

ALAMO GROUP INC

Form 10-K

March 07, 2017

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, 2016  
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 74-1621248

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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:

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

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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  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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, 2016 (based upon the last reported sale price of \$65.97 per share) was approximately \$618,602,207 on such date.

The number of shares of the registrant’s common stock, par value \$.10 per share, outstanding as of February 28, 2017 was 11,514,980 shares.

Documents incorporated by reference: Portions of the registrant’s proxy statement relating to the 2017 Annual Meeting of Stockholders to be held on May 4, 2017 have been incorporated by reference herein in response to Part III.

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ALAMO GROUP INC. AND CONSOLIDATED SUBSIDIARIES  
FORM 10-K  
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## 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 and manufacture of high quality agricultural equipment and infrastructure maintenance equipment for governmental and industrial use. 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. 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 2,900 employees and operates a total of twenty-four plants in North America, Europe, Australia and Brazil. The Company sells its products primarily through a network of independent dealers and distributors to governmental end-users, related independent contractors, as well as to the agricultural and commercial turf markets. The primary markets for our products are North America and Western Europe.

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.

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 manufacturer and distributor of aftermarket farm equipment replacement and wear parts.

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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 product line 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”) a small regional manufacturer of power arm flail mowers and parts, as well as harrows and rollers in the U.K. They consolidated their operations into the existing facilities at McConnel and Bomford.

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 and has since been consolidated into the Company's Gibson City, Illinois location.

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 Fauchaux Industries S.A. (“Fauchaux”), a French manufacturer of front-end loaders and attachments. The Company acquired Fauchaux out of administration, a form of bankruptcy in France. This acquisition broadened the range of our agricultural implements offered in the French market. During 2016, the Company restructured and consolidated the Fauchaux operations into the Company's facility near Lyon, France.

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 included the product lines, inventory and certain other assets that relate to this business. The production of the vacuum truck and sweeper lines were 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 our Schwarze sweeper line.

In 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. In 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.

In 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, 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.

In 2011, the Company acquired substantially all of the assets and assumed certain specified liabilities of Tenco Group, Inc. ("Tenco") and its subsidiaries. Tenco is a Canadian-based manufacturer of snow removal equipment including snow blades, blowers, dump bodies, spreaders and associated parts and service. Tenco has operations in Quebec as well as New York and Vermont. The equipment is sold primarily through dealers to governmental end-users as well as contractors.

In 2013, the Company acquired substantially all of the assets and assumed certain specified liabilities of Superior Equipment Australia PTY LTD ("Superior"). Superior is a small Australian-based manufacturer of agricultural mowing equipment and other attachments, parts, and services. The equipment is sold through dealers primarily to agricultural end-users with some sold to governmental entities in Australia. The Superior operations have been combined into the Company's Fieldquip location.

On April 2, 2014, the Company acquired Kellands Agricultural Ltd. and its subsidiary Multidrive Tractors Ltd. ("Kellands"). Kellands is a U.K.-based manufacturer of self-propelled sprayers and a range of multi-purpose load-carrying tractor vehicles. This acquisition enhanced our manufacture and distribution of agricultural machinery in our European operations and allowed the Company to enter into the self-propelled sprayer market.

On April 7, 2014, the Company acquired Fieldquip Australia PTY LTD ("Fieldquip"), a manufacturer of rotary cutters as well as a distributor of various agricultural products. This acquisition allowed the Company to broaden its presence in both the manufacturing and distribution of agricultural machinery in Australia.

On May 13, 2014, the Company acquired all of the operating units of Specialized Industries LP. The purchase included the businesses of Super Products LLC ("Super Products"), Wausau-Everest LP ("Wausau" & "Everest") and Howard P. Fairfield LLC ("H.P. Fairfield") as well as several related entities ("Specialized"), including all brand names and related product names and trademarks. The primary reason for the Specialized acquisition was to broaden the Company's existing equipment lines. This acquisition increased our product offering and enhanced our market position both in vacuum trucks and snow removal equipment primarily in North America.

On March 10, 2015, the Company acquired Herder Implementos e Maquinas Agricolas Ltda. ("Herder"). Herder is a manufacturer of flail mowers and other agricultural implements which are sold direct and through dealers to the sugar cane, orchard and other agricultural markets as well as the roadside maintenance market. This acquisition allowed the Company to establish a presence in Brazil, one of the largest agricultural markets in the world.

## Marketing and Marketing Strategy

The Company believes that within the U.S. it is a leading supplier to governmental markets, a leading supplier in the U.S. agricultural market, and one of the largest suppliers in the European market for its key 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<sup>®</sup>, Terrain King<sup>®</sup>, Tiger<sup>®</sup>, Gradall<sup>®</sup>, VacAll<sup>®</sup>, Schwarze<sup>®</sup>, NiteHawk<sup>®</sup>, Henke<sup>®</sup>, Tenco<sup>®</sup>, Super Products<sup>®</sup>, Wausau-Everest,<sup>TM</sup>H.P. Fairfield,<sup>TM</sup>Bush Hog<sup>®</sup>, Rhino<sup>®</sup>, Earthmaster<sup>®</sup>,



RhinoAg<sup>TM</sup>, Herschel<sup>®</sup>, Valu-Bilt<sup>®</sup>, CT Farm & Country<sup>TM</sup>, Schulte<sup>®</sup>, Superior<sup>®</sup>, Fieldquip<sup>®</sup>, Herder<sup>®</sup>, McConnel<sup>®</sup>, Bomford<sup>®</sup>, Spearhead<sup>TM</sup>, Twose<sup>TM</sup>, Kellands<sup>®</sup>, SMA<sup>®</sup>, Forges Gorce<sup>TM</sup>, Fauchoux<sup>TM</sup>, Rousseau<sup>TM</sup> and Rivard<sup>®</sup> trademarks (some with related designs) as well as other trademarks and trade names.

## Products and Distribution Channels

### 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 infrastructure 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 truck-mounted 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 truck 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.

Nite-Hawk manufactures parking lot sweepers with unique and innovative hydraulic designs. 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 truck chassis which are not manufactured by Nite-Hawk.

Gradall produces a range of excavators based on high-pressure hydraulic telescoping booms which are sold through dealers primarily to governmental agencies and related 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. A portion of Gradall's sales includes truck chassis which are not manufactured by Gradall.

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. Its products are primarily sold through dealers to industrial and commercial contractors as well as governmental agencies. A portion of VacAll's sales includes truck chassis which are not manufactured by the Company.

Super Products produces truck-mounted vacuum trucks, combination sewer cleaners and hydro excavators. Its products are sold to municipalities, utilities and contractors through a nationwide distributor network. Super Products also operates a network of five rental stores that provide short and long-term rental contracts for its products. Rental customers are primarily contractors serving the petrochemical, petroleum production and refining industries. A portion of the sales of Super Products includes truck chassis which are not manufactured by the Company.

Wausau designs and manufactures a comprehensive range of snow removal and ice control products. Products include snowplows, snow blowers, brooms, deicers, brine sprayers and other related accessories and parts. Wausau sells its products through its established dealer network to both governmental and non-governmental end-users and sells directly to airports and fixed-base operators.

Everest designs and manufactures a range of snow removal and ice control products including snowplows, wing systems, spreader bodies and other related accessories and parts. Everest also manufactures custom-engineered underground construction forms for vehicular, water/sewage and hydro-electric tunnels.

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 equipment dealers. Henke's primary end-users are governmental agencies, related contractors and other industrial users.

Tenco designs and manufactures a heavy-duty line of snow removal equipment, including truck-mounted snow plows, snow blowers, dump bodies and spreaders. Its products are primarily sold through independent dealers. End-users are governmental agencies, contractors and other industrial users.

H.P. Fairfield is a full-service distributor of public works and runway maintenance products, parts and service, whose sales and service outlets are located in the northeastern part of the U.S. H.P. Fairfield's offerings include custom municipal snow and ice removal equipment, a range of salt spreaders and truck bodies, street sweepers, a line of industrial rotary, flail and boom mowers, solid waste and recycling equipment, water and sewer maintenance equipment, municipal tractors and attachments, and asphalt maintenance patchers some of which are sourced from other Alamo Group companies. Certain of the products distributed and sold by H.P. Fairfield include Alamo Group products. H.P. Fairfield also provides truck up-fitting services as part of its business.

#### Agricultural Division

Bush Hog, Rhino and Earthmaster equipment is generally sold to farmers, ranchers and other end-users to clear brush, mow grass, maintain pastures and unused farmland, shred crops, till fields, and for haymaking and other applications. Bush Hog and Rhino equipment consists principally of a comprehensive line of tractor-powered equipment, including rotary mowers, finishing mowers, flail mowers, disc mowers, front-end loaders, backhoes, rotary tillers, posthole diggers, scraper blades and replacement parts. The equipment also includes a range of self-propelled zero turn radius mowers.

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 governmental markets primarily in Canada and the U.S. It also sells some of the Company's other product lines in their markets and some of its products through independent distributors throughout the world.

Fieldquip and Superior together broaden the Company's presence in Australia. Both companies sell a variety of agricultural equipment, specifically rotary mowers and tractor attachments. Fieldquip sells to customers ranging from large agricultural and commercial operators to small farm hobbyist and residential users. Superior's customers are generally agricultural dealers who service owners and operators in the turf, golf, park and airport industries and growers with orchards, vineyards and plantations in Australia and the South Pacific.

Herder gives the Company a presence in the Brazilian agricultural market. It is also our first step in establishing a position in the market and we believe allows us to pursue organic growth and further acquisitions in Brazil. Herder manufactures and distributes flail mowers and various other agricultural equipment, direct and through dealers. Its products are used in sugar cane, orchards and other agricultural markets.

#### 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. McConnell 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

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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 Asia. 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.

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.

Kellands equipment includes a range of self-propelled sprayers and a variety of multi-drive load-carrying vehicles. These products are sold through an existing dealer network as well as various marketing groups within the European Division.

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. The Company consolidated its SMA operations located in Orleans, France, and production was relocated to its manufacturing facility near Lyon, France.

Forges Gorce manufactures cutting blades which are sold to some of the Company's subsidiaries as well as to other customers.

Faucheux equipment includes front-end loaders, backhoes, attachments and related parts. In addition, Faucheux also markets certain agricultural related products from other company units and third party suppliers. During 2016, the Company restructured and consolidated the Faucheux business into the Company's manufacturing facility near Lyon, France.

Rousseau sells hydraulic and mechanical boom mowers, primarily in France, through its own sales force and dealer distribution network mainly to 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 sold primarily in France and certain other markets, mainly in Europe, Middle East and North Africa, and to governmental entities and related contractors. It also complements our product offerings in North America. The majority of Rivard's customers provide their own truck chassis.

#### 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 18%, 18% and 20% of the Company's total sales for the years ended December 31, 2016, 2015 and 2014, respectively. The majority of the decline in percentage sales of spare parts relates to the 2014 acquisition of the units of Specialized, which has a lower mix of parts as a percentage of sales. Proprietary replacement parts generally are more profitable and less cyclical than wholegoods.

#### 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, 2016, the Company employed 160 people in its various engineering departments, 80 of whom are degreed engineers and the balance of whom are support staff. Amounts expended on research and development activities were approximately \$8,847,000 in 2016, \$8,590,000 in 2015 and \$8,427,000 in 2014. As a percentage of sales, research and development was approximately 1.0% in 2016, 1.0% in 2015 and 1.0% in 2014, and is expected to continue at similar levels in 2017.

Seasonality

The Company's sales, for both product and replacement 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 typically lower in harsh weather. The Company utilizes an annual twelve-

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month sales forecast provided by the Company's marketing departments which is updated quarterly 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.

### 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, 2016, the Company had unfilled customer orders of \$147,245,000 compared to \$162,959,000 at December 31, 2015. Management expects that substantially all of the Company's backlog as of December 31, 2016 will be shipped during fiscal year 2017. 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, hydraulic hoses, paint and tires. During 2016, the raw materials needed by the Company were available from a variety of sources in adequate quantities and at prevailing market prices.

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. The Company sources its purchased goods from international and domestic suppliers. No one supplier is responsible for supplying more than 10% of the principal raw materials or purchased goods used by the Company.

### Patents and Trademarks

The Company owns various U.S. and international patents and trademarks. 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 net book value of patents and trademarks was \$26,642,000 and \$27,590,000 as of December 31, 2016 and 2015, respectively.



### 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 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.

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

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

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

#### Employees

As of December 31, 2016, the Company employed approximately 2,900