elect the modified retrospective method of adoption or a cumulative transition adjustment on the effective date. The guidance will become effective for us on January 1, 2019 and we have not yet elected a transition method. We are evaluating the impacts that adoption of the ASU is expected to have on our consolidated financial statements and related disclosures. We anticipate this standard will have a material impact on our financial position by increasing our assets and liabilities by equal amounts through the recognition of right-of-use assets and lease liabilities for our operating leases. However, we do not expect adoption to have a material impact on our results of operations or liquidity. Additionally, we are evaluating the effect of the ASU on our internal control over financial reporting or other potential changes in business practices and processes including contract review and approval procedures.

In February 2018, the FASB issued ASU 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” to allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act ("TCJA"). Upon adoption of the ASU, entities will be required to disclose a description of the accounting policy for releasing income tax effects from accumulated other comprehensive income. The standard is required to be adopted for periods beginning after December 15, 2018, with early adoption available for any set of financial statements that have yet to be issued or made available for issuance including retrospectively for any period in which the effect of the change is the U.S. corporate income tax rate in the TCJA is recognized. The Company has not yet determined the effect of the ASU.

In March 2018, the FASB issued ASU No. 2018-05, “Income Taxes (Topic 740)-Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118,” which amends certain SEC material in Topic 740 for the income tax accounting implications of the recently issued Tax Reform. This guidance clarifies the application of Topic 740 in situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting under ASC Topic 740 for certain income tax effects of Tax Reform for the reporting period in which the Tax Reform was enacted. We are currently evaluating the effects of Tax Reform, and in the absence of clarifying guidance in the application of certain provisions of Tax Reform, we used reasonable estimates to determine our provisional tax amounts and are awaiting guidance for those items for which a reasonable estimate cannot be made.

In August 2018, the FASB issued Accounting Statement Update (ASU) No. 2018-13 “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”, which modifies the disclosures requirements on fair value measurements. Among other things, the amendments add disclosures for changes in unrealized gains and losses on Level 3 fair value measurements and requires additional disclosures on unobservable inputs associated with Level 3 assets. The guidance will become effective for us on January 1, 2020. The impacts that adoption of the ASU is expected to have on our financial disclosures is being evaluated.

In August 2018, the FASB issued Accounting Statement Update (ASU) No. 2018-14, “Compensation, Defined Benefit Plans,” which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The update removes certain disclosures that are no longer considered cost beneficial and adds disclosure requirements identified as relevant. The guidance will become effective for us on January 1, 2021 with early adoption permitted for any financial statements that have not been issued. The impacts that adoption of the ASU is expected to have on our financial disclosures is being evaluated.

2. Accounting Policies

Revenue Recognition

The following policy resulted from our adoption of the provisions of ASC Topic 606, “Revenue from Contracts with Customers,” effective January 1, 2018, as described above in “Accounting Pronouncements Adopted on January 1, 2018.”

The majority of the Company's revenue is recognized from product sales under contracts with customers. The Company presents three reportable operating segments within its financial statements; Industrial, Agricultural and European. Contract terms and performance obligations within each contractual agreement are generally consistent for all three divisions with small differences that do not have a significant impact on the revenue recognition considerations under Topic 606. Revenues are recognized when we satisfy our performance obligation to transfer product to our customers, which typically occurs at a point in time upon shipment or delivery of the product, and for an amount that reflects the transaction price that is allocated to the performance obligation. Our contracts with customers state the final terms of sale, including the description, quantity and price for goods sold. In the normal course of business, we generally do not accept product returns.

The transaction price is the consideration that we expect to be entitled to in exchange for our products. Some of our contracts contain variable consideration in the form of sales incentives to our customers, such as discounts and rebates. For contracts that include variable consideration, we estimate the factors that determine the variable consideration in order to establish the transaction price.

We have elected that any taxes collected from customers and remitted to government authorities (i.e. sales tax, use tax, etc.) are excluded from the measurement of the transaction price and therefore are excluded from net sales in the consolidated statements of operations.

There are instances where we provide shipping services in relation to the goods sold to our customers. Shipping and handling costs that occur before the customer obtains control of the goods are deemed to be fulfillment activities and are included in cost of goods sold. We have elected to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfillment activities (i.e. an expense) rather than as a promised service.

3. Business Combinations

Santa Izabel Agro Industria Ltda.

On June 6, 2017, the Company completed the acquisition of Santa Izabel Agro Industria Ltda. ("Santa Izabel"). Santa Izabel designs, manufactures and markets a variety of agricultural implements and trailers sold throughout Brazil. The primary reason for the Santa Izabel acquisition was to broaden the Company's presence in the manufacturing and distribution of agricultural machinery in Brazil. The acquisition price was approximately $10 million.

Old Dominion Brush Company

On June 26, 2017, the Company completed the acquisition of Old Dominion Brush Company, Inc. ("Old Dominion"). Old Dominion manufactures and sells replacement brooms for street sweepers and leaf vacuum equipment. The acquisition price was approximately $18 million. The primary reason for the Old Dominion acquisition was to increase the Company's presence in the sweeper market and broaden our product offerings.

R.P.M. Tech Inc.

On August 8, 2017, the Company completed the acquisition of R.P.M. Tech Inc. ("R.P.M."). R.P.M. manufactures and sells heavy duty snow removal equipment. The primary reason for the R.P.M acquisition was to strengthen the Company's offering in industrial snowblowers. The acquisition price was approximately $13 million.

Consolidated Acquisitions

The Company has included the operating results of Old Dominion, Santa Izabel, and R.P.M. in its consolidated financial statements since their acquisitions. The total purchase price has been allocated to assets acquired and liabilities assumed, including deferred taxes, based on their fair values as of the completion of the acquisitions. The following represents the final fair value of the assets acquired and liabilities assumed for all acquisitions as of the acquisition dates (in thousands):

Cash	$	2,547
Accounts receivable	7,111	
Inventory	15,387	
Prepaid expenses	134	
Property, plant & equipment	5,902	
Intangible assets	5,855	
Other assets	1,057	
Other liabilities assumed	(5,635)	
Net assets assumed	$	32,358
Goodwill	8,741	
Acquisition Price	$	41,099

4. Accounts Receivable

Accounts receivable is shown net of sales discounts and the allowance for doubtful accounts.

At September 30, 2018 the Company had $17,091,000 in reserves for sales discounts compared to $15,652,000 at December 31, 2017 related to products shipped to our customers under various promotional programs. The increase was primarily due to additional discounts reserved related to increased sales of the Company's agricultural products sold during the first nine months of 2018.

5. Inventories

Inventories valued at LIFO cost represented 60% and 62% of total inventory at September 30, 2018 and December 31, 2017, respectively. The excess of current cost over LIFO valued inventories was approximately $7,919,000 at September 30, 2018 and December 31, 2017. An actual valuation of inventory under the LIFO method is made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO must be based, to some extent, on management's estimates at each quarter end. Net inventories consist of the following:

(in thousands)	**September 30, 2018**	**December 31, 2017**

Finished goods	$	154,555	$	133,161
Work in process	14,345		10,243	
Raw materials	15,118		12,164	
Total inventory	$	184,018	$	155,568

Inventory obsolescence reserves were $7,106,000 at September 30, 2018 and $6,932,000 at December 31, 2017.

6. Rental Equipment

Rental equipment is shown net of accumulated depreciation of $11,247,000 and $9,413,000 at September 30, 2018 and December 31, 2017, respectively. The Company recognized depreciation expense of $1,808,000 and $1,449,000 for the three months ended September 30, 2018 and September 30, 2017, respectively and $4,790,000 and $4,253,000 for the nine months ended September 30, 2018 and September 30, 2017, respectively.

7. Fair Value Measurements

The carrying values of certain financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses, approximate their fair value because of the short-term nature of these items. The carrying value of our debt approximates the fair value as of September 30, 2018 and December 31, 2017, as the floating rates on our outstanding balances approximate current market rates. This conclusion was made based on Level 2 inputs.

8. Goodwill and Definite and Indefinite-lived Intangible Assets

The following is the summary of changes to the Company's Goodwill for the nine months ended September 30, 2018:

(in thousands)	Industrial	Agricultural	European	Consolidated
Balance at December 31, 2017	$ 61,682	$ 6,357	$ 16,722	$ 84,761
Translation adjustment	(220)	(1,122)	(561)	(1,903)
Goodwill adjustment	84	774	—	858
Balance at September 30, 2018	$ 61,546	$ 6,009	$ 16,161	$ 83,716

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

(in thousands)	**Estimated Useful Lives**	**September 30, 2018**	**December 31, 2017**
Definite:			
Trade names and trademarks	25 years	$ 23,966	$ 24,276
Customer and dealer relationships	10-14 years	32,435	32,654
Patents and drawings	3-12 years	1,971	1,982

Total at cost	58,372		58,912	
Less accumulated amortization	(14,109)		(11,540)	
Total net	44,263		47,372	
Indefinite:				
Trade names and trademarks	5,500		5,500	
Total Intangible Assets	$	49,763	$	52,872

The Company recognized amortization expense of $874,000 and $891,000 for the three months ending September 30, 2018 and 2017, respectively, and $2,630,000 and $2,445,000 for the nine months ended September 30, 2018 and 2017, respectively.

As of September 30, 2018, the Company had $49,763,000 of intangible assets, which represents 7% of total assets.

12

9. Debt

The components of long-term debt are as follows:

(in thousands)	September 30, 2018		December 31, 2017	
Current Maturities:				
Other notes payable	$	189	$	82
	189		82	
Long-term debt:				
Bank revolving credit facility	101,000		60,000	
	101,000		60,000	
Total debt	$	101,189	$	60,082

As of September 30, 2018, $1,325,000 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 $147,675,000 in available borrowings.

10. Common Stock and Dividends

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
Dividends declared	$	0.11	$	0.10	$	0.33	$	0.30
Dividends paid	$	0.11	$	0.10	$	0.33	$	0.30

On October 1, 2018, the Company announced that its Board of Directors had declared a quarterly cash dividend of $0.11 per share, which was paid on October 26, 2018, to shareholders of record at the close of business on October 15, 2018.

11. Earnings Per Share

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
(In thousands, except per share)	2018		2017		2018		2017	
Net Income	$	23,543	$	16,592	$	56,897	$	41,075

Average Common Shares:								
Basic (weighted-average outstanding shares)	11,689		11,586		11,649		11,535	
Dilutive potential common shares from stock options	88		122		109		131	
Diluted (weighted-average outstanding shares)	11,777		11,708		11,758		11,666	
Basic earnings per share	$	2.01	$	1.43	$	4.88	$	3.56
Diluted earnings per share	$	2.00	$	1.42	$	4.84	$	3.52

12. Income Taxes

Tax Reform

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act ("TCJA") that instituted fundamental changes to the U.S. Internal Revenue Code of 1986, as amended ("the Code").

We reflected an overall income tax liability for the year ended December 31, 2017 with respect to TCJA as a result of remeasuring our U.S. deferred tax assets and liabilities using the 21% rate and recognizing a one-time transition tax charge on the deemed repatriation of previously undistributed accumulated earnings and profits of our international subsidiaries. Due to the significant and complex changes to the Code from the TCJA, the SEC issued Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act," (SAB 118). SAB 118 provides measurement period for up to one year for adjustments to be made to account for the effects of the TCJA. The Company reflected the income tax effects of those aspects of TCJA for which the accounting was complete. To the extent the Company's accounting for certain income tax effects of TCJA was incomplete but the Company was able to determine a reasonable estimate, the Company recorded a provisional estimate in the financial statements. For those items where a reasonable estimate could not be made, a provisional amount was not recorded and the Company continued to apply the provisions of the tax laws that were in effect immediately before the enactment of TCJA.

During the three months ended September 30, 2018, we revised our initial provisional amount recorded for the transitional tax on the deemed repatriation of the accumulated earnings and profits of our international subsidiaries and the impact of the federal tax rate change on the value of our deferred tax assets and liabilities. The transition tax liability on the deemed repatriation decreased $4.2 million, primarily as a result of additional analysis performed over our historical foreign earnings and foreign source income which provided increased ability to credit foreign taxes associated with the deemed repatriation. In addition, the impact of rate the change on deferred increased by $1.2 million due to adjustments resulting from the filing of our 2017 federal income tax return. We continue to gather additional information regarding the state impacts of repatriation and will finalize our calculation of the tax effects of the TCJA in the fourth quarter of 2018.

In addition to the changes described above, TCJA imposes a U.S. tax on Global Intangible Low Taxed Income ("GILTI") that is earned by certain foreign affiliates owned by a U.S. shareholder. The computation of GILTI is still subject to interpretation and additional clarifying guidance is expected, but is generally intended to impose tax on the earnings of a foreign corporation that are deemed to exceed a certain threshold return relative to the underlying business investment. We are still assessing impacts GILTI may have.

13. Revenue and Segment Information

Revenues from Contracts with Customers

Disaggregation of revenue is presented in the tables below by product type and by geographical location. Management has determined that this level of disaggregation would be beneficial to users of the financial statements.

Revenue by Product Type

(in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Net Sales				
Wholegoods	$ 204,349	$ 187,696	$ 604,073	$ 528,807
Parts	47,911	48,302	135,153	128,927
Other	5,312	4,457	13,558	11,386
Consolidated	$ 257,572	$ 240,455	$ 752,784	$ 669,120

Other includes rental sales, extended warranty sales and service sales as it is considered immaterial.

Revenue by Geographical Location

(in thousands)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Net Sales				
United States	$ 188,037	$ 174,807	$ 536,505	$ 486,513
United Kingdom	15,141	13,319	41,003	35,745
France	17,048	21,660	66,321	62,563
Canada	15,167	13,064	44,819	35,242
Australia	2,023	2,203	7,550	10,093
Brazil	3,050	4,058	13,368	6,579
Other	17,106	11,344	43,218	32,385
Consolidated	$ 257,572	$ 240,455	$ 752,784	$ 669,120

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

Segment Information

The following includes a summary of the unaudited financial information by reporting segment at September 30, 2018:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(in thousands)	**2018**	**2017**	**2018**	**2017**
Net Sales				
Industrial	$ 156,721	$ 132,388	$ 438,919	$ 375,546
Agricultural	61,464	64,923	179,182	170,921
European	39,387	43,144	134,683	122,653
Consolidated	$ 257,572	$ 240,455	$ 752,784	$ 669,120
Income from Operations				
Industrial	$ 18,351	$ 14,941	$ 46,316	$ 38,563
Agricultural	6,608	8,598	18,047	19,315
European	3,290	4,222	12,033	10,441
Consolidated	$ 28,249	$ 27,761	$ 76,396	$ 68,319

(in thousands)	**September 30, 2018**	**December 31, 2017**
Goodwill		
Industrial	$ 61,546	$ 61,682
Agricultural	6,009	6,357
European	16,161	16,722
Consolidated	$ 83,716	$ 84,761
Total Identifiable Assets		
Industrial	$ 419,444	$ 369,271
Agricultural	167,851	141,023
European	147,478	129,377
Consolidated	$ 734,773	$ 639,671

14. Contingent Matters

Like other manufacturers, the Company is subject to a broad range of federal, state, local and foreign laws and requirements, including those concerning air emissions, discharges into waterways, and the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste materials, as well as the remediation of contamination associated with releases of hazardous substances at the Company's facilities and off-site 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.

15. Retirement Benefit Plans

Defined Benefit Plan

The Company amortizes annual pension income or expense evenly over four quarters. Pension income was $87,000 and $2,000 for the three months ended September 30, 2018 and September 30, 2017, respectively. Pension income for the nine months ended September 30, 2018 was $260,000 and pension income for the nine months ended September 30, 2017 was $5,000. The Company is not required to contribute to the pension plans for the 2018 plan year but may do so.

Supplemental Retirement Plan

In May of 2015, the Board amended the SERP to allow the Board to modify the retirement benefit percentage either higher or lower than 20%. In May of 2016, the Board added additional key management to the plan. As of September 30, 2018, the current retirement benefit (as defined in the plan) for the participants ranges from 10% to 20%.

The net period expense for the three months ended September 30, 2018 and 2017 was $250,000 and, $202,000 respectively, and $749,000 and $606,000 for the nine months ended September 30, 2018 and 2017, respectively.

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

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
As a Percent of Net Sales	**2018**	**2017**	**2018**	**2017**
Industrial	60.8 %	55.1 %	58.3 %	56.1 %
Agricultural	23.9 %	27.0 %	23.8 %	25.6 %
European	15.3 %	17.9 %	17.9 %	18.3 %
Total sales, net	100.0 %	100.0 %	100.0 %	100.0 %

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
Cost Trends and Profit Margin, as Percentages of Net Sales	**2018**	**2017**	**2018**	**2017**
Gross profit	25.9 %	27.0 %	25.7 %	26.0 %
Income from operations	11.0 %	11.5 %	10.1 %	10.2 %

Income before income taxes	10.4%	10.3%	9.6%	9.2%
Net income	9.1%	6.9%	7.6%	6.1%

Overview

This report contains forward-looking statements that are based on Alamo Group’s current expectations. Actual results in future periods may differ materially from those expressed or implied because of a number of risks and uncertainties which are discussed below and in the Forward-Looking Information section. Unless the context otherwise requires, the terms the "Company", "we", "our" and "us" means Alamo Group Inc.

For the first nine months of 2018, the Company's net income increased by approximately 38.5% when compared to the same period in 2017. This increase was the result of improved sales growth in the Company's Industrial and European Divisions, the acquisitions of Santa Izabel and Old Dominion completed in June of 2017

17

and the acquisition of R.P.M., which was completed in August of 2017 and ongoing operational improvements. Also contributing to the increase in net income for 2018, was the TCJA, which lowered the Company's U.S. effective tax rate to 21% for the first nine months of 2018 compared 35% for the same period in 2017 and a $3.0 million net tax benefit relating to an adjustment to the provisional tax reform expense recorded in the fourth quarter of 2017.

The Company's Industrial Division experienced a 16.9% increase in sales for the first nine months of 2018 which includes $28.0 million in net sales from Old Dominion and R.P.M. Sales of vacuum trucks, excavators, mowers, snow removal products and sweeping equipment outperformed during the first nine months of 2018 compared to the first nine months of 2017. Agricultural sales were up in the first nine months of 2018 by 4.8% compared to the first nine months of 2017 as a result of stable demand for our products despite soft agricultural market conditions. Sales from the Santa Izabel business contributed $9.7 million to our Agricultural Division for the first nine months of 2018 compared to $.6 million for the first nine months of 2017. European sales for the first nine months of 2018 were up in U.S. dollars by 9.8% compared to the same period in 2017 primarily as a result of increased demand for products in this Division. Consolidated income from operations was $76.4 million in the first nine months of 2018 compared to $68.3 million for the first nine months of 2017. The Company's backlog was $251.2 million at the end of the third quarter of 2018, which is an increase of 38.8% versus the backlog of $181.0 million at the end of the third quarter of 2017. The increase in the Company's backlog was primarily attributable to greater demand for our products, specifically in the Company's Industrial and Agricultural Divisions.

The Company is optimistic about its outlook for the remainder of 2018, but we continue to face several ongoing challenges. We have seen increases in raw material, freight, tariff surcharges and other input costs including labor, at rates above those experienced in recent years and we expect that inflationary pressures will persist in the near term. Stronger overall demand has led to longer lead times for certain key components of our products, such as truck chassis. We have been impacted by a tightening labor market and difficulties in hiring and retaining skilled workers. Additional tariffs, future changes in tariff regulations and ongoing trade disputes could further impact our business by increasing the cost of items we use in the manufacturing of our products and by softening sales of our products to certain of our customers who may be impacted directly or indirectly by increasing tariffs and other negative effects resulting from trade disputes. In response to our strong backlog position, we have increased personnel and outsourcing to address short term demand and in the long term we are increasing our capital expenditure levels to continue production efficiency gains while expanding our production capacity. We may also be negatively affected by several other unanticipated factors such as a weakness in the overall economy; significant changes in currency exchange rates; negative economic impacts resulting from geopolitical events, a tightening labor market, changes in trade policy, increased levels of government regulations; weakness in the agricultural sector; acquisition integration issues; budget constraints or revenue shortfalls in governmental entities; and other risks and uncertainties as described in “Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K").”

Results of Operations

Three Months Ended September 30, 2018 vs. Three Months Ended September 30, 2017

Net sales for the third quarter of 2018 were $257,572,000 an increase of $17,117,000 or 7.1% compared to $240,455,000 for the third quarter of 2017. The increase in sales was mainly attributable to strong demand for our products in the Company's Industrial Division as well as $8,211,000 of net sales from the acquisition of R.P.M.

Net Industrial sales increased by $24,333,000 or 18.4% to $156,721,000 for the third quarter of 2018 compared to $132,388,000 during the same period in 2017. The increase was primarily attributable to increased sales of vacuum truck, mowing, excavator, snow removal and sweeping equipment. Also, the acquisition of R.P.M. added $8,211,000 of net sales during the quarter.

Net Agricultural sales were $61,464,000 in the third quarter of 2018 compared to $64,923,000 for the same period in 2017 a decrease of $3,459,000 or 5.3%. The decrease was primarily the result of weak market conditions which limited sales growth in both equipment and replacement parts and lower farm incomes which have been negatively impacted by high crop yields as well as tariffs on specific commodities such as soybeans.

Net European sales for the third quarter of 2018 were $39,387,000 a decrease of $3,757,000 or 8.7% compared to $43,144,000 during the third quarter of 2017. The decrease was primarily driven by missed shipments at the Company's Rivard facility due to the timing of some customer order deliveries and certain. Delays of critical inventory components from certain suppliers also contributed to this shortfall.

Gross profit for the third quarter of 2018 was $66,772,000 (25.9% of net sales) compared to $64,939,000 (27.0% of net sales) during the same period in 2017, an increase of $1,833,000. The increase in gross profit during the third quarter of 2018 was due to the acquisition of R.P.M. Negatively affecting both gross profit and gross margin percentage for the quarter were higher commodity costs, specifically raw materials such as steel. This more than offset gains in productivity improvements, pricing actions, and purchasing initiatives.

Selling, general and administrative expenses (“SG&A”) were $38,523,000 (15.0% of net sales) during the third quarter of 2018 compared to $37,178,000 (15.5% of net sales) during the same period of 2017, an increase of $1,345,000. The increase primarily came from higher commissions and other selling expenses due to increased sales and increased spending on research and development projects.

Interest expense was $1,399,000 for the third quarter of 2018 compared to $1,414,000 during the same period in 2017, a decrease of $15,000.

Other income (expense), net was $(265,000) of expense for the third quarter of 2018 compared to $(1,561,000) of expense during the same period in 2017. The expenses in 2018 and 2017 were primarily the result of changes in currency exchange rates.

Provision for income taxes, after the impacts of TCJA, was $3,142,000 (11.8% of income before income tax) in the third quarter of 2018 compared to $8,294,000 (33.3% of income before income tax) during the same period in 2017. The decrease in the effective tax rate was due to the recent enactment of the TCJA that lowered the U.S. statutory income tax rate from 35% to 21% for 2018. In addition during the third quarter of 2018, the Company recorded a net benefit to income taxes of $2,995,000 relating to the adjustment in the provisional amounts recorded in the fourth quarter of 2017 upon enactment of TCJA, as more fully described in Note 12 of the Interim Condensed Consolidated Financial Statements. The combination of these two factors reduced the Company's effective income tax rate for the third quarter of 2018 to 11.8%.

The Company’s net income after tax was $23,543,000 or $2.00 per share on a diluted basis for the third quarter of 2018 compared to $16,592,000 or $1.42 per share on a diluted basis for the third quarter of 2017. The increase of $6,951,000 resulted from the factors described above.

Nine Months Ended September 30, 2018 vs. Nine Months Ended September 30, 2017

Net sales for the first nine months of 2018 were $752,784,000, an increase of $83,664,000 or 12.5% compared to $669,120,000 for the first nine months of 2017. The increase was primarily attributable to increased demand for our products in the Company's Industrial and European Divisions. Our recent acquisitions of Santa Izabel, Old Dominion and R.P.M. also added to the increase in net sales in the amount of $37,062,000. Further contributing to the increase in sales were favorable currency translation effects primarily on our European sales during the first nine months of 2018.

Net Industrial sales increased during the first nine months by $63,373,000 or 16.9% to $438,919,000 for 2018 compared to $375,546,000 during the same period in 2017. Most of the increase came from higher sales of vacuum trucks, mowers, excavators and snow removal equipment. The acquisitions of Old

Dominion and R.P.M. together added $28,041,000 in net sales during the the first nine months of 2018.

Net Agricultural sales were $179,182,000 during the first nine months of 2018 compared to $170,921,000 for the same period in 2017, an increase of $8,261,000 or 4.8%. The increase in sales for the first nine months of 2018 compared to the first nine months of 2017 was a result of the acquisition of Santa Izabel which accounted for $9,021,000 in net sales.

Net European sales for the first nine months of 2018 were $134,683,000, an increase of $12,030,000 or 9.8% compared to $122,653,000 during the same period of 2017. The increase in 2018 was due to improved sales in both the U.K. and French agricultural markets as well as Rivard vacuum trucks. Also contributing to sales in 2018 were the effects of currency translation rates.

Gross profit for the first nine months of 2018 was $193,483,000 (25.7% of net sales) compared to $173,782,000 (26.0% of net sales) during the same period in 2017, an increase of $19,701,000. The increase in gross profit for the first nine months of 2018 came from higher equipment sales in the Company's Industrial and European Divisions and, to a lesser extent, the acquisitions of Santa Izabel, Old Dominion and R.P.M. Negatively affecting both gross margin and margin percentage for the first nine months of 2018 were higher steel, freight and other input costs which more than offset gains in productivity improvements, pricing actions, and purchasing initiatives.

SG&A expenses were $117,087,000 (15.6% of net sales) during the first nine months of 2018 compared to $105,463,000 (15.8% of net sales) during the same period of 2017, an increase of $11,624,000. The increase primarily came from our recently acquired Santa Izabel, Old Dominion and R.P.M. businesses in the net amount of $5,446,000 and to a lesser extent, commissions, other selling expenses and higher spending on research and development projects.

Interest expense was $4,233,000 for the first nine months of 2018 compared to $4,241,000 during the same period in 2017, a decrease of $8,000.

Other income (expense), net was $(491,000) of expense during the first nine months of 2018 compared to $(2,734,000) of expense in the first nine months of 2017. The expenses in 2018 and 2017 were primarily the result of changes in exchange rates.

Provision for income taxes, after the impacts of TCJA, was $15,084,000 (21.0% of income before income taxes) in the first nine months of 2018 compared to $20,526,000 (33.3% of income before income taxes) during the same period in 2017. The decrease in both income taxes and the effective tax rate was due to the recent enactment of the TCJA that lowered the U.S. statutory income tax rate from 35% to 21% for 2018. In addition, the Company recorded during the third quarter of 2018, a net benefit to income taxes of $2,995,000 relating to the adjustment in the provisional amounts recorded in the fourth quarter of 2017 upon enactment of TCJA, as more fully described in Note 12 of the Interim Condensed Consolidated Financial Statements. The combination of these two factors reduced the Company's effective income tax rate for the first nine months of 2018 to 21.0%.

The Company's net income after tax was $56,897,000 or $4.84 per share on a diluted basis for the first nine months of 2018 compared to $41,075,000 or $3.52 per share on a diluted basis for the first nine months of 2017. The increase of $15,822,000 resulted from the factors described above.

Liquidity and Capital Resources

In addition to normal operating expenses, the Company has ongoing cash requirements which are necessary to operate the Company’s business, including inventory purchases and capital expenditures. The Company’s inventory and accounts payable levels typically build in the first half of the year and in the fourth quarter in anticipation of the spring and fall selling seasons. Accounts receivable historically build in the first and fourth quarters of each year as a result of fall preseason sales programs and out of season sales, particularly in our Agricultural Division. Preseason sales, primarily in the Agricultural Division, help level the Company’s production during the off season.

As of September 30, 2018, the Company had working capital of $360,878,000 which represents an increase of $69,714,000 from working capital of $291,164,000 at December 31, 2017. The increase in working capital was primarily due to seasonality and increased demand for our products reflected in the Company's higher backlog.

Capital expenditures were $18,781,000 for the first nine months of 2018, compared to $9,686,000 during the first nine months of 2017. The Company expects higher capital expenditures in 2018 in order to increase production capacity, support improvement in operational efficiencies, invest in technology as well as possibly acquiring new manufacturing locations or purchasing currently leased facilities. We will fund future expenditures from operating cash flows or through our revolving credit facility, described below.

Net cash provided by financing activities was $39,151,000 and $54,421,000 during the nine month periods ended September 30, 2018 and September 30, 2017, respectively. The majority of the decrease in net cash

20

provided by financing activities in 2018 as compared to the prior year, was due to repayment of debt and a decrease in borrowings under our bank credit facility as a result of repatriating excess funds from our European operations.

The Company had $46,178,000 in cash and cash equivalents held by its foreign subsidiaries as of September 30, 2018. The majority of these funds are at our European and Canadian facilities. As a result of the fundamental changes to the taxation of multinational corporations created by TCJA, we no longer intend to reinvest all of the undistributed earnings of our foreign affiliates. While the Company intends to use some of these funds for working capital and capital expenditures outside the U.S., recent changes in the U.S. tax laws have substantially mitigated the cost of repatriation. During the second quarter of 2018, the Company repatriated excess cash from its European operations of approximately $24,000,000. The Company will continue to repatriate foreign cash and cash equivalents in excess of amounts needed to fund foreign operating and investing activities. Repatriated funds will initially be used to reduce funded debt levels under the Company's current credit facility and subsequently used to fund working capital, capital investments and acquisitions company-wide.

The Company maintains an unsecured revolving credit facility with certain lenders under its Amended and Restated Revolving Credit Agreement ("the Agreement"). The aggregate commitments from lenders under the Agreement is $250,000,000 and, subject to certain conditions and bank approval, the Company has the option to request an increase in aggregate commitments of up to an additional $50,000,000. The Agreement requires the Company to maintain various financial covenants including a minimum earnings before interest and tax to interest expense ratio, a maximum leverage ratio and a minimum asset coverage ratio. The Agreement also contains various covenants relating to limitations on indebtedness, limitations on investments and acquisitions, limitations on sale of properties and limitations on liens and capital expenditures. The Agreement also contains other customary covenants, representations and events of defaults. Effective December 20, 2016, the Company amended its revolving credit facility to extend the termination date, reduce LIBOR interest margin and to modify certain financial and other covenants in order to meet the ongoing needs of the Company's business and to allow for greater flexibility in relation to future acquisitions. The expiration date of the revolving credit facility is December 20, 2021. As of September 30, 2018, $101,000,000 was outstanding under the Agreement. On September 30, 2018, $1,325,000 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 $147,675,000 in available borrowings. As of September 30, 2018, the Company was in compliance with the covenants under the Agreement.

Management believes the Agreement 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, future challenges affecting the banking industry and credit markets in general could potentially cause changes to credit availability, which creates a level of uncertainty.

Critical Accounting Estimates

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

Critical Accounting Policies

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes that of the Company's significant accounting policies, which are set forth in Note 1 of the Notes to Consolidated Financial Statements in the 2017 Form 10-K, the policies relating to the business combinations, allowance for doubtful accounts, sales discounts, inventories-obsolete and slow moving, warranty, and goodwill and other intangible assets involved a higher degree of judgment and complexity. There have been no material changes to the nature of estimates, assumptions and levels of subjectivity and judgment related to critical accounting estimates disclosed in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the 2017 Form 10-K.

The enactment of the TCJA on December 22, 2017 made broad and complex changes to the U.S. tax code, including a new tax law that may subject the Company to a tax on global intangible low-taxed income (“GILTI”) beginning in 2018. GILTI is a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. Companies subject to GILTI have the option to account for the GILTI tax as a period cost if and when incurred, or to recognize deferred taxes for temporary differences including outside basis differences expected to reverse as GILTI. We are still assessing impacts GILTI may have.

As of September 30, 2018, the Company revised our initial provisional amount for the federal tax impact on the deemed repatriation of the accumulated earnings and profits of our international subsidiaries and the impact of the federal tax rate change on the value of our deferred tax assets and liabilities. The federal tax expense on the deemed repatriation decreased $4,231,000 and impact of rate change on deferred taxes increased by $1,236,000. The Company continues to gather additional information regarding the state impacts of repatriation and will finalize the calculation of the tax effects of the TCJA in the fourth quarter of 2018.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are likely to have a current or future material effect on our financial condition.

Forward-Looking Information

Part I of this Quarterly Report on Form 10-Q and the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 2 of this Quarterly Report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, forward-looking statements may be made orally or in press releases, conferences, reports or otherwise, in the future by or on behalf of the Company.

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

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses operating in a global market, as well as matters specific to the Company and the markets it serves. Particular risks and uncertainties facing the Company include changes in market conditions; ongoing weakness in the agricultural sector; changes in tariff regulations and the imposition of new tariffs; a strong U.S. dollar; increased competition; trade wars or other negative economic impacts resulting from geopolitical events; decreases in the prices of agricultural commodities, which could affect our customers' income levels; increase in input costs; our inability to increase profit margins through continuing production efficiencies and cost reductions; repercussions from the pending exit by the U.K. from the European Union (EU); acquisition integration issues; budget constraints or income shortfalls which could affect the purchases of our type of equipment by governmental customers; credit availability for both the Company and its customers, adverse weather conditions such as droughts, floods, snowstorms, etc. which can affect buying patterns of the Company’s customers and related contractors; the price and availability of critical raw materials, particularly steel and steel products; energy cost; increased cost of new governmental regulations which effect corporations including related fines and penalties (such as the new European

General Data Protection Regulation); the potential effects on the buying habits of our customers due to animal disease outbreaks and other epidemics; the Company’s ability to develop and manufacture new and existing products profitably; market acceptance of new and existing products; the Company’s ability to maintain good relations with its employees; the Company's ability to successfully complete acquisitions and operate acquired businesses or assets; the ability to hire and retain quality skilled employees; and cyber security risks affecting information technology or data security breaches.

In addition, the Company is subject to risks and uncertainties facing the industry in general, including changes in business and political conditions and the economy in general in both domestic and international markets; weather conditions affecting demand; slower growth in the Company’s markets; financial market changes including increases in interest rates and fluctuations in foreign exchange rates; actions of competitors; the inability of the

Company’s suppliers, customers, creditors, public utility providers and financial service organizations to deliver or provide their products or services to the Company; seasonal factors in the Company’s industry; litigation; government actions including budget levels, regulations and legislation, primarily relating to the environment, commerce, infrastructure spending, health and safety; and availability of materials.

The Company wishes to caution readers not to place undue reliance on any forward-looking statements and to recognize that the statements are not predictions of actual future results. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, as well as others not now anticipated. The foregoing statements are not exclusive and further information concerning the Company and its businesses, including factors that could potentially materially affect the Company’s financial results, may emerge from time to time. It is not possible for management to predict all risk factors or to assess the impact of such risk factors on the Company’s businesses.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

The Company is exposed to various market risks. Market risks are the potential losses arising from adverse changes in market prices and rates. The Company does not enter into derivative or other financial instruments for trading or speculative purposes.

Foreign Currency Risk

International Sales

A portion of the Company’s operations consists of manufacturing and sales activities in international jurisdictions. The Company primarily manufactures its products in the U.S., U.K., France, Canada, Brazil and Australia. The Company sells its products primarily in the functional currency within the markets where the products are produced, but certain sales from the Company's U.K. and Canadian operations are denominated in other foreign currencies. As a result, the Company’s financials, specifically the value of its foreign assets, could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in the other markets in which the subsidiaries of the Company distribute their products.

To mitigate the short-term 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 approximately 90% of its future net foreign currency collections over a period of six months. As of September 30, 2018, the Company had $994,000 outstanding in forward exchange contracts related to accounts receivable. A 15% fluctuation in exchange rates for these currencies would change the fair value of these contracts by approximately $149,000. However, since these contracts hedge foreign currency denominated transactions, any change in the fair value of the contracts should be offset by changes in the underlying value of the transaction being hedged.

Exposure to Exchange Rates

The Company translates the assets and liabilities of foreign-owned subsidiaries at rates in effect at the balance sheet date. 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 total foreign currency translation adjustment for the current quarter decreased stockholders’ equity by $924,000.

The Company's earnings are affected by fluctuations in the value of the U.S. dollar as compared to foreign currencies, predominately in Europe and Canada, as a result of the sales of its products in international markets. Forward currency contracts are used to hedge against the earnings effects of such fluctuations. The result of a uniform 10% strengthening or 10% decrease in the value of the dollar relative to the currencies in which the Company's sales are denominated would result in a change in gross profit of $5,586,000 for the nine month period ending September 30, 2018. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. In addition to the direct effects of changes in exchange rates, which include a changed dollar value of the resulting sales, changes in exchange rates may also affect the volume of sales or the foreign currency sales price as competitors' products become more or less attractive. The Company's sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices.

Interest Rate Risk

The Company’s long-term debt bears interest at variable rates. Accordingly, the Company’s net income is affected by changes in interest rates. Assuming the current level of borrowings at variable rates and a two percentage point change for the third quarter 2018 average interest rate under these borrowings, the Company’s interest expense would have changed by approximately $505,000. In the event of an adverse change in interest rates, management could take actions to mitigate its exposure. However, due to the uncertainty of the actions that would be taken and their possible effects this analysis assumes no such actions. Further this analysis does not consider the effects of the change in the level of overall economic activity that could exist in such an environment.

Item 4. Controls and Procedures

Disclosure Controls and Procedures.

An evaluation was carried out under the supervision and with the participation of Alamo’s management, including our President and Chief Executive Officer, Executive Vice President and Chief Financial Officer (Principal Financial Officer) and Vice-President and Corporate Controller, (Principal Accounting Officer), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon the evaluation, the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer (Principal Financial Officer) and Vice-President, Corporate Controller, (Principal Accounting Officer) concluded that the Company’s design and operation of these disclosure controls and procedures were effective at the end of the period covered by this report.

Changes in internal control over financial reporting

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

PART II. OTHER INFORMATION

Item 1. - Legal Proceedings

For a description of legal proceedings, see Note 14 Contingent Matters to our interim condensed consolidated financial statements.

Item 1A. - Risk Factors

The Trump Administration continues to make potentially significant changes in U.S. trade policy and has taken certain actions that have adversely impacted U.S. trade and relationships with China and other trading partners, including imposing tariffs on certain goods imported into the U.S. Any changes in U.S. trade policy could trigger, and certain actions already taken have triggered, additional retaliatory actions by affected countries, resulting in "trade wars." Trade wars may lead to reduced economic activity, increased costs, reduced demand and changes in purchasing behaviors for some or all of our products, or other potentially adverse economic outcomes. These or other consequences from any trade wars could have a material adverse impact on our sales volumes, prices and our consolidated financial results.

Other than as set forth under this Item 1A, there have not been any material changes from the risk factors previously disclosed in the 2017 Form 10-K for the year ended December 31, 2017.

Item 2. - None

Item 3. - None

Item 4. - None

24

Item 5. - Other Information

(a) Reports on Form 8-K

None

(b) Other Information

None

Item 6. - Exhibits

(a) Exhibits

31.1	—	Certification by Ronald A. Robinson under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.2	—	Certification by Dan E. Malone under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.3	—	Certification by Richard J. Wehrle under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.1	—	Certification by Ronald A. Robinson under Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.2	—	Certification by Dan E. Malone under Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.3	—	Certification by Richard J. Wehrle under Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
101.INS	—	XBRL Instance Document - the instance document does	Filed Herewith

		not appear in the Interactive Data Files because its XBRL tags are embedded within the Inline XBRL document	
101.SCH	—	XBRL Taxonomy Extension Schema Document	Filed Herewith
101.CAL	—	XBRL Taxonomy Extension Calculation Linkbase Document	Filed Herewith
101.DEF	—	XBRL Taxonomy Extension Definition Linkbase Document	Filed Herewith
101.LAB	—	XBRL Taxonomy Extension Label Linkbase Document	Filed Herewith
101.PRE	—	XBRL Taxonomy Extension Presentation Linkbase Document	Filed Herewith

Alamo Group Inc.

SIGNATURES

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

October 31, 2018	Alamo Group Inc.
	(Registrant)
	/s/ Ronald A. Robinson
	Ronald A. Robinson
	President & Chief Executive Officer

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

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

26